



Charting A Course

A Newsletter for the Clients of Thorne Asset Management, Inc.

After a Turbulent 2008, Make Some New Year's Resolutions For a Financially Healthy 2009

Money worries are the most common cause of holiday stress, according to Mental Health America. The 2006 study showed that parents are more stressed than all other demographic groups by finances and females are more likely than men to feel stressed by finances.

Money isn't everyone's No. 1 worry, but if it's yours, why not consider the following New Year's resolutions to improve your financial life?

Resolve:

1. To write down your goals: Have you ever written down the big things you want in life? Granted, all great dreams don't cost money, but many of them do. Money buys freedom – to travel, to retire early, to start a business, to change careers. Putting goals in writing gives them a formality and a starting point for the planning you must do.

2. To evaluate your risk tolerance: One of the most beneficial things financial planners do is help you articulate your financial goals and establish (or re-establish) your tolerance for risk. With the market turbulence that's marked 2008, many individuals would benefit from an analysis of how much risk they want – or need – to take given what they want to achieve with their money.

3. To track your spending: If you haven't purchased financial accounting software or set up a reliable accounting method of your own, this is the year to do it. Diligent expense

tracking is the first critical step to getting personal finances in order.

4. To consider advice on taxes and planning: Maybe you've always winged it with your taxes and considered your company 401(k) the ticket to your financial future. Chances are your planning is inadequate. Start getting references on good tax professionals and consider sitting down with a Certified Financial Planner™ professional to discuss your current retirement savings picture and what you can do to improve it.

5. To cut your credit card debt: If you can't ever seem to get yourself completely out of credit card debt, make this the year to do it. Take inventory of your balances, figure out if you can consolidate them under your lowest-rate card, and resolve to pay off an amount that exceeds the minimum – on time, every month. Oh, and pay cash from now on.

6. To save: If you haven't signed up for your employer's 401(k) plan or begun a savings plan tailored for the self-employed, this is the year. And resolve to save at least 5-10 percent of your take-home pay based on your cash flow, and place the maximum in whatever retirement savings plans you qualify for.

7. Get ahead on your mortgage: This advice isn't for everybody, but if you've paid off your credit cards by paying more than the minimum, you can apply the same principle to your mortgage payment. Every dollar you prepay will
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2009: Veterans Get Big Benefits Upgrade

The Post-9/11 Veterans Educational Assistance Act, which became effective in August 2008, positioned returning U.S. veterans for one of the biggest upgrades in post-military education benefits since the G.I. Bill was signed in 1944.

The act, signed by President Bush in June, pays up to the full cost of tuition and fees at the most expensive public school in the state in which a veteran enrolls. Some can get a free education if they qualify for the full amount, and it not only extends to the main four branches of the military, but also activated members of the National Guard and the Reserves. Best of all, the new program allows returning servicemen and women with qualifying service to transfer their benefits to spouses or children if they already have a degree.

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The 4th quarter of 2008 was among the most trying periods for investors and for their advisors. When the stock market fell for five straight days culminating in an 18.2% weekly loss on Friday, October 10th, it seemed that the whole world was ending. By the end of that week, I was unable to persuade two of our clients to hold their course, and they insisted I liquidate their stock market holdings. I did so at their request, wondering what the next week would bring. Then, incredibly, on Monday the 13th, the Dow Jones Industrial average soared by 936 points, for a gain of 11.1%! That was the largest one-day point gain ever, and the biggest one-day percentage gain since March of 1933. As you know now, the remainder of the quarter was no picnic either. The low point of the quarter actually occurred on November 20th, when the Dow closed at 7,552.29. From there, the market managed to rally and finish 2009 at 8,776.39, a gain of 16% from the low.

It is striking to note that as of October 2008, the broader market (as measured by the returns of the S&P 500) had returned just .4% for the 10-year period, one of the lowest periods in history. But here is an interesting fact that comes from Capital Guardian Research: "Looking back to every point when the market returned less than 2.5% for 10 years, it then returned an average of 13.3% for the next ten years, with a range of 7.1% to 18.6%. In addition, since 1932, the median return of the market 12 months after hitting a low is 45.46%. These historical results are not predictive of future results.

Have we seen the worst? It is very difficult to tell. This is one nasty recession! But the leaders in our government and in other governments around the world seem to be pulling the right levers, albeit clumsily. Hopefully these actions will have the intended effect. I do have confidence that the market will recover, and go higher, and I am staying fully invested with my own money to be there when the party starts again. I encourage all of you to do the same. Your long-term financial health may depend on it!

Short-term Long-term Care Insurance? Make Sure It's a Good Idea For You

As the long-term care (LTC) insurance market has matured over the past 20 years, features have been added to the costly policies to make them more attractive. Even the IRS has even come on board, making a portion of the premiums tax-deductible. Yet with the tougher economy, insurers are looking for ways to get more consumers in the door – so they're adjusting features to give people a break on cost.

