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Guide...Protect...Preserve

How To Find An Advisory Firm You Can Trust

These are perilous times for investors looking for a trustworthy financial advisor. Clients of even the best advisors have suffered setbacks as the stock market lost half its value, and those who work with representatives of big investment banks and brokerages have been left to wonder why they're taking advice from firms that erred so badly with their own investments. But the worst blow to the very concept of a trusted financial advisor may have come from the Bernard Madoff scandal. Madoff stole almost $65 billion from 4,800 clients, many of whom had assumed their money was safe largely because of who Madoff was—a pillar of the Jewish community of which so many of those clients are also a part. In a world in which he could betray them so spectacularly, is there really anyone you can trust to handle your money?

That's a question our firm takes very seriously. We have always tried to operate openly and transparently, but in today's uncertain world, no one should take a firm's integrity solely on faith. Just as it's our responsibility to practice "due diligence" before recommending any outside investment manager or custodial firm, it's your job to look closely at any advisory firm you're considering. We will gladly talk with you about our policies and processes and provide any documentation you might require. Here are several criteria to use in evaluating our firm or any other advisor.

Is the firm a fiduciary? A financial advisor who is legally and ethically required to put your interests first is known as a fiduciary. Registered Investment Advisors, or RIAs, operate as fiduciaries, and must disclose to you how they're compensated and any potential conflicts of interest that might arise during your relationship. Other advisors who are not RIAs may also embrace fiduciary responsibilities. But under a recently enacted Securities and Exchange Commission (SEC) rule, non-fiduciaries must now make this disclosure: "Our account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits, and our salespersons' compensation, may vary by product and over time."

Is it independent? The biggest names in financial services have been tarnished by the global financial crisis. Investment banks and brokerages have collapsed under the weight of their own investments in collateralized mortgage obligations and other debt securities. Though the firms' personal financial advisors weren't responsible for the companies' dire miscalculations, they operate in the same corporate culture

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Despite Concerns, Most Don't Have A Financial Plan

Even after one of the worst economic downturns in U.S. history, only 17% of Americans have a written and updated financial plan, according to a survey by Certified Financial Planner Board of Standards.

With the value of retirement assets slashed and incomes stalled, it would make sense for people to take steps to rebuild their financial futures. Yet the survey, taken eight months after the economic collapse of October 2008, shows most people don't have a blueprint for getting back on track.

According to the CFP Board survey, a majority of Americans of all incomes and asset levels are worried about managing retirement income, keeping health care insurance, managing debt, and building a retirement fund. Meanwhile, 65% of respondents who employ a financial advisor to help them establish and maintain a financial plan feel they are benefiting from the relationship. Only 46% of those who have a written plan but don't work with an advisor are satisfied.

When it comes to reaching financial goals and life dreams, it doesn't make sense to leave things to chance. A financial plan not only gives you a concrete direction, it helps you stay on course and change direction when necessary.

If you have yet to set up a financial plan, or if your plan is falling short, call our office today so that we can help you chart a solid path to a secure financial future.

Mary Jane Callaghan & Mitch Glicksman

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Social Security Benefit Cuts Are Likely

You've been paying into the Social Security system your entire adult life. At some point, you expect to retire and collect your fair share of benefits. But will the money be there?

Many experts believe Social Security benefits will be reduced or watered down through taxes and other adjustments during the next few decades. Because you may receive less from Social Security, you may need to save more in other retirement accounts.

The Social Security Administration (SSA) says the program's annual costs will exceed its revenues in 2016. And while the SSA projects that the system's trust fund will be able to cover the shortfall through 2037, that's down four years from last year's estimate. And with unemployment still rising—leading to lower tax revenues to fund Social Security benefits—the deficit could worsen, putting pressure on future payments to retirees.

How will Social Security's future play out? The system's financial situation is clearly deteriorating as there are fewer workers to fund retirement benefits for the huge baby boom generation, and there's little appetite for yet another taxpayer-funded bailout of a cash-strapped government program. Yet the likelihood that Congress would actually approve cuts to a program long known as the third rail of American politics also seems low. If benefit reductions come, it may be through the action of a bipartisan commission charged with solving the system's financial woes.

In the meantime, de facto cuts have already begun. An earlier Social Security commission recommended raising the full retirement age from 65, and current rules are gradually increasing the full retirement age to 67 for those born in 1960 or later. You can still choose to begin taking benefits as early as age 62, but you'll receive sharply lower monthly amounts than if you had waited until today's older full retirement age.

Rising Medicare premiums, normally deducted from a recipient's Social Security payments, also serve to undercut cost-of-living benefit increases. Moreover, you're increasingly likely to be taxed on a portion of your Social Security benefits. While only about 30% of current beneficiaries are taxed on benefits, that's projected to rise to 42% by 2020, and high-income retirees may pay tax on up to 85% of benefit payments.

