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Last month that this particular rule can be harmful to many, simply because of its level of risk tied to stocks and other assumptions, including lifespan. He suggests that planners and investors need to do a better job of assessing client risk tolerance and consider more stable investment choices like TIPS (treasury inflation protected securities), among other low-risk options as a foundation for post-retirement drawdowns. In other words, consider client risk tolerance and the content of the portfolio more, a standard percentage of drawdown less. In fact, Sharpe points out that investors actually risk wasting money by adhering to a percentage drawdown that could leave more money behind after a few good investment years—in essence, the annual strict drawdown concept could lower a retiree's standard of life unnecessarily.

So what do you do? You work on the big questions first, not the numbers, and the best time to do this is as far in advance of your retirement date as possible.

If you are preparing for retirement and have questions or concerns on how to proceed please contact us for an appointment.

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Inflation (rising prices for goods and services) can have a significant effect on your investments by decreasing their potential purchasing power over time. Aggressive investments have historically outpaced inflation over the long run, but have had more instances of short-term losses than more conservative investments. How do you feel about inflation and its impact on your investments?

❒ You are satisfied with your investments keeping pace with inflation. Limiting the potential for short-term loss is your main goal, and you are willing to sacrifice the potential for higher returns.

❒ You would like your investments to outpace inflation. You are willing to assume some potential for short-term loss in order to achieve that goal.

❒ You prefer that your investments significantly outperform inflation. You are willing to assume a greater potential for short-term loss in order to achieve that goal.

❒ You prefer that your investments appreciably outperform inflation. You are willing to assume much greater potential for short-term loss in order to achieve that goal.

Aggressive investments have historically provided higher returns while exhibiting greater short-term price fluctuations and potential for loss. How do you feel about fluctuations in the value of your portfolio?

❒ You want to minimize the possibility of loss in the value of your portfolio. You understand that you are sacrificing higher long-term returns by holding investments that reduce the potential for short-term loss and price fluctuation.

❒ You can tolerate moderate losses in order to achieve potentially favorable returns.

❒ You can tolerate risk of large losses in your portfolio in order to increase the potential of achieving high returns.

❒ I am an aggressive investor and am comfortable waiting for large losses to regain their previous value or to increase in value.

Risk tolerance is not so much about dreams and whims as it is about how all the day-to-day lifestyle and money issues affect your perceptions. Some of us need a reality check more than others. After you have completed all 10 questions on our *Risk Tolerance Questionnaire,* we evaluate your answers to develop a portfolio to potentially meet your investment objectives within your risk tolerance.

Material in this newsletter is written or produced by Haisman Wealth Management, Inc., other local professionals and the Financial Planning Association, the membership organization for the financial planning community.

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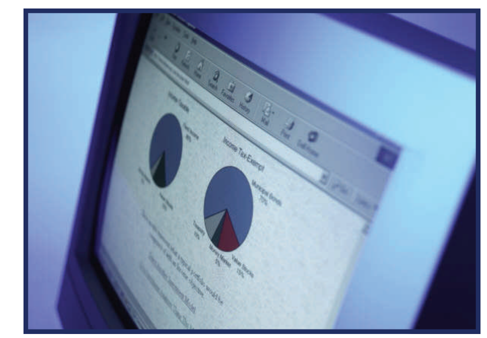
What's Your Risk Tolerance?

Going into a New Year with hopefully better economic and market prospects, it's a good time to start researching investments. With that, it's also a good time to review how much risk you're willing to take on when making those critical decisions. It's reasonable to assume your risk tolerance has changed in recent years.

There's been plenty of theoretical work done on risk tolerance and what kind of people choose various investments or simply choose not to participate at all. In 2008, TransAmerica released its CURE retirement study (CURE standing for Change, Uncertainty, Risk and Expectations) in which it revealed four basic investing personalities:

- *Venturers* take a "nothing ventured, nothing gained" attitude with their money, but their potential pitfall is that they're overconfident in their level of preparedness.
- *Anchored individuals* always "stay on the safe side," but extreme risk aversion might leave them unprepared.
- *Pursuers* will "try anything once" but their continual efforts to grab at new directions might leave them without a clear plan.
- *Adapters* take investment situations "as they come" but may not be realizing their full potential as investors.

Why is risk analysis important before you make decisions with



your money? Risk tolerance is an important part of investing – everyone knows that. But the real value of answering a lot of questions about your risk tolerance is to tell you what you don't know – how the sources of your money, the way you made it, how outside forces have shaped your view of it and how you're handling it now will inform every decision you make about it in the future.

You may remember some of these questions we have asked you in the past when seeking to establish your risk tolerance using our *Risk Tolerance Questionnaire:*

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The 4 Percent Rule

With stagnant incomes and roller-coaster investment returns over the past decade, individuals on the brink of retirement might wonder what became of all those "rules of thumb" affecting how they handle their nest egg once they walk away from their jobs.

They're still there. But the question of how well they work comes down to the individual.

Chief among them is the "Four Percent Drawdown Rule" first revealed by CERTIFIED FINANCIAL PLANNER™ professional William Bengen in the October 1994 issue of the Financial Planning Association's Journal of Financial Planning. Bengen wrote that retirees who took out no more than 4.2 percent of their mostly stock-based portfolio in the initial year and adjusted their remaining portfolio toward a 60/40 split in stocks and bonds each year, that money could last an average of 30 years. That approach made Bengen's work a gospel in the financial planning industry.