Enter the "shorter-term" long-term care policy for individuals who are willing to play the odds. The main change in such policies is that they eliminate the "lifetime" feature in favor of a shorter time limit on benefits, usually between two and three years, currently the length of an average nursing home stay. These shorter-term plans can potentially cut the cost of average annual premiums in half, and if couples buy a combined policy, they potentially may cut the premium cost further.

The idea of lower-cost LTC insurance is certainly attractive, but it makes sense to get some advice and ask some very important questions before committing. A financial planning professional can help you assess how well prepared your finances are to sustain a serious long-term illness with a current national average of \$70,000 in annual nursing home bills that would not otherwise be covered by insurance. In addition, ask:

What's your health like? People in good health purchasing long-term care insurance in their 50s or younger usually get the most affordable deal in LTC insurance. But to some degree, your current health status is no guarantee that you'll only be looking at 2-3 years of expenses in total. Keep in mind that 40 percent of long-term care is provided to individuals between the ages of 19 and 65, so the need for care can strike at any time and may do so more than once.

Are you female? Again, personal and family resources come into play here, but since women typically live longer than men – and they still earn less on average than men – women should take a heightened interest in providing for their long-term care safety net. Long-term care insurance might be a good solution given their other investments and their health history.

What types of services are covered? Over the course of time, LTC policies have evolved to place more emphasis on home-based care or assisted living, since most people would choose to be cared for in a familiar environment. However, it is important to review what all home-based as well as nursing home/assisted care center services may be covered. A basic LTC insurance policy pays for assistance with activities of daily living including eating, dressing, bathing, toileting, incontinence and transferring (bed to chair, etc.). Each policy lists the types of services that are covered under nursing home care and under home health care. Homemaker services may be covered. Also, if you are considering a policy with a fixed dollar benefit, compare all of these features with a lifetime policy.

What triggers coverage? Most LTC policies won't go into effect until the covered individual can't perform two tasks of daily living for a specific period of time or when that person needs substantial supervision related to cognitive impairment, such as Alzheimer's disease.

What if I never want to go to a nursing home? The idea is to cover every eventuality. The best-designed LTC policies will pay the same amount of benefit whether care is received in a long-term care facility, an assisted living facility, an adult day care center or in the home. Some policies do offer reduced percentages for home health care versus nursing home care, but it's a better idea to
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Be Careful About Picking Beneficiaries For IRAs and 401(k)s

Inheriting IRA or 401(k) proceeds from a friend or relative can be a potentially huge windfall, but it can also be a sizable tax headache. For both the giver and the recipient, it's worth getting some advice.

Bank accounts, stocks, real estate and life insurance proceeds generally pass to heirs free of income tax. However, inherited retirement benefits can be a different story. Beneficiaries have to pay ordinary income tax on distributions from 401(k) plans and traditional IRAs after they are inherited. (You don't see the same problem with Roth IRAs – their benefits can be free of income tax to your heirs if all tax requirements are met.)

A financial planning professional or an experienced tax advisor can work with you based on your personal tax and estate circumstances to determine an inheritance strategy that is best for you. Some general guidelines:

Spouses are the first stop: Federal law dictates that your surviving spouse must be the primary beneficiary of your 401(k) plan benefit unless your spouse signs a waiver to redirect those funds. Even with a traditional IRA, naming the spouse as the primary beneficiary may be an appropriate option. Should the surviving spouse have his or her own IRA, this approach would allow them to simply roll over the assets from the decedent's IRA into their own. Furthermore, if the surviving spouse is significantly younger than the deceased, the surviving spouse would receive the added benefit of stretching out distributions from the IRA until he or she turns 70-1/2. The stretch-out allows the assets to continue to grow on a tax-deferred basis, thereby maximizing asset value and delaying any income tax due.

When might you want to rethink a spousal beneficiary? When the surviving spouse's estate is expected to be large enough to exceed the applicable exclusion amount for federal and state estate taxes. The applicable exclusion amount after

allowable expenses is \$2 million in 2008 and above \$3.5 million in 2009. It should also be noted that in addition to federal estate tax, many states impose a state tax on estates with considerably lower asset levels (often anything over \$1,000,000). Proper estate planning may alleviate this issue.

What about non-spousal beneficiaries? Today, non-spouse beneficiaries may be able to roll over all or a part of inherited 401(k) benefits to an inherited IRA. A recent change in IRS regulations still requires non-spousal heirs to withdraw a minimum amount from Inherited IRA assets every year, but it's based on the age of the recipient rather than the age of the decedent.

Establishing a Stretch IRA: Due to recent changes in the minimum distribution law, taxpayers may now establish IRAs designed to stretch out the time period over which a non-spouse beneficiary (i.e. child) is required to take minimum distributions from an inherited IRA. Proper use of this vehicle may potentially allow for continued growth of tax-deferred earnings over multiple generations and

can have a substantial impact on the future value of the family portfolio.