In this volatile environment it is prudent not to rely too heavily on Social Security to provide a large percentage of your retirement income. With the system's future uncertain, your benefits could fall, and even the loss of, say, $1,000 a month could have a negative impact on your retirement plan. We can help you reexamine your retirement income projections, recommend strategies for replacing what you might lose from Social Security, and show you strategies for reducing the amount of taxable Social Security benefits. ●

Caveat Emptor: Long-Term Care Policies

Most long-term care (LTC) insurance policies today are much better than those offered in previous decades. Still, there remain potential drawbacks, and would-be buyers need to make sure they know what they're getting and that it suits their needs.

Many early LTC policies paid benefits only for "skilled nursing home care" for a limited period of time. Moreover, there were often stringent requirements to qualify for benefits, such as having to spend three days in a hospital before going into a nursing home.

Most states now require LTC policies to provide benefits for all levels of care, and competition among insurers has led to innovations that make LTC insurance a significantly better value. Yet these policies remain complex and expensive, and getting the right mix of benefits means understanding the LTC landscape. Consider these factors:

Range of coverage. Most policies offer benefits for care in a variety of settings, including at home, in an assisted living facility, and adult day care as well as in a nursing home. Payment may vary with the setting, so make sure the specified amounts cover the cost of care in your area. And beware of hospitalization requirements, because only about half of nursing home admissions follow a hospital stay.

Benefit triggers. Usually, LTC benefits are available once the insured needs assistance performing a specified minimum number of activities of daily living (ADLs) —commonly including eating, bathing, dressing, "toileting," continence, and mobility. Better policies kick in when someone requires help with just two or three ADLs. Some policies also begin coverage when there is "cognitive impairment."

Waiting period. Most policies specify a 90-day waiting period

Sandwich Generation Estate Planning

For the millions of baby boomers in the "sandwich generation," these are worrisome times. Sandwiched between the financial needs of parents and children, they often end up having to contribute to both, and there may be particular urgency when elderly parents need to get their estate plans in order. Often, parents have put off making vital decisions, and face a future of uncertain means, declining control over their own lives, and increasing dependence on younger family members.

One way to address these issues is to view estate planning as a family affair. You could start by setting aside time for everyone involved—yourself, your spouse, and any siblings—to discuss the main aspects. But be prepared for a frank, often awkward discussion of sensitive concerns. Your parents or in-laws may regard this as an intrusion into their personal affairs, and emotions are likely to run high.

You probably won't solve everything in one meeting. Rather, it's likely to be the beginning of a long process. At some point, too, you may want to begin talking with your children, to let them know what's happening and to keep them up to date on your own estate planning.

Here are several things to discuss with your parents:

Do they have an up-to-date will? Most estate plans start with a will, and even if your parents have one (many don't), it may need to be updated to reflect changes in family circumstances, your parents' desires about how assets will be distributed, and frequent recent shifts in tax and estate laws. There could be new grandchildren to account for, or a divorce. You'll need the help of an experienced estate planning attorney, but first you'll have to persuade your parents to share this very personal document with you. Emphasize that your only goal is to make sure their wishes are successfully carried out.

Where's the money? A parent or in-law could have assets in many different accounts, and account information and statements may not be neatly filed in one easily accessible location. To make sure nothing is lost, you may want to take an inventory of all of the key documents. This will likely include bank account records, life and disability insurance policies, retirement plan and IRA statements, and the like. It's a good idea to assemble all of the pertinent information, including account and policy numbers and contact names, in one document and make copies for you and your parents or in-laws. Also note whether any accounts are in joint name or designated as "transfer on death" accounts, which will not pass under the terms of a will but rather to the designated person on the account.

How are assets being managed? Pulling together account documents also provides a good opportunity to check on your relatives' investments. Do their holdings seem appropriate given their advancing age, financial needs, and risk tolerance? If there are many similar accounts, you might want to suggest consolidating them to simplify their management.

Are tax records in order? As part of this process, look at tax issues, and determine the tax basis of securities that may have been purchased decades earlier. It's also a good idea to know where your parents' tax records are kept and who their accountant is.

What are their wishes about health care? This can be a particularly touchy subject, so tread carefully, but it's also extremely important. Try to establish guidelines for what will happen if a relative is disabled or suddenly loses a spouse. If extra care is needed, do they prefer to have someone come into their home, or would they rather move into assisted-living or live with a family member? Laying the groundwork now for such major changes could help make a later transition somewhat easier. Also encourage your parents and in-laws to establish a living will and durable power of attorney that sets out their preferences for end-of-life care and specifies someone to handle health-care decisions if they're no longer able to make them. A general power of attorney is also needed for management of assets.

