

Insights & Outlook

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Investment Updates

Making Up for Retirement Shortfalls

Given the backdrop of economic uncertainty and the rise in both life expectancy and medical costs, prospects look difficult for those facing retirement shortfalls. Fortunately, a financial advisor can show you how pulling these key levers can help your retirement nest egg last.

Work Longer: Working longer is one of the easier solutions for those facing retirement shortfalls, allowing you to contribute to your savings for a few more years.

Reduce Spending During Accumulation Years: One of the best ways to save more is to spend less. Setting explicit goals with a financial advisor, having a clear understanding of your net worth, and carefully tracking expenses are essential to reducing your spending.

Reduce Planned Expenses in Retirement: Your retirement nest egg may last longer if expenses, such as home costs during retirement years, are reduced.

Optimize Your Asset Allocation: As you near retirement, a portfolio that is too conservative can be just as risky as one that is too aggressive. Retirement can be a 30-year prospect, long enough to consider a specific allocation to stocks, which, although they are more volatile, offer higher return potential over time.

Delay Taking Social Security: If you're healthy and expect to live long, waiting until age 70 to receive Social Security benefits can result in a higher payout.

Returns and principal invested in stocks are not guaranteed. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses, and that investing in securities always involves risk of loss. Please consult with a financial professional for advice specific to your situation.



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Advisor Biography

John has been in the tax and financial services industry since 1976 and is a member of The Institute of Certified Financial Planners, The NJ CPA Society and his local chapter of Lions Club International, where he currently serves as their treasurer. He has been a Certified Public Accountant (CPA) since 1978 and a Certified Financial Planner (CFP®) since 1990.

John specializes in developing financial strategies for physicians, business owners and high net worth individuals. He is also an expert on Income Tax savings strategies for physicians. John has received numerous awards such as: Five Star Wealth manager (multi year recipient); The National Quality Award; The Oppenheimer President's Council. Community Service: He currently

serves as treasurer of his church and the local chapter of the Lions club where he earned the "Lion of the Year" award for his service.

Personal: He has 3 children two of whom are CPAs, and 6 grandchildren.

How Can Grandparents Help with College Costs?

If your grandchildren are fortunate enough to have you chip in with their college costs, there are a few things you need to be aware of before you start writing checks.

The most straightforward way for a nonparent to help a student pay for college is with a cash gift. Gift tax rules in 2013 allow any individual to give another individual up to \$14,000 per year (\$28,000 from a couple) without the gift counting against the lifetime estate tax exemption. A problem with this approach is that your contribution will be taken into consideration when the student applies for need-based financial aid. Cash given directly to a student the year before he or she applies may be considered student income, reducing need-based aid by as much as 50% of the amount given. Furthermore, money held in the student's name is treated as a student asset, reducing aid by another 20%. Cash given to the parents also counts against financial aid, albeit at a much lower rate of up to 5.64%. To potentially avoid any financial aid impact with a cash gift, keep in mind that the Free Application for Federal Student Aid takes into account income from the prior year in determining need-based aid. Hence, consider giving the money when you know the student will not be applying for aid next year.

Another approach is to offer to help pay back the student's loans. By waiting until the student is done with school, you avoid financial aid concerns and help ease his or her debt burden as the student enters the workforce. This strategy may be particularly useful for students with subsidized loans, which don't begin to accrue interest until after graduation.

Grandparents may also open a 529 college-savings account in the name of a student. One of the advantages of this approach for the account owner (the grandparent) is that many states offer income tax deductions on 529 contributions, though you must typically make the contribution to your home state's plan in order to earn the deduction. Another benefit is that the IRS allows a five-year acceleration of the gift tax exclusion for such contributions, allowing an individual to contribute as much as \$70,000 in a single year to a 529 in a student's name. A disadvantage to

this approach is that distributions from a 529 owned by someone other than the student or his or her parents are counted as student income and may reduce the amount of need-based financial aid available by \$0.50 for every dollar distribution. Waiting to use 529 distributions from a grandparent-owned account until the student's final year is one way to avoid this problem.

One final option that some grandparents might consider is paying tuition directly to the university on the student's behalf. This has special appeal for those who want to give large amounts but who are worried about gift tax consequences. The good news is that payments made directly to the university to cover tuition are exempt from the gift tax, although additional costs such as room and board are not. Unfortunately, direct tuition payments may be counted as either income against the student's financial aid allocation (reducing it by 50%), or as a financial resource available to the student (reducing financial aid dollar-for-dollar). Hence, this only makes sense for students who are not concerned about need-based aid or if the payment is made during the final year of school.

