Parker Financial Services, LLC

Helping Biz Owners & Professionals Retire On Time

February 2008

Retire On Time
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The U.S. Dollar and Your Portfolio

The U.S. dollar has struggled over the last few years. The Canadian dollar recently reached parity with the greenback for the first time in three decades. In October 2000, the euro was worth 82 cents. Last year it hit a record $1.45 and kept going, while the British pound sterling was at a 25-year high. (All statistics are from the Federal Reserve system.) According to the Federal Reserve Board of Governors, as of last August the dollar had dropped 26% (adjusted for inflation) against the major industrialized nations' currencies, and 7% against key emerging-market currencies, since early 2002.

Change in Value of U.S. Dollar Jan. 1 to Nov. 30, 2007	
Euro	-10.8%
Yen	-7.7%
Canadian dollar	-15.1%
Pound	-5.4%

Data source: OANDA Corporation

If you have no plans to travel abroad, don't eat imported out-of-season fruit, and buy only domestic cars, a weaker dollar may not worry you. However, a falling dollar can lead to rising inflation. Not only can it affect the price of commodities such as oil, but with the higher cost of overseas products, domestic manufacturers may feel more comfortable raising prices. And inflation can lead to higher interest rates, which could affect everything from credit cards to mortgage rates.

A diluted dollar also can affect your portfolio. If you've held international investments in the last few years, you may have caught a tailwind. Past performance is no guarantee of future results, of course, and there are special risks to global investments, including not only currency risks but also political risks and different accounting standards. Risk factors vary considerably by country and region, and as with any investment, you can lose some or all of the funds you invest.

However, returns produced in part by the dollar's decline are one reason investing globally has become popular. According to the Investment Company Institute, more than 90% of the $160 billion of net new money added to stock mutual funds in 2006 went into funds investing in foreign companies.

Looking over the hedge

A mutual fund that invests overseas may or may not try to hedge against currency fluctuations. Some are managed to try to minimize the impact of exchange rates; others deliberately do not hedge their currency exposure. Your preferred approach will depend on your view of the dollar's future and how much currency exposure you want in your portfolio. A weaker dollar may boost an unhedged fund's performance because the fund holds securities denominated in other currencies. However, an unhedged fund would suffer more from any dollar recovery. Obtain and read a fund's prospectus carefully before investing.

Domestic can also be global

A weak dollar makes U.S. companies' products cheaper abroad, which has benefited many large multinational corporations that are headquartered here but have substantial overseas sales. According to Standard & Poor's, roughly 44% of the 2006 revenues of companies in the S&P 500 Stock Index came from international sources; in 2001, that figure was 32%. Even companies without overseas operations may benefit. For example, with higher prices for overseas goods, some distributors and retailers have begun to find less expensive U.S. suppliers. Also, a weak dollar in the past has made some U.S. companies targets for foreign acquisition.

What goes down can come up

The dollar goes through cycles, of course. A stronger economy, higher U.S. interest rates or lower rates abroad, foreign currency crises, market turbulence, or lower federal deficits could help boost the dollar's value. When determining your overall asset allocation, consider both your currency exposure and your level of international investments.

Why UTMA/UGMA Custodial Accounts Aren't Making the Grade

UGMA/UTMA custodial accounts let children hold assets like stocks, bonds, and mutual funds in their own names--under the watchful eye of a designated custodian--that they legally wouldn't be able to hold outright in their own names. Earnings, interest, and capital gains generated from assets in the account are taxed every year to the child. At one time, custodial accounts were a favored way for parents to save for their children's college education due to the potential tax advantages of children being in a lower tax bracket than their parents. But in recent years, the tax savings associated with custodial accounts have steadily diminished as the kiddie tax rules have expanded.

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The kiddie tax

The kiddie tax refers to special rules that apply when a child has annual unearned income over a certain amount ($1,800 in 2008). Unearned income is income other than wages or salary (for example, interest and investment earnings, and taxable gain resulting from the sale of an asset). Under the kiddie tax rules, a child's unearned income over $1,800 is taxed at the parent's (presumably higher) marginal tax rate.

The magic age for the kiddie tax used to be 14. Specifically, in the past, children under age 14 were subject to the kiddie tax rules, while children age 14 and older weren't. So parents saving for college with a custodial account had a limited window of opportunity--after their children turned 14--when they could sell assets in a custodial account and not be subject to the kiddie tax.

But in 2006, the Tax Increase Prevention and Reconciliation Act raised the applicable kiddie tax age from under age 14 to under age 18. The result was that children under age 18 would now be taxed on their unearned income over a certain amount at their parent's (presumably higher) marginal tax rate.

Then, in 2007, the Small Business and Work Opportunity Tax Act expanded the kiddie tax rules again, effective in 2008. Under these expanded rules, the kiddie tax now also applies to children who are under age 19, and to full-time students under age 24 (which covers traditional college students). There is an exception carved out for anyone in these two new categories who earns more than one-half of his or her own support.

The current kiddie tax rules are as follows:

If annual unearned income is in this range...	And child is (1) under 18, or (2) under 19 or a full-time student under 24 (and exception doesn't apply), then the income is...
$0 - $900	Tax free
$901 - $1,800	Taxed at child's rate
Over $1,800	Taxed at parent's rate

Ramifications

The expanded kiddie tax rules significantly reduce the tax savings potential of custodial accounts, making them a less-than-stellar option for college savings. Now, if your child is a full-time student who does not earn more than one-half of his or her support, the kiddie tax rules will kick in if your child sells an investment asset (via the designated custodian) or has investment earnings before the year he or she reaches age 24.

Now what?

If you've been saving for your child's or grandchild's college education with an UGMA/ UTMA custodial account, you may want to consider other options. One popular strategy that's emerged in recent years is to transfer the assets in a custodial account to a 529 college savings plan.