This list hardly covers everything you'll need to discuss, but it may help get you started. For affluent families, intergenerational issues are likely to be much more complex, perhaps including a variety of trust arrangements and sophisticated estate planning strategies. We can work with you and your parents to assess asset allocation plans, tax strategies, and other elements of their financial lives. And, of course, we're also happy to help you take stock of your own estate plan and the provisions you want to make for your children. ●

between the time need is demonstrated and the beginning of benefit payments. However, it is important to check the policy's definition of a "waiting period," as it could refer to either calendar days or service days.

Premiums. The younger you are when you begin coverage, the lower the premium, which will also be affected by the range of policy benefits you choose, including type of policy (reimbursement, indemnity, or cash); health status; waiting period; and inflation factor chosen (simple, compound, or none).

Inflation protection. The cost of all health care, including long-term care, is rising much faster than the overall cost of living. So it's essential that a policy increase benefits as costs rise—particularly if it could be years or even decades before care is needed.

Desirable policies are guaranteed renewable for life and cover pre-existing medical conditions. Additional riders and options may be worthwhile, but it's important to weigh the costs of extra benefits. We can help you make sense of this complicated insurance market and help you find a suitable policy at a reasonable price. ●

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Should Retirees Carry A Mortgage?

Your home mortgage is likely to be the biggest debt you ever take on. And if you've moved or refinanced a few times since your first home loan, you may be years or even decades away from owning your house free and clear. But that begs the question: What about retirement? If you're getting ready to retire or already have stopped working, does it make financial sense to keep making monthly payments? Or should you use some of your savings to retire that debt?

Traditionally, paying off the mortgage was a pre-retirement objective, but the recent trend has been to carry the debt longer. A study by the Center for Retirement Research at Boston College found that in 2007, 41% of households with people in their 60s still had a mortgage, even though more than half owned sufficient assets to repay the loan.

Why would you hold a mortgage in retirement? Depending on your situation, you may value the tax benefits and liquidity. Consider these four critical factors.

1. Investment returns. Recently, the average 30-year fixed rate for mortgages has been between 5% and 5½%. You might keep your mortgage if you think you can do better investing the money you would spend to retire it. But retirees who invest heavily in low-risk vehicles such as bank certificates of deposit (CDs) and Treasury securities are likely to come up short. And though stocks and mutual funds may provide higher rates of return, they carry greater risks, and if your portfolio plummets, you could have trouble making mortgage payments.

2. Tax breaks. You can generally write off mortgage interest if you itemize deductions. But people who claim the standard deduction—and that's almost two out of every three taxpayers—receive no tax benefit from mortgage interest payments. So if you're not an itemizer, it may make sense to pay off the mortgage. Also keep in mind that the tax benefit of itemized deductions will be reduced if your income is high.

3. Retirement accounts. It's generally not a good idea to pay off your mortgage if you have to invade your retirement accounts to do it. The money you pull out of a 401(k) plan or an IRA will be reduced by taxes—at ordinary income rates of as high as 35%—plus you'll be hit with an additional 10% penalty if you're under age 59½. And you'll be left with fewer funds to draw upon during retirement.

4. Refinancing. One alternative to paying off the mortgage may be to refinance it at a lower interest rate. That can reduce your payments, or you could use the opportunity to pull out equity you've built. But the deep decline in real estate values has underscored the risks of financial strategies built around home loans.

Choosing what to do about your mortgage is a major financial decision. We can help you choose the best approach for your situation. ●

Find An Advisory Firm

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and often are encouraged to recommend the firms' proprietary investment products. Independent financial advisors, in contrast, aren't subject to a larger firm's foibles. Those who are fiduciaries have only one goal—to help clients achieve their objectives.

Where does it hold your assets? Madoff and other schemers tend to minimize their involvement with outside firms that might notice irregularities in their operations. Madoff's firm, despite its large size, self-custodied assets, which should have been a red flag for investors. Responsible advisors, in contrast, work with custodial firms such as Charles Schwab, Fidelity, Pershing, or TD Ameritrade that hold client assets and provide regular account statements and constant access to account information. Those companies' participation adds an extra layer of security for your holdings.

What kind of relationships does it have with clients? Particularly during these turbulent times, you're bound to have questions about the economy, investment markets, your financial plan, and the safety of your assets. Your advisor should be there to provide answers, to meet with you when you have concerns or problems, and to provide regular communications through a newsletter, email updates, or the firm's website.

Our firm is a fiduciary and we safeguard client assets by holding them at a respected custodial firm. We operate independently and are free to recommend any investments we believe will serve your financial goals. We communicate frequently with all of our clients and are always available to answer questions or concerns. We strive to offer outstanding financial guidance and to relieve any worries you might have about how we invest your money. If you would like to discuss how our firm operates and what it can do to earn your trust, please give us a call. ●

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