Tax law is ever-changing and can be quite complex. It is highly recommended that you consult with a financial or tax professional with any tax-related questions or concerns. An investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities before investing. More information about municipal fund securities is available in the issuer's official statement, and the official statement should be read carefully before investing. 529 plans are tax-deferred college savings vehicles. Any unqualified distribution of earnings will be subject to ordinary income tax and subject to a 10% federal penalty tax.

Strategies for Combating Low Annuity Yields

According to a U.S. Government Accountability Office report*, between 1997 and 2005, roughly 43% of Social Security-eligible individuals began taking benefits within one month of turning 62, even though waiting until their full retirement age (65) would have translated into a substantially higher payout. Between 2000 and 2006, only 6% of retirees with defined-contribution plans such as 401(k) and 403(b) plans chose to move their assets into an annuity upon retirement.* One key reason why so few retirees opt for annuities is loss of control. In contrast with traditional investments that you can alter and tap whenever you see fit, a key premise behind annuities is that you fork over a lump sum in exchange for a stream of payments throughout your life. Another reason is that payouts from single-premium immediate annuities are currently low relative to historic norms (depressed by increasing longevity and the current low interest-rate environment). But this doesn't mean annuities should be avoided altogether. Consider these strategies when purchasing an immediate annuity.

Consider Your Needs: Retirees who have a substantial share of their lifetime living expenses accounted for via pension income or Social Security may want to diversify into investments with a higher level of control and the opportunity to earn a higher rate of return, such as stocks. Those who don't have a substantial source of guaranteed retirement income may find greater utility from annuity products.

Build Your Own Ladder: One of the key attractions of sinking a lump sum into an annuity is the ability to receive a no-maintenance, pension-like stream of income, which may be appealing for retirees who don't have the time or inclination to manage their portfolios on an ongoing basis. However, a slightly higher-maintenance strategy of laddering multiple annuities can help mitigate the risk of sinking a sizable share of your portfolio into an annuity. Such a program would give you the opportunity to diversify your investments across different insurance companies, thereby offsetting the risk that an insurance company would have difficulty meeting its obligations. However, such a strategy would entail multiple annuity charges, associated with each annuity in the ladder, which could be substantial and adversely impact your total annuity payout.

Consider More Flexible Options: Fixed-rate immediate annuities are typically the cheapest and most transparent, but they're also the most beholden to whatever interest-rate environment prevails at the time the purchaser signs the contract. Some annuities, however, address the current yield-starved climate by allowing for an interest-rate adjustment if and when interest rates head back up. Such products offer an appealing safeguard to those concerned about buying an annuity with interest rates as low as they are now, but the trade-off is that the initial payout on such an annuity would tend to be lower than the payout on an annuity without such a feature.

The examples presented herein are for informational purposes only, are not representative of any specific annuity and do not constitute investment advice. Annuities are suitable for long-term investing, particularly retirement savings. Annuity risks include market risk, liquidity risk, annuitization risk, tax risk, estate risk, interest-rate risk, inflation risk, death and survivorship risk, and company failure risk. Withdrawal of earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. Additional fees and investment restrictions may apply for living-benefit options. Violating the terms and conditions of the annuity contract may void guarantees. Consult a financial advisor and tax advisor before purchasing an annuity.

*Report cited: U.S. Government Accountability Office, Report to the Chairman, Special Committee on Aging, U.S. Senate: "Retirement Income: Ensuring Income throughout Retirement Requires Difficult Choices," June 2011.

How Safe Is Your Life Insurance Policy?

So you've finally sat down with your financial advisor and answered important questions, such as do you need life insurance, how big of a policy do you need, and what type makes the most sense for you. One thing you don't want to happen after purchasing your life insurance policy is to find out the company that sold you the policy has run into financial trouble. If your insurer went out of business, not only would you be uninsured, but you would also have to reapply for a new policy at a potentially more expensive rate due to your age and health.

Fortunately, there is a system in place to ensure that policies remain in force even after the issuing companies become insolvent. All 50 states, plus the District of Columbia and Puerto Rico, have life and health insurance guaranty associations that step in to make sure that policyholders aren't left holding the bag if their insurance company becomes insolvent. In nearly all states, the limits of coverage are \$300,000 for

life insurance death benefits and \$100,000 for the net cash value of the policy. Some states even have limits as high as \$500,000 for both. Coverage is provided by the guaranty association in the state in which the policyholder resides, even if he or she purchased the policy elsewhere.

For customers who hold policies worth more than their state guaranty limits, one option is to buy multiple policies within those limits from different companies to reach the desired total amount. So, instead of buying a \$1 million policy from a single company, you could buy \$250,000 policies from four different companies. The downside is that not only is this somewhat inconvenient, but it also might result in paying more than you would for a single policy because of the additional fees involved, not to mention different premium rates. Consult your financial advisor to explore all your options.

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