But after this decade, which ended with the worst recession in 70 years, some experts are taking a new look at the 4 percent rule.

1990 Nobel Laureate William Sharpe of the Stanford Graduate School of Business reported

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2010 Healthcare Act Highlights

By Eric Belisle, CPA

Highlights of some of the tax provisions of the 2010 Health Care Act as Amended by the 2010 Health Care Reconciliation Act

COST OF EMPLOYER-SPONSORED HEALTH COVERAGE INCLUDED ON W-2

New Law- Effective after 12/31/10 employers must disclose on each employee's form W-2 the value of the employee's health insurance coverage sponsored by the employer. This provision was changed to make the reporting elective in 2011 and mandatory effective 2012.

The reporting is informational only and is not included as income to the employee.

ADDITIONAL HOSPITAL INSUANCE TAX FOR HIGH WAGE WORKERS

Current Law-6.2% tax up to $106,800 in wages and 1.45% tax on all wages (FICA Tax)

ew Law-Effective 01/01/13 an additional 0.9% tax on wages in excess of:

- $250,000 for joint returns,
- $125,000 for married taxpayers filing a separate return, and
- $200,000 in all other cases.

Employers are required to withhold the additional 0.9% HI tax. Employers are NOT subject to match the 0.9% HI tax. Self-employment income is subject to the 0.9% HI tax

NEW UNEARNED INCOME MEDICARE CONTRIBUTION TAX IMPOSED AFTER 2012

The Medicare tax rate is 3.8% and is taxed on the lesser of "net investment income" or the excess of MAGI over threshold amounts. The threshold amount is $250,000 for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 for all others.

Net investment income is investment income reduced by the deductions properly allocable to such income. Investment income is the sum of gross income from interest, dividends, annuities, royalties, and rents (other than income derived from any trade or business to which the tax does not apply). Additional income from passive activities and pass through entities may be included. You should seek the advice of your tax professional as to the net investment income as each taxpayer's situation is unique.

INCREASE IN THE FLOOR FOR MEDICAL EXPENSE DEDUCTION EFFECTIVE 01/01/13

Current law-Qualifying medical expenses in excess of 7.5% of AGI are deductable as an itemized deduction.

New law-Increases the floor from 7.5% to 10%. For taxpayers aged

65 or older the increase in the floor does not go into effect until 2017.

INFORMATION REPORTING REQUIRED FOR PAYMENTS TO CORPORATIONS

New law-Effective 01/01/12 a trade or business must file with the IRS an information return (From 1099) for all payments aggregating $600 or more in a calendar year to a single payee.

This is only a brief explanation of some of the tax provisions in the new Health Care Act. Please consult with your individual tax advisor regarding any of these issues. If you would like more details about these provisions or any other aspect of the new law, please do not hesitate to call.

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Ways to Control What You'll Spend on a Funeral

What do you and your loved ones really want? It makes sense to talk with your parents, your spouse or partner or your children about what your wishes and theirs are for your funeral. Of course, many people ask this question without any real warning and deservedly get an answer with a dismissive wave or a flippant remark. But this needs to be a real conversation. There's real value in talking about exact wishes and even more value in putting those thoughts on paper for formal inclusion with wills and powers of attorney (more on that below). There are many interlocking issues that come into play in this discussion – religion, relationships, and of course, money. Whether the discussion is face-to-face or within a family meeting, detailed discussion and note-taking is the first important step to making sure your wishes or the wishes of a loved one are recorded and followed.

Consider the alternatives: One of the biggest stories in the funeral industry in the last 25 years has been the growth in cremation as a more affordable and acceptable alternative to traditional burial. On average, cremation can cut the price of a traditional funeral by half or more. According to the Cremation Association of North America (CANA), in 1985, nearly 15 percent of deaths resulted in cremation, but by 2007, that number stood at 34.3 percent. By 2025, CANA expects cremations to reach more than half of all funeral services performed. Also, many individuals now consider donating their bodies to science for the study of disease or organ donation, often at little or no cost whatsoever. This allows friends and families to focus spending on a memorial or other financial needs. To investigate this option, the official terminology is "willed body program," and many universities with medical schools have them.

Do a cost comparison: It's not the easiest decision, but if it's your funeral or the funeral for a loved one, it makes sense to plan ahead and to shop smart. A trusted funeral director will follow state guidelines on price lists and answer your questions thoughtfully. Keep in mind that many states do not require you to buy big-ticket items like coffins from the funeral director, and in some cases, expensive processes like embalming are not even required. It makes sense to visit the website of whatever state agency supervises funeral directors where you live to get an overview of what you may or may not be required to pay for at a funeral home and other alternatives that might save you money. You will also have an outlet for any complaints should they arise. Another good resource is the U.S. Federal Trade Commission's website which describes the 1984 Funeral Rule that has defined disclosure, pricing and other consumer rights in the funeral industry for the past three decades.

Make funeral planning part of overall end-of-life planning: Whether death comes suddenly or after an extended disability or illness, adults *of any age* should have proper asset planning and documents in place designating their wishes for their estate, their families and yes, the way they want to say goodbye. It makes sense to consult an expert financial planning professional as well as tax and estate experts to coordinate both financial and end-of-life planning in a way that fits the individual. Commonly, that means having finances in place and a legally written will (and possibly a trust) and specific health, financial and family directives exist to guide survivors through the funeral and beyond.

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