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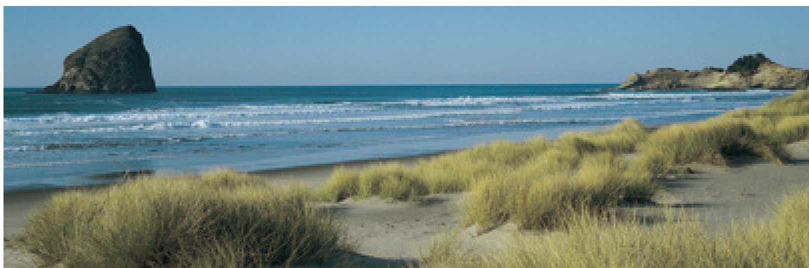

THE FINANCIAL FORMULA

Giving You The Financial Information You Need

August 2013

Hello - hope you enjoyed your summer! There are several excellent articles in this month's newsletter for your reading pleasure. Please let us know if you have any questions - thank you!

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There have been many articles that I have read and poll results Ive seen through the years that place the accountant and/or CPA at the top of the most trusted advisor ladder over other such notable professionals as the banker, financial advisor, and even attorney. Why is this, you ask?

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There have been many articles that I have read and poll results I've seen through the years that place the accountant and/or CPA at the top of the "most trusted advisor" ladder over other such notable professionals as the banker, financial advisor, and even attorney. Why is this, you ask? It comes down to a simple matter of TRUST. That's it - so why are the other professionals not trying to do something about raising their trust factors higher in the eyes of their clients?

I believe that the recent events in the banking industry hamper the overall perception of the banker and their former place as a trusted advisor from the early U.S.A. business growth days. Banks have been perceived by many in the public eye (some unfairly mind you) as greedy and unnecessary risk-takers - something business owners and savvy financial types want no part of at all. Since a lack of regulations allowed a gunslinger mentality to run rampant in the banking system (not just here mind you, but worldwide), trust seems harder to come by in this profession.

Likewise, attorneys have also gotten a bad rap these days (some unfairly mind you) due to our sue-happy society in the United States. Attorneys can often be at the center of many important financial issues facing business owners, families, and individuals - helping to resolve them as needed. The cost of an attorney can often be a detriment also to those who may desperately need the legal advice that only they can truly provide. With many lawyers who are average at best, how can you be sure that you can trust their advice…is it the best possible advice, and is it worth it?

Financial advisors, much like bankers, have faced much more scrutiny (some unfairly mind you) over the past decade-plus with 2 bear markets that have wiped out a lot of accumulated wealth. With the glut of advisors who are average at best, and those who may not want to deal with or be competent in financial matters that they don't get paid for due to traditional pay structures (debt payoff strategies, credit issues, etc.), people often are disillusioned as to why the financial advisor is only truly focused on the investments when they have other financial needs that need tending to. A fiduciary with proper training and adherence to matters in financial planning, investment advice, and wealth management is a better choice than a financial "advisor" who is a broker, acts under the suitability standard, and is interested in selling you the latest flavor of the day to make a commission. With all of the advisors who've been caught ripping off client funds, they make it harder for the honest ethical practitioners to been seen in a more trusted light.

The CPA/accountant seems to be held in greater esteem by those they serve simply because their clients feel that the CPA's/accountant's advice is straightforward and in their best interests. The clients feel that there is no hidden agenda or question as to why this or that was recommended - they simply follow the advice given to them. Now, whether that is true of most CPAs/accountants is hard to say, but repeated polls and surveys surely have some validity. Not all accountants/CPAs are as ethical (they have been some here who have steered clients in the wrong direction) but the perception is that you can trust an accountant/CPA more than any other advisor. Finding a worthwhile CPA who is very knowledgeable in investment matters, business matters, and tax matters and knows when to refer business to other avenues when it falls outside of his/her specialties is priceless - you can take that type of trust and build a successful business with it.

