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Financial Review *Keeping you informed on Financial Services issues*



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Diagnosing Your Financial Condition

How healthy are you financially? Here's a way to make your own diagnosis. Pull out a notebook and conduct a thorough self-examination.

Start with a breakdown of your **net worth**. On separate lines, list your assets. Determine *liquid assets* first, such as cash and savings. Then add up the cash value of *illiquid assets*: retirement plans, real estate, collectibles, other personal property, life insurance, and annuities.

Here are two signs of healthy finances: 1) liquid assets should ideally cover three to six months of expenses, in case of emergency, and 2) at least half your assets should be appreciating in value.

Once you've determined your assets, add up your **liabilities**—unpaid bills and outstanding loans—and do some math. Total the assets and then subtract your liabilities to determine your net worth. If the total value of your outstanding debts (including mortgage) is less than half that of your assets, you're in good shape. If your debts are much more than half your assets, you may be carrying too much debt.

Here's another area to examine: **cash flow**. Pull out last year's tax information and a second sheet of paper. Write down your *after-tax* income (annual income minus taxes) on the top line. Then take out your checkbook, credit card statements, and other records. Next, determine the amount you spend in the following areas: rent/mortgage and utilities; food/clothing; furniture/appliances; leisure activities; car payments/expenses; professional expenses; and insurance premiums. Write each on a separate line and add lines for special expenses (such as vacation, education, etc.,) and/or "other."

After you add those lines together, subtract that sum from your after-tax income to determine the money available for savings and investment. If this figure is less than what you actually have available, you may have to go back and check your figures—people often underestimate what they spend.

If the cash flow worksheet shows that you're saving 5% to 10% of your income, you're doing well. If not, you may want to cut back your credit card spending and start paying off your debt.

The worksheet may also illuminate some areas where you can cut back your spending, helping you save.

Determining your net worth and analyzing your cash flow may help you gain a clearer picture of your financial condition and reveal ways to build a healthier financial regime.

Why Plan Your Estate?

Many individuals put off planning their estates. Perhaps this is due to a misconception that estate planning is only necessary for the wealthy and only involves tax planning, which can be done "later."

The fact is that, regardless of your level of wealth and the ultimate tax consequences of your estate, *solidifying the future of your family* is probably high on your list of priorities. That's why a well-structured estate plan is invaluable. Through it, you can control the distribution of your assets and possessions, as well as name guardians for your children and plan care for other dependents.

Social Security: Is Your Age a Retirement Numbers Game?

In order to enjoy your retirement, you should have a good idea of how much money will be needed each year to fund your desired lifestyle. To help ensure that lifestyle, you will need to set aside enough money to supplement known sources of retirement income, such as a company pension and Social Security. Finally, it is important to be aware of how your *age* can affect your retirement decision-making. Here are some important age milestones to consider:

Age 55. If you take "early" retirement, quit, or are otherwise terminated from employment, you can generally withdraw money from **401(k)**, **403(b)**, **Keogh**, **SEP (Simplified Employee Pension)**, and **profit-sharing plans** without being subject to a 10% federal income tax penalty for early withdrawals. In order to meet the qualifications as specified in IRS Publication 575, the individual must attain age 55 by December 31st of the year he or she leaves the workforce, money must stay in and come from the employer's plan and cannot be transferred to an **Individual Retirement Account (IRA)**, early withdrawals are subject to the plan's provisions, and only money from your last employer's plan will qualify (not funds from previous employers). You may take early distributions from a traditional IRA without penalty, provided you receive "substantially equal periodic payments." Certain rules govern this provision, so seek the appropriate counsel.

Age 59½. Generally, you can withdraw money from traditional IRAs and qualified retirement plans after the age of 59½ without being subject to the 10% penalty tax, if plan-specific qualifications are met. Ordinary income tax will be due if your contributions were tax deductible. No income tax or penalty will apply to distributions from a **Roth IRA**, provided you have reached age 59½ and have owned the account for at least five years.

Age 60. Widows and widowers are eligible for Social Security benefits.

Age 62. Some companies may allow retirement at this age with full pension benefits. Moreover, this is the earliest age for receiving regular Social Security benefits, but the benefit will be permanently reduced.

Ages 62–64. The earnings threshold for those still working and collecting Social Security benefits is $13,560 in 2008 (indexed for inflation in future years). There is a $1 loss (a "give-back") in benefits for every $2 earned above that amount. In addition, a portion of benefits may be taxed as income (based on a complex formula that includes wages and tax-exempt income).

Age 65. Most company pension plans provide full benefits. **Medicare** eligibility generally begins at this age. Moreover, those born in 1937 and earlier are eligible for full Social Security benefits. However, "**full retirement age**" for younger workers to receive full Social Security benefits is slowly rising, which affects those born in 1938 and later. For example, full retirement age for those born between 1938 and 1959 rises incrementally until, for those born in 1960 and later, the age for receiving full benefits is 67. Those still working will be able to receive full Social Security benefits regardless of earnings, although some beneficiaries may find a portion of benefits may still be taxed based on a formula that includes wages and tax-exempt income.

Ages 65–67. The lower earnings threshold amount noted above still applies for years prior to full retirement age, *and* a second earnings threshold rule applies for the year in which full retirement age is attained. For those still working and receiving Social Security benefits, there is a benefit loss in 2008 of $1 for every $3 over $36,120 earned for months prior to attainment. The earnings threshold no longer applies once full retirement age is attained. A portion of benefits may be taxed as income (based on a complex formula that includes wages and tax-exempt income).

Age 70½. The required minimum distributions from a traditional qualified retirement plan must generally begin by April 1st of the calendar year following the year in which you reach age 70½. (*Note*: Roth IRAs are not subject to the age 70½ mandatory distribution rules.)

As with all tax planning matters, be sure to consult with a qualified tax professional to help ensure your plans are consistent with your goals and objectives.

Did You Know?

Replacing Currency

The U.S. Department of the Treasury recognizes that currency notes can be damaged as a result of fire, insects, water, chemicals, and other hazards. When such damage occurs to the extent that over one-half of the note has been destroyed and its value is not easily determined, the note is considered mutilated currency. Mutilated currency can be replaced in person or by mail through the Bureau of Engraving and Printing. For more information, visit their website at www.bep.treas.gov.

Vital Records

Oftentimes, individuals need copies of birth, death, marriage, or divorce records in order to conduct other business. The federal government does not distribute certificates, files, or indexes with identifying information for vital records; these are stored by state, city, county, or other locality. However, the National Center for Health Statistics has compiled links to the local offices that provide this information. Visit www.cdc.gov/nchs to find specific procedures for securing vital documents.

Savings Bonds Calculator

TreasuryDirect is a financial services website that allows individuals to buy and redeem securities directly from the U.S. Department of the Treasury. The website, www.treasurydirect.gov, also features a calculator to determine the current value of savings bonds. The calculator will provide information about the current interest rate, next accrual date, final maturity date, and year-to-date interest earned on Series EE, E, and I bonds, as well as savings notes.