Naming trusts or charities as beneficiaries. Placing IRA assets in trust can have substantial advantages but can be complex. It should only be considered after receiving tax advice from a competent professional. It is particularly important to get tax advice related to this issue. Trusts can be complex instruments with which to bequeath assets, and even though naming a charity as one's primary beneficiary will not affect distributions in your lifetime, it could affect the tax consequences for non-charitable beneficiaries who are sharing the same asset upon your death.



Resolutions For Financial Health In 2009 (From page 1)

potentially save thousands in interest over the life of the loan if you plan to stay in your home long-term. In fact, if you make one extra payment a year, either at once or in equal monthly shares over the course of a year, you can cut at least five years of payments on a 30-year loan. Just don't short your retirement investment plans to accomplish this.

8. Invest in yourself: If going back to college or taking specific coursework will help you advance in your career, plan to do it. If investing in a health club membership that actually makes sense for your health as well as your insurance costs, do it.

9. To redefine the way you shop: If you're an impulse shopper, break the habit in '09. As a suggestion, get a legal pad and make that your

centralized shopping list – use a single page for groceries, stock-up goods (it's wise to start buying essentials in bulk if you can measure the savings), essential clothing or big expenditures you'll need to make at specific times. Taking that pad with you wherever you spend money is a good way to keep a grip on your wallet as long as you don't stray from the list.

10. To attack that miscellaneous column: Do you really need deluxe cable? How much are you paying for your Internet service? Can you wear a sweater around the house and lower the thermostat? In every budget, there are items that can be cut – or at least trimmed. Take a hard look at all your "essentials" to see how essential they really are. Aim for a target of at least 10 percent and start setting that money aside on a regular basis.

2009: Veterans Get Big Benefits Upgrade *(From page 1)*

The previous G.I. Bill paid only 70 percent of the cost of a public education and almost a third of the cost of a private-school education, and it cost vets \$1,200 to enroll in the program.

Returning veterans might consider this benefits upgrade as part of an overall look at their financial status. A financial planning professional with expertise in military benefits can be a good first stop to re-start civilian life.

To qualify for the new benefits, veterans need to have served at least three months of active duty since 9/11, after which benefits are pro-rated according to months served, up to 36. For veterans who have served at least three years of active duty, they'll qualify for 36 months worth of in-state tuition and fees, or four academic years. For those who serve 24 months, they'll qualify for 80 percent of in-state tuition, plus 80 percent of the costs of books and housing. For those who leave the military due to a service-related disability and served at least 30 days of continuous active duty qualify for the maximum benefit. The program will cover in-state tuition and fees and give veterans a housing stipend pegged to area housing prices. It will also pay \$1,000 a year toward books and up to \$1,200 toward tutoring expenses as long as it's for an in-state school. Out-of-state students will need to make up the difference between in-state and out-of-state costs.

There's also the Yellow Ribbon G.I. Education Enhancement Program, where the federal government matches institutional grants offered by participating schools to vets who qualify for the maximum benefit.

Other things returning vets should remember:

Getting back to retirement planning: Military service counts toward vesting for all civilian retirement plans. And thanks to the Heroes Earned Retirement Opportuni-

ties (HERO) Act enacted in 2006, military and their families can actually put more money into their traditional or Roth IRA accounts. The act allows tax-free combat pay to be considered as earned income for determining the contribution amount for traditional and Roth IRAs. Before, a military person who earned only combat pay wasn't allowed to contribute to either form of IRA.

Plan proper use of accumulated pay: For returning military receiving accumulated military pay or compensation from civilian employment, it's tempting to take the money and blow it. It makes sense to sit down with a financial and tax adviser before a dime gets spent.

Understand tax issues: Activated and deployed military personnel receive special tax breaks at the federal and sometimes state level. Military income earned by soldiers in combat zones is tax-free and they don't have to file taxes until 180 days after their return. Activated military personnel also are entitled to an extension on the period of time allowed for a tax break on the profits from the sale of a home. They're also entitled to tax breaks on childcare assistance and certain travel. Nontaxable combat pay can also be considered for the Earned Income Credit.

Know your rights if problems occur: The Servicemembers Civil Relief Act of 2003 provides a variety of financial protections for active duty personnel. The act provides stays on civil litigation including bankruptcy and divorce and prevents wage attachments while military personnel are away. Coverage requires active duty confirmation from a commanding officer but expires 90 days after that status has been terminated. The law also makes it tougher – but not impossible – for landlords to evict military families for nonpayment of rent.

Short-term Long-term Insurance

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keep full percentages on home health care benefits since most people would rather stay in their homes. Discuss these options with a financial planner if you can, because the amount of your personal assets will be a factor here.

What's the record of particular companies in this business? Over the past generation, more companies have gotten involved in the LTC insurance business, and it makes sense to see not only who the leaders are at the time you're buying and what they're offering, but how financially healthy these companies are and have been over the course of time. You've probably heard of insurance companies that have gone out of business and stranded customers. There's no restriction on that happening with LTC providers, so check their ratings and financial history very carefully.



**Thorne Asset
Management, Inc.**

is committed to helping people plan for their future, through careful, prudent and diversified investment management.

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