For all professionals out there - raise the value level you provide to your clients, communicate it clearly, and the trust (and business) you desire will find its way to you…deservedly so.

For more information, please visit http://mfadvisers.com and http://mftax.com, or email marty@mfadvisers.com and marty@mftax.com or call (570) 760-6524.

*About **MF Advisers, Inc.***

MF Advisers, Inc. is a full-service, fee-only RIA firm and fiduciary based in PA & FL specializing in wealth management, investment advice, and financial planning.

With 20+ years of licensed experience, over 10 years of professional education, and an unwavering commitment to improving your financial situation, MF Advisers is the advisory firm to best serve YOU.

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MF Tax & Accounting, Inc. is a full-service tax and accounting firm based in PA & FL specializing in tax preparation, tax planning and advice, and accounting services.

With 10+ years of licensed experience, over 10 years of professional education, and an unwavering commitment to helping you, MF Tax & Accounting is the tax & accounting firm to best serve YOU.

Identifying your financial goals can help you determine what types of investments to make or other types of accounts to open.

Six Tips for Managing an Inheritance

A sizeable inheritance can represent a life-changing opportunity. Here are six tips to help you prudently manage your windfall.

Tip 1: Consult With a Financial Professional and Tax Professional

Depending on the type of inheritance (e.g., investments, life insurance, retirement account), you could be dealing with substantial federal and/or state inheritance taxes. Working with a financial advisor and/or a tax professional could help you plan the sale of any assets and deal with the tax implications.

- If your inheritance was from your spouse, there may be no taxes due.
- Life insurance proceeds are usually tax free.
- Non-retirement assets are taxed when sold, and those assets typically receive a "step up" in cost basis. That means that any capital gains tax you owe will be based on the asset's fair market value at the date of death of the benefactor.

If you inherit an annuity or traditional workplace retirement account or IRA, you will have to pay taxes on the distributions. Be very careful when taking your distributions. For example, if you cash out your uncle's IRA and roll the money over into your own IRA, the entire amount of the rollover will be subject to ordinary income taxes. Note too that there are considerations for spouses rolling over their deceased spouse's retirement account.

Tip 2: Park the Cash

Before you make any plans or major purchases, stop. Deposit the inheritance or investments in a bank or brokerage account. If you are married, you need to determine whether to put the account solely in your name or jointly with your spouse. Note that inheritances are considered separate property, in case of divorce. However, once they are commingled in a joint account, those assets lose that protection.

Tip 3: Cut Down/Eliminate Your Debt

Your inheritance may allow you the ability to pay off your debt, including your mortgage. But first consider paying off those loans with higher interest rates, such as credit cards, personal loans, and car loans. Then consider paying off your mortgage. Also fund an emergency account with at least six months' worth of living expenses.

Tip 4: Think About Your Other Goals

Identifying your financial goals can help you determine what types of investments to make or other types of accounts to open. These goals could include:

- Contributing to charity
- Setting up a trust or foundation
- Paying for a family member's education
- Helping out loved ones
- Adding to your retirement savings

Tip 5: Review Your Insurance and Estate Planning Needs

If you've inherited a significant sum, it may be wise to increase the liability limits on your homeowners and automotive policies. If you inherited jewelry, artwork, or real estate, you may need to increase your property and casualty coverage. Consider an umbrella policy. Does the inheritance inflate the size of your estate so that it will be subject to estate taxes? Are you thinking about setting up a trust to provide for family or charity?

Tip 6: Do Something Nice for Yourself

Set aside a small percentage -- no more than 5% to 10% -- of your inheritance for "splurges." Take a trip. Buy a new car. Just be sure to keep it small. After all, inheritances don't grow on trees.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

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How to Calculate Your Retirement Needs

The average life expectancy for a 45-year-old man today is 78. For a woman, it's 82.

