Pentucket Financial Services

Pentucket Financial Services
Kevin McKinnon
Financial Advisor, CFP®
Investment Executive
234 North Broadway
Salem, NH 03079
603-894-7822
kmckinnon@infinexgroup.com

December 2011

Making Financial Resolutions? Look Back at Last Year

Each new year brings the chