



Parker Financial Services, LLC

Helping Biz Owners & Professionals Retire On Time

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Hybrid Cars: Being Green May Take More Green

When it comes to safeguarding the environment, hybrid cars (vehicles that combine gasoline engines and rechargeable batteries) do have a positive impact. But how does owning one affect your wallet? While it may be too soon to tell, it seems that being green may take more green than you'd expect.

Higher prices

The sticker prices for new hybrids average several thousand dollars higher than those for comparable cars with conventional engines. As a result, your initial out-of-pocket cost to purchase a hybrid can be significantly higher than for a conventional car. If you finance the purchase, that can translate into higher monthly loan payments or longer-term loans.

Tax credits offset the cost ... for now

The federal government offers a tax credit (up to \$3,400) for purchasing a new hybrid vehicle; the amount of the credit you receive depends on the car's make and model. While this credit can at least partially offset a hybrid vehicle's higher purchase price, timing is everything: Once a carmaker sells 60,000 hybrids (of any model), the credit for all that manufacturer's vehicles begins to phase out. At least one manufacturer (Toyota) has already exceeded the 60,000 mark.

The credit won't reduce your tax liability below zero and, if you're eligible for other credits, must be taken last in line. If the amount of the credit exceeds your tax liability, the difference generally can't be carried over to another year. And the credit won't reduce your alternative minimum tax (AMT) liability, if you're subject to it.

Saving at the pump

One of the biggest selling points for hybrid cars is their fuel economy--more miles per gallon, which means you'll save a bundle at the pump, right? Well, not always. It depends on how and where you drive. While you'll get good gas mileage, real-world results indicate that hybrids don't always get the significantly

better numbers claimed by the Environmental Protection Agency, especially if you're a low-mileage, short-trip urban driver. And fuel savings are a function of gas prices: The higher the price per gallon, the more (and the faster) you'll save. At lower gas prices, it takes longer to recoup your higher investment in the car.



Maintenance costs

Since maintaining a hybrid is essentially the same as maintaining a conventional car, these costs aren't a significant variable in the savings equation. However, hybrid car batteries can cost \$1,000 to \$3,000 or more. While they're covered by generous warranties (up to eight years), should you keep the car beyond the warranty, you might have to replace an expensive part.

Resale value

An important consideration in the cost-effectiveness equation is the resale value of the vehicle you purchase; if the car holds its value, it'll cost you less in the long term. Because hybrids are relatively new, the jury is still out in terms of whether they'll deliver greater relative resale values than their conventional counterparts. If they do, owning a hybrid may offer significant savings. However, hybrid technology is still improving, and this may adversely affect the resale value of the current models: Will a buyer want a used hybrid when new model hybrids may be more fuel efficient?

It's not all about the money

In the final analysis, deciding to purchase a hybrid car won't be all about the money you could save. Each gallon of gas you burn puts 19 pounds of carbon dioxide into the atmosphere, and carbon dioxide is linked to global warming. So, if you go hybrid, you may not save enough money to burn, but you will save gas, and the planet you save may be your own.





Planning for uncertainty

New tools for financial forecasting use a methodology called a Monte Carlo simulation. By examining thousands of possible outcomes, a Monte Carlo simulation can give you a detailed picture of how likely it is that a given retirement planning and investing strategy will meet your needs. Facing up to uncertainty can help you see how adjusting your goals and your plan for achieving them might improve your chances of having the kind of retirement you want.

Retirement: Does Your Game Plan Need a Second Look?

Calculating what you'll need for retirement involves making an assumption about the return you'll earn on your portfolio. Typically, assumed rates of return are based on historical average returns for various types of investments. You'll also need to estimate how long you'll need income after you retire. Whether you are on track to meet your goals depends in part on the accuracy of those assumptions.

Question your assumptions

It might be time to revisit your retirement calculations. "Past performance is no guarantee of future results" has always been true, but many investment professionals have begun to question whether stocks will match the returns they have had in the past. It's not unusual to see forecasts for long-term stock returns that are 1 to 2 percentage points lower than the 7% to 9% inflation-adjusted figure often used to plan portfolios. That may not sound like much, but even a 1% difference can be costly over time. For example, getting a 4% real return on \$100,000 over 20 years would give you roughly \$50,000 less than a 5% return.

