Issue 8, Volume 1 Saturday, March 15, 2008

The Financial Planning Newsletter

Wesling Financial Planning Services

Unbiased Advocates for Your Sound Future

It's Time to Start Thinking About the Estate Tax Again: Back in 2001, the Economic Growth and Tax Relief Reconciliation Act started a gradual increase in the value of estates subject to the Federal estate tax. In 2007 and 2008, estates valued at more than $2 million might get taxed as much as 45 percent, while in 2009, the value will increase to $3.5 million. In 2010, the estate tax will be repealed for a year.

Then, in 2011, unless Congress acts, the party's over. The estate tax will come back in a big way with estate taxes up to 55 percent on a significantly lower value, only $1 million.

Here are two ideas that most people can take advantage of, if needed.

> **Think about a life insurance trust:** Whether you need it for estate liquidity or for other purposes, an irrevocable life insurance trust can be created to keep the proceeds of the insurance out of your taxable estate. An added benefit is that such trusts may permit your surviving wife or husband to access to the cash value of the policy. Note the word "irrevocable"; your decision cannot be changed.
>
> **Prepare a gifting strategy:** Under current law, unlimited amounts can be left to a spouse or to charity free of federal estate tax. Other heirs can receive a total of $2 million, tax-free, when deaths occur in 2007 or 2008. If your assets are over the estate tax limit, it might make sense to devise a gifting strategy that spends down your total taxable estate while still allowing you a comfortable lifestyle. You might, for instance, consider making direct payments for someone else's medical bills or education tuition. No gift tax applies for these items, so payments can be unlimited.

Do Income Replacement Funds Make More Sense Than Annuities?: Virtually any standalone investment can be repackaged into a mutual fund. Sometimes it makes sense and sometimes it doesn't.

One relatively new product is the income replacement mutual fund. These funds aim to replace annuities as a way for retirees to manage their spendable assets during the years

703.535.8280, www.weslingfinancial.com

they expect to be in retirement. Aimed at the Baby Boomer Market, mutual fund leaders Fidelity, Vanguard and others are offering these products, which are a bit like target-date retirement funds. Essentially, if you're retiring in 2020 and you want your money available through 2040, you pick a fund that's labeled for that withdrawal window.

Generally, the fund pays the investor a rising percentage of their account value each year until the balance runs out in the termination year. The idea is that you'll get a relatively stable income stream that (hopefully!) keeps up with inflation.

Unlike many annuities, however, you can cash out whenever you want. This is one of the big advantages of income replacement funds. Another big advantage is these funds (possible capital gains taxes of only 15%) may be much less expensive to own than a typical annuity (ordinary income tax rates up to 35%).

It all sounds good, right? Beware of the following:

- There's no exact guarantee on how big the payments will be, unlike most guaranteed annuities that set fixed payments. That means that if the market slides, so will your payments;
- It is possible to outlive your money, so be very careful in planning how and for how long these payments will be made.

Like all investment and mutual fund choices, these are not one-size-fits all solutions. Income replacement funds could be one more tool in your retirement toolbox.

You May Love Each Other, But Should You Invest Together?: Should couples pool or separate their money for investment? It's one of the most important questions a couple will face in their relationship but it is rarely asked until a relationship is well underway.

The answer is as unique as each of you. But there are some critical factors and questions to consider as you develop a financial strategy for a lifetime.

Pooling your money can help couples grow their money towards shared goals. But there's more to it than simply combining your assets. Pooling your investment dollars should produce not only shared decision-making, but shared awareness of everything going on with your finances. It's the kind of cooperation that will benefit you all the years of your marriage, and provide a surviving spouse the knowledge to function if the other dies suddenly or is incapacitated.

It's a move that woman need to consider in particular. It's to their advantage to be as involved in the financial decisions as their male partners. Women generally live longer

703.535.8280, www.weslingfinancial.com

This newsletter includes info adopted from the Financial Planning Association, the professional membership organization for the financial planning community.

than men. Statistically speaking, women will need to manage money and make financial decisions for years after their male partners are gone.