Calculating a retirement savings goal is one of the most important steps investors can take to help determine if they are on track to meet that goal. However, less than half of American workers have tried to figure out how much money they will need to accumulate for retirement.[1] And the wide majority of those who did admit doing so either guessed or did their own calculations. What about you?

Planning Matters

What's important to realize is that the exercise of calculating a retirement savings goal does more than simply provide you with a dollars and cents estimate of how much you'll need for the future. It also requires you to visualize the specific details of your retirement dreams and to assess whether your current financial plans are realistic, comprehensive, and up-to-date.

Action Plans

The following five strategies will help you do a better job of identifying and pursuing your retirement savings goals.

1. **Double-check your assumptions.** Before you do anything else, answer these important questions: When do you plan to retire? How much money will you need each year? Where and when do you plan to get your retirement income? Are your investment expectations in line with the performance potential of the investments you own?
2. **Understand your projected life span.** The average life expectancy for a 45-year-old man today is 78. For a woman, it's 82. According to pension mortality tables, at least one member of a 65-year-old couple has a 72% chance of living to age 85 and a 45% chance of living to age 90.[2]
3. **Use a proper "calculator."** The best way to calculate your goal is by using one of the many interactive worksheets now available free of charge online and in print. Each type features questions about your financial situation as well as blank spaces for you to provide answers. An online version will perform the calculation automatically and respond almost instantly with an estimate of how much you may need for retirement and how much more you should try to save to pursue that goal. If you do the calculation on a paper worksheet, however, you might want to have a traditional calculator on hand to help with the math. Remember that your ultimate goal is to save as much money as possible for retirement regardless of what any calculator might suggest.
4. **Contribute more.** Do you think you could manage to save another $10 or $20 extra each pay period? If so, here's some motivation to actually do it: Contributing an extra $20 each week to your plan could provide you with an additional $130,237 after 30 years, assuming 8% annual investment returns.[3] At the very least, you should try to contribute at least enough to receive the full amount of your employer's matching contribution (if offered). It's also a good idea to increase contributions annually, such as after a pay raise.
5. **Meet with an advisor.** A financial professional can help you determine a strategy -- and help you stick to it.

Retirement will likely be one of the biggest expenses in your life, so it's important to maintain an accurate price estimate and financial plan. Make it a priority to calculate your savings goal at least once a year.

[1]*Source: Employee Benefit Research Institute, 2013 Retirement Confidence Survey, March 2013.*

[2]Source: Social Security Administration, *Period Life Table* (2007, latest data available).
[3]This example is hypothetical and for illustrative purposes only. Your results will vary. Investment returns cannot be guaranteed.

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Many preretirees falsely believe that there is nothing they can do to build retirement assets, and as a result, do nothing.

Retirement Planning Tips for Fifty-Somethings

Entering your 50s and behind in your retirement planning goals? Don't fret. You've still got time to get your financial plan back on track.

There are many steps that older investors can take to better prepare themselves financially for retirement. Here are six tips that may help you make the most of your final working years.

1. **Catch up.** If you have access to a 401(k) or other workplace-sponsored plan, make the $5,500 catch-up contribution that is available to participants aged 50 and older. Note that you are first required to contribute the annual employee maximum, $17,500 for 2013, before making the catch-up contribution.
2. **Fund an IRA.** Investors aged 50 and older can contribute $6,500 annually (the $5,500 annual contribution plus an additional catch-up contribution of $1,000). An investor in his or her 50s who contributes the maximum amounts to both a 401(k) and an IRA could accelerate retirement savings by more than $25,000 a year.
3. **Consider dividends.** If you do not have access to a workplace-sponsored retirement plan, or you already contribute the maximum to your qualified retirement accounts, consider stocks that offer dividend reinvestment.[1] Reinvesting your dividends can help to grow your account balance over time.
4. **Make little cuts.** Consider how you can trim expenses while continuing to enjoy life. Some suggestions for quick savings: Eliminate or reduce premium cable channels that you do not watch, memberships that you do not use regularly, and frequent splurges on dining out or coffee runs. An extra $100 a month saved today could make a big difference down the road.
5. **Review strategies for postponing retirement.** You may be able to learn new skills that could increase your marketability to potential employers. Even a part-time job could reduce your need to deplete retirement assets.
6. **Don't give up.** Many preretirees falsely believe that there is nothing they can do to build retirement assets, and as a result, do nothing. Remember that you control how much you invest, and in many areas, how much you spend. Make a plan -- and stick with it.