Assess the cost of uncertainty

Whether or not those forecasts prove accurate, you may want to double-check your estimate of what it will take for you to retire. Let's say you were counting on a 10% average annual return on your stocks for the next 10 years. It might be a good idea to project what would happen if that figure turns out to be 5% to 6% a year. If you're counting on high returns to make up for insufficient savings, the impact of a lower figure could be eye-opening.

Realistic projections about your investment returns are especially important if you're recently retired. Why? Because if lower-than-expected returns in the early years of retirement force you to withdraw more to live on each month than you had planned, those withdrawals will reduce the benefits of compounding over time. That in turn would affect the future value of your nest egg for the rest of your retirement.

You already know that saving more can increase your chances of having an adequate nest egg. However, there are multiple ways you can rethink your retirement planning—just in case.

Review your asset allocation

If returns for each asset class in your portfolio

turn out to be lower than you've projected, you may need more in your retirement kitty to give you the income you've been planning on after retirement. To try to increase the nest egg available to you at retirement, you may want to reconsider your overall asset allocation.

If you want to try to get back to a targeted level of return for your overall portfolio, one way might be to increase the percentage that is devoted to asset classes that carry more risk but also have greater potential for higher returns. You also could consider investing in new asset classes that you previously haven't included in your strategy. Diversifying into investments whose performance may be very different from those you already own might change your overall return.

Diversification doesn't ensure a profit or guarantee against a loss; what it does do is give you more options for balancing risk and potential rewards.

Consider your income needs projections

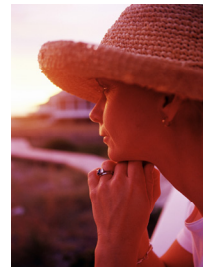
People are living longer than they used to, which means your nest egg might also need to last longer. Postponing full retirement can help your money last longer, especially if returns aren't what you had hoped. Also, look at whether your spending estimates for retirement

are realistic. Reducing the annual percentage of your savings you plan to withdraw to use as income after you retire will increase your nest egg's longevity. (However, remember that if your savings are in a traditional IRA or employer-sponsored retirement plan, you'll be required to take minimum distributions each year once you turn 70½.)

Another way to address your projected income needs is to consider investments that can provide a lifetime income stream.

Pay attention to expenses and taxes

If investment returns sag, costs and taxes will have greater impact. Pay attention to the tax efficiency of your investments as well as their returns. If you actively trade stocks, be aware of trading costs. With mutual funds, understand the breakpoints that can help minimize sales charges the more you invest; also, check out a fund's expense ratios and fees.



Common Types of Trusts

Whether you're seeking to control how your assets are distributed after your death, avoid probate, plan for incapacity, minimize transfer taxes, or protect assets from potential creditors, trusts can help you accomplish many estate planning goals. Their power is in their versatility--many types of trusts exist, each designed for a specific purpose. Here are some brief descriptions of the most common types.

Living trust

A living trust (also called an inter vivos trust) is a trust you create during your lifetime rather than after your death by the terms of your will (that type is called a testamentary trust). Living trusts are revocable--you keep control over the trust assets, and can change the trust or even dissolve it at any time. This type of trust is useful if you want assets to avoid probate and shield them from public scrutiny, and/or if you want to provide for someone else to manage your assets should you become incapacitated. Living trusts, however, will not minimize taxes or protect assets from creditors.

Irrevocable trust

An irrevocable trust is one that, once created, you generally can't change or dissolve, and you must give up total control over the trust assets. But, irrevocable trusts can provide certain tax advantages and asset protection. The following are all irrevocable trusts designed to achieve particular objectives.