But how about a couple that wants to plan separately? The first question is: why? There may be compelling reasons. For instance, one spouse has assets he or she wishes to protect from another spouse engaged in a high-risk business proposition. Others may have significant inherited family assets needing protection for heirs from potential loss in a divorce. And of course, this is the least attractive reason, but it happens: one spouse doesn't simply trust the other.

All couples should consider the following points:

What approach will get you to your goal faster? Young people starting out literally need to save every nickel to save for a first home. It makes sense to figure out how much you can jointly put aside and where to invest that money based on your risk tolerance.

How can your employer help? Obviously max out on your 401(k) and other retirement savings options. Take full advantage of any company matching involved. See if joining the other spouse's health plan might be a better value than going it alone on your respective plans. If you have a health savings account when your spouse does not, see if you can make that a part of your overall joint investment strategy. Also, don't forget employee discounts to cut your overall household spending.

Let your competing investment styles, well, compete. There are plenty of studies on this. Men tend to take more investment risk, women seem to be risk-averse. One of the advantages of working with a trained financial expert is not only their ability to make solid investment suggestions for you, but to identify the differences in your investment approaches and find compromises that work best for the both of you.

Talk. Talk about your financial expectations and what goals you'd like to achieve. Talk about what you're afraid of. And most important, talk about your money history, your credit rating and score, and any troubles with credit in the past, including bankruptcy. Oh, and if you survive these initial discussions, make a promise to talk about money once a month, or even more often.

Get A Head Start On Tax Planning For 2008: It's still a month until most of us will file our 2007 tax returns, but it's a good idea to keep in mind key tax changes affecting our 2008 returns. Here are some of the highlights:

Wider tax brackets: In one of the rare cases in life where inflation looks like a good thing, all tax-bracket thresholds will be increasing. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is $65,100, up from $63,700 in 2007.

Personal exemption: The personal exemption you're allowed to claim for yourself and each dependent you have will go up $100 to $3,500 for 2008.

Standard deduction: Single filers will see this deduction increase $100 from 2007 levels to $5,450. Married couples filing jointly will see their standard deduction rise to $10,950, $200 more, and the amount for heads of households who don't itemize will be $8,000, up $150. For married taxpayers age 65 and older, they'll be allowed to add $1,050 to the regular standard deduction, unchanged from 2007, and singles will get an extra $1,350 compared to $1,300 in tax year 2007.

Phase-out of itemized deductions: Taxpayers will start to see the value of their itemized deductions go down after their taxable income exceeds $159,950 in 2008. That's $3,550 higher than in 2007.

Retirement plan contributions: The contribution amount allowed for Roth IRAs begins to phase out for joint filers with incomes exceeding $159,000 (up from $156,000 in 2007) and $101,000 (up from $99,000) for singles and heads of household. For contributions to a traditional IRA, the deduction phase-out range for an individual covered by a retirement plan at work begins at income of $85,000 for joint filers (up from $83,000) and $53,000 for a single person or head of household (up from $52,000). The annual contribution limit for most defined contribution plans rises to $46,000, up from $45,000 in 2007.

Hope education credit: The maximum Hope credit, available for the first two years of post-secondary education, is $1,800, up from $1,650 in 2007.

The Kiddie Tax: The amount of investment income a child under age 19 -- or a full-time student under 24 -- can earn before excess earnings are taxed at his or her parents' rate will go up $100 to $1,800 in 2008.

Tax-free parking and transit passes. Employers will be allowed to give employees parking valued at $220 a month as a tax-free fringe benefit in 2008, up $5 from 2007.

Philanthropy is commendable, but it must not cause the philanthropist to overlook the circumstances of economic injustice which make philanthropy necessary.

Martin Luther King, Jr. (1929 – 68)

703.535.8280, www.weslingfinancial.com

This newsletter includes info adopted from the Financial Planning Association, the professional membership organization for the financial planning community.