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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

November 2012

Hello! Don't forget to max out your 529 college savings, along with your IRA and/or 403(b) contributions (if possible) for 2012, and jump start your college/retirement savings for 2013 once the new year arrives. Please read this month's newsletter and let me know if you have any questions - thank you!

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In This Issue

Retirement and Health Plan Limits for 2013

The IRS has released the cost-of-living adjustments affecting dollar limitations for defined contribution and defined benefit retirement plans. The table below compares both the retirement plan and health insurance plan limits for 2011 through 2013. Further guidance can be found on the IRS website.

Retirement Plans	**2011 Limit**	**2012 Limit**	**2013 Limit**
401(k), 403(b), 457(b)(2) elective deferrals	$16,500	$17,000	$17,500
401(k), 403(b) "catch-up" contributions for ages 55+	$5,500	$5,500	$5,500
SIMPLE plan elective deferral	$11,500	$11,500	$12,000
SIMPLE "catch-up" contributions for ages 55+	$2,500	$2,500	$2,500
Defined contribution plan maximum	$49,000	$50,000	$51,000
Defined benefit plan maximum	$195,000	$200,000	$205,000
Maximum includible compensation	$245,000	$250,000	$255,000
Highly compensated employee	$110,000	$115,000	$115,000
FICA taxable wage base	$106,800	$110,100	$113,700
Health Insurance Plans	**2011 Limit**	**2012 Limit**	**2013 Limit**
Health Savings Account (HSA) contribution limit -- individual	$3,050	$3,100	$3,250
HSA contribution limit -- family	$6,150	$6,250	$6,450
HSA "catch-up" contributions for ages 55+	$1,000	$1,000	$1,000
Maximum deductible for high-deductible health plan (HDHP) - individual	$1,200	$1,200	$1,250
Maximum deductible for HDHP - family	$2,400	$2,400	$2,500
Maximum out-of-pocket for HDHP - individual	$5,950	$6,050	$6,250
Maximum out-of-pocket for HDHP - family	$11,900	$12,100	$12,500
Flexible Spending Account (FSA) contribution limit	No limit*	No limit*	$2,500

*While there was no limit for contributions, most plans capped them at $5,000 or less.

When It Comes to Retirement, Timing Is Everything

Regardless of income level, maintaining lifestyle expectations through a retirement that may last 30 years or more requires careful planning.

Most everyone dreams of the day they can finally retire and live the life of leisure. Yet recent evidence suggests that most near-retirees and retirees need to do a better job of timing and long-term planning.

One study, conducted by the Society of Actuaries, looked at retirement risk factors and concluded that while decisions around the timing of retirement are among the most critical, for most individuals, those decisions are not carefully planned out.[1]

The study found that while a high percentage of retirees/preretirees have considered delaying retirement, when asked how a three-year delay in retirement would or could have affected them financially, almost half of current retirees said a delay would have made them no more financially secure. Among current workers, nearly 40% felt a delay would have no impact on their future finances.

Another trouble spot is time horizons. According to the study, the typical retiree has a planning horizon of just 5 years; preretirees plan just 10 years out. A shockingly low number -- 7% of retirees and 13% of preretirees -- look 20 years or more into the future when making important financial decisions. Even fewer respondents have plans to account for their life expectancies.

Clearly these gaps in planning can have major implications for your financial security and standard of living in retirement. Consider the following points when planning for your own retirement.

Should You Delay?

For many, Social Security is a major component of their retirement income. Social Security benefits increase substantially with retirement age. For instance, for those with full Social Security benefits the monthly payout is substantially higher at age 70 than it would be if you opted for early retirement at age 62. For example, a 50-year-old today would receive an estimated $1,030 per month by opting for early retirement at age 62, $1,577 by waiting until age 67, and $1,995 by waiting until age 70.[2] Visit the Social Security Administration's website at www.ssa.gov for more on benefits and retirement age.

Consider a Long Horizon

Regardless of income level, maintaining lifestyle expectations through a retirement that may last 30 years or more requires careful planning. Researchers refer to this planning challenge as "longevity risk," or the risk that an individual could outlive their retirement income. To plan for such a contingency, many financial experts suggest the following game plan:

- Withdraw very conservatively (just 4% or 5% annually) from your retirement accounts.
- Consider purchasing a long-term care insurance policy, which covers nursing home and other long-term care expenses.
- Maintain an allocation to stock investments, for their long-term growth potential.[3]
- Consult with a financial professional.

[1]*Source: Society of Actuaries, "2009 Risks and Process of Retirement Survey Report," February 2011.*

[2]*Source: Social Security Administration, Benefit Estimates Quick Calculator.*
[3]*Investing in stocks involves risks, including loss of principal. Past performance is not a guarantee of future results.*

How to Contain Costs for Your College-Ready Child

According to economists with the Federal Reserve Bank of New York, more than five million student loan borrowers have at least one loan past due.

College graduates in 2011 walked away with a diploma and an average of nearly $27,000 in student loans, according to a recent report.[1] The report also estimated that two-thirds of the class of 2011 held student loans upon graduation, up 5% from the 2010 findings.

Student debt is widely understood to be a serious and growing problem in the United States. The federal student loan default rate is now the highest it has been in 14 years, at 9.1%.[2] According to economists with the Federal Reserve Bank of New York, more than five million student loan borrowers have at least one loan past due.[3]

And the news gets worse: While unemployment for college graduates was at 8.8% in 2011 -- mostly in line with the national rate -- an estimated 38% of recent graduates are working in jobs that do not require a college diploma.

What can you do to help contain costs for your college-ready child? Here are some tips.

- **Start locally** -- Attending a community college for one or two years could substantially reduce costs when compared with a four-year public or private school.
- **Tap into federal loans first** -- Find out more at the Federal Student Aid website, created by the Department of Education. Federal Student Aid provides more than $150 billion in federal grants, loans, and work-study funds each year.
- **Investigate Income-Based Replacement (IBR)** -- Available for federal student loans since 2009, IBR caps monthly payments at a manageable share of income and forgives any debt remaining after up to 25 years of payments, or as few as 10 years of payments, for those working for public or nonprofit employers.
- **Consider private loans as a last resort** -- These loans are tricky, as graduates find themselves locked into loan terms that can make repayment difficult as they navigate the job market and struggle to find steady work.

[1]*Source: The Institute of College Access & Success, "Student Debt and the Class of 2011," October 2012.*

[2]*Source: The U.S. Department of Education, Federal Student Aid Chart, October 2012.*

[3]*Source: The Federal Reserve Bank of New York, "Grading Student Loans," 2012.*