Bypass trust

When a person leaves his or her entire estate to a surviving spouse, assets pass free from federal estate tax because of the marital deduction. When the surviving spouse dies, his or her estate passes free from estate tax to the extent of his or her lifetime exemption (currently \$2 million). If this is the case, a couple's combined taxable estates may be higher than need be because the lifetime exemption of the first spouse to die has not been used.

A bypass trust (also called a credit shelter trust) can solve this problem. The first spouse to die funds the trust with assets equal in value to the exemption amount. Those assets "bypass" the surviving spouse's estate (though the surviving spouse can receive all income and some principal), and pass to descendants estate tax free at the surviving spouse's death.

QTIP trust

A QTIP (qualified terminable interest property) trust (also called a marital deduction trust) is, like the bypass trust, used by spouses to minimize estate taxes. It holds assets of the first spouse to die that are in excess of that spouse's lifetime exemption. Transfers to a proper QTIP are tax free under the marital deduction, even though assets do not pass outright to the surviving spouse. Trust assets are held for the surviving spouse's benefit, then pass to descendants as part of the surviving spouse's estate (and may be sheltered from estate tax by the surviving spouse's lifetime exemption). For maximum estate tax savings, a QTIP trust is often paired with a bypass trust. This is known as an A/B trust arrangement.

Because the first spouse to die names the ultimate beneficiaries, a QTIP is often used to provide for children of a previous marriage.

Irrevocable life insurance trust (ILIT)

The proceeds of your life insurance policy will be subject to federal estate tax if you own the policy, or your estate receives the proceeds. Often, this asset pushes an estate over the exemption amount.

An ILIT, created to hold a life insurance policy and its proceeds, is a separate legal entity. Using an ILIT removes the proceeds from your estate because the trust entity owns the policy and is the named beneficiary of the proceeds.

Charitable remainder trust

A charitable remainder trust allows you to give money or property to charity while continuing to receive income (fixed or variable) from the property for life or for a period of time up to 20 years. You and/or other beneficiaries receive distributions from the trust annually, and the charity receives the remaining assets when the trust ends. You get an immediate income tax deduction for the charitable interest (subject to the usual limitations), as well as gift and estate tax deductions. You also avoid capital gains tax on the donated assets.

A word of caution

A trust is not a do-it-yourself arrangement. Trusts must be properly structured and carefully drafted to achieve the desired results. Be sure to consult an experienced estate planning attorney.

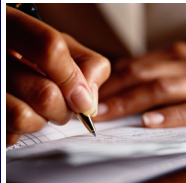
Whether you're seeking to control how your assets are distributed after your death, avoid probate, plan for incapacity, minimize transfer taxes, or protect assets from potential creditors, trusts can help you accomplish many estate planning goals.





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Ask the Experts



What is the timeline for federal financial aid?

Parents should submit the federal government's aid application, the FAFSA, as soon as possible after the first of the year in which

their child will attend college. Some federal financial aid programs operate on a first-come, first-served basis, so getting your application in early means your child has the best shot at obtaining a good aid package.

The FAFSA relies on financial information from your previous year's tax return. Because many parents haven't yet completed their federal income tax returns by January or early February, it's usually recommended that parents prepare (or hire a tax professional to prepare) an estimated tax return on which they can rely, a practice the federal government deems acceptable (parents will still need to provide a final income tax return later on).

The FAFSA can be filled out either in hard copy or online at www.fafsa.ed.gov. The number of families completing the FAFSA online has grown significantly in recent years. Not

only does the program "do the math" for you (much like tax preparation software), but electronic FAFSAs take only one week to process, compared with four to six weeks for paper FAFSAs.

After your FAFSA is processed, you (and all the colleges you listed on the FAFSA) will receive a Student Aid Report in the mail. This document notifies you of your expected family contribution, or EFC, which is the amount of money you must contribute to college costs to be eligible for financial aid. Review the report carefully to make sure that it contains your correct income and asset information.

Then, in late winter or early spring, the financial aid administrator at each college that has accepted your child will try to craft an aid package to meet your child's financial need (colleges aren't obligated to meet all of it). Your child will then be notified of the college's proffered aid package in an award letter sent out in the spring.