[1]*Investing in stocks involves risk, including loss of principal.*

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Living in Retirement: A Three-Phased Approach

Although many Americans now plan for a retirement up to 20 years, your retirement may last much longer.

Traditionally, retirees were advised to project income needs over the length of time of retirement, add on an annual adjustment for inflation, and then identify any potential income shortfall. But the planning required may not be that linear. For example, research suggests that some retirees' expenses -- other than health care -- may slowly decrease over time. That means many retirees -- depending on personal expenses -- may need more income early in their retirement than later. This necessitates taking a fresh look at retiree expenses and income, as well as withdrawal and estate planning strategies.

The need to potentially stretch out income over a longer period than previous generations also means that some people may not want to tap Social Security when they're first eligible.

Phase 1: The Early Years

The need to potentially stretch out income over a longer period than previous generations also means that some people may not want to tap Social Security when they're first eligible. Consider that for each year you delay taking Social Security beyond your full retirement age until age 70, you'll receive a benefit increase of 6% to 8%, depending on your age. One caveat: If you do decide to delay collecting Social Security, you may want to sign up for Medicare at age 65 to avoid possibly paying more for medical insurance later.

Also plan ahead as to how you'll pay for health care costs not covered by Medicare as you age. Remember that Medicare does not pay for ongoing long-term care or assisted living and that qualifying for Medicaid requires spending down your assets.

If you have accumulated assets in qualified employer-sponsored retirement plans, now may be the time to decide whether to roll that money into a tax-deferred IRA, which could make managing your investments easier. A tax and financial professional can also help you decide which accounts to tap first at this point in your post-retirement planning -- a situation that could significantly affect your financial situation.

Finally, don't overlook any pension assets in which you may be vested, especially if you changed employers over the course of your career. Pensions can supply you with regular income for life.

Phase 2: The Middle Years

By April 1 of the year after you reach age 70½, you'll generally be required to begin making annual withdrawals from traditional IRAs and employer-sponsored retirement plans (except for assets in a current employer's retirement plan if you're still working and do not own more than 5% of the business). The penalty for not taking your required minimum distribution (RMD) can be steep: 50% of what you should have withdrawn. Withdrawals from Roth IRAs, however, are not required during the owner's lifetime. If money is not needed for income and efficient wealth transfer is a goal, a Roth IRA may be an attractive option.

Also, consider reviewing the asset allocation of your investment portfolio. Does it have enough growth potential to keep up with inflation? Is it adequately diversified among different types of stocks and income-generating securities?

Phase 3: The Later Years

Review your financial documents to make sure they are true to your wishes and that beneficiaries are consistent. Usually, these documents include a will and paperwork governing brokerage accounts, IRAs, annuities, pensions, and in some cases, trusts. Many people also draft a durable power of attorney (someone who will manage your finances if you're not able) and a living will (which names a person to make medical decisions on your behalf if you're incapacitated).

You'll still need to stay on top of your investments. For example, an annual portfolio and asset allocation review are important. Keep in mind that a financial advisor may be able to set up an automatic rebalancing program for you. And finally, be aware that some financial companies require that you begin taking distributions from annuities once you reach age 85.

Preparing for a retirement that could encompass a third of your life span can be challenging. Regularly review your situation with financial and tax professionals and be prepared to make adjustments.

This communication is not intended to provide legal or tax advice and should not be treated as such. Each individual's situation is different. You should contact your legal and/or tax professional to discuss your personal situation.

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