However, be aware that the typical restrictions that are the hallmark of a custodial account (for example, a beneficiary who can't be changed, gifts that can't be revoked, money that can't be withdrawn unless it's used for the beneficiary's benefit, and the requirement that all assets be handed over to the beneficiary when he or she reaches the age of majority, depending on state law) will be transferred onto the 529 plan. Your new account, referred to as a "custodial 529 plan" account, would be more restrictive than a 529 account you opened from scratch.

But keep in mind that you can only contribute cash to a 529 plan, so you'll have to sell assets in your UGMA/UTMA to complete the transfer. This may result in capital gains that will be taxed to the child, potentially at the parent's tax rate due to the kiddie tax.

Working in Retirement--What You Need to Know

Planning on working during retirement? If so, you're not alone. Recent studies have consistently shown that a majority of retirees plan to work at least some period of time during their retirement years. Here are some things you should consider.

Why work during retirement?

Obviously, if you work during retirement, you'll be earning money and relying less on your retirement savings--leaving more to grow for the future. You may also have access to affordable health care, as more and more employers begin offering this important benefit to part-time employees. But there are also non-economic reasons for working during retirement. Many retirees work for personal fulfillment--to stay mentally and physically active, to enjoy the social benefits of working, and to try their hand at something new.

How will working affect my Social Security benefit?

If you work after you start receiving Social Security retirement benefits, your earnings may affect the amount of your benefit check. Your monthly benefit is based on your lifetime earnings. When you become entitled to retirement benefits at age 62, the Social Security Administration calculates your primary insurance amount (PIA) upon which your retirement benefit will be based. Your PIA is recalculated annually if you have any new earnings that might increase your benefit. So if you continue to work after you start receiving retirement benefits, these earnings may increase your PIA and thus your future Social Security retirement benefit.

But working may also result in a reduction in your current benefit. If you've reached full retirement age (65 to 67, depending on when you were born), you don't need to worry about this--you can earn as much as you want without affecting your Social Security retirement benefit.

If you haven't yet reached full retirement age, $1 in benefits will be withheld for every $2 you earn over the annual earnings limit ($13,560 in 2008). A higher earnings limit applies in the year you reach full retirement age. If you earn more than this higher limit ($36,120 in 2008), $1 in benefits will be withheld for every $3 you earn over that amount, until the month you reach full retirement age--then you'll get your full benefit no matter how much you earn. Yet another special rule applies in your first year of Social Security retirement--you'll get your full benefit for any month you earn less than one-twelfth of the annual earnings limit ($1,130 in 2008), regardless of how much you earn during the rest of the year.

Not all income reduces your Social Security benefit. In general, Social Security only takes into account wages you've earned as an employee, net earnings from self-employment , and other types of work-related income, such as bonuses, commissions, and fees. Pensions, annuities, IRA payments, and investment income won't reduce your benefit.

Also, keep in mind that working may enable you to put off receiving your Social Security benefit until a later date. In general, the later you begin receiving benefit payments, the greater your benefit will be. Whether delaying the start of Social Security benefits is the right decision for you depends on your personal circumstances.

One last important point to consider. In general, your Social Security benefit won't be subject to income tax if that's the only income you receive during the year. But if you work during retirement (or you receive any other taxable income, or tax-exempt interest), a portion of your benefit may become taxable. IRS Publication 915 has a worksheet that can help you determine whether any part of your Social Security benefit is subject to income tax.

How will working affect my pension?

Some employers are adopting "phased retirement" programs that allow you to ease into retirement by working fewer hours, while also allowing you to access your retirement benefit. However, other plans require that you fully retire before you can receive your pension. And some plans even require that your pension benefit be suspended if you retire and then return to work for the same employer, even part-time. So check with your plan administrator before you make any decisions. Of course, if you work for someone other than your original employer, your pension benefit won't be affected at all--you can work, receive a salary from your new employer, and also receive your pension benefit from your original employer.

Working during retirement can significantly impact your retirement plan, so consider the implications before making a decision.

Recent studies have consistently shown that a majority of retirees plan to work at least some period of time during their retirement years.

Most people qualify for Medicare when they turn 65. Even if you plan on working past age 65, contact the Social Security Administration at 800-772-1213 about 3 months before your 65th birthday for help in deciding if you should sign up for Medicare.

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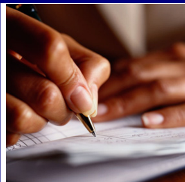
Ask the Experts



I'm planning a cruise to the Caribbean this winter. Do I need a passport?

Not yet. New passport rules requiring passports for all land and sea travel between the United States and Mexico, Canada, the Caribbean, and Bermuda were originally scheduled to take effect in January of 2008. But a massive backlog of passport applications (caused by another requirement that all travelers flying to these destinations have a passport by the fall of 2007) prompted the federal government to delay implementation of the new rules until sometime between the summer of 2008 and June of 2009. The precise implementation date will be announced later, with at least 60 days notice given.

In the meantime, beginning January 31, 2008, Americans traveling by land or sea to Mexico, Canada, the Caribbean, or Bermuda will need to show a government-issued photo ID, such as a license, and a birth certificate or other proof of citizenship.

And if you're planning to travel by land or sea to any of these destinations later this year or in 2009, consider applying for a passport as soon as possible. The State Department reports that the current wait time is 4 to 6 weeks, but recommends allowing 10 weeks during busier times like the summer travel season (during peak application periods in 2007, waiting times reached 16 weeks). The State Department estimates that 23 million passport applications will be filed in 2008, and 30 million in 2009. So don't delay.

For more details, visit the State Department's website at http://travel.state.gov and click on the link "Passports for U.S. Citizens," or call the National Passport Information Center toll free at 1-877-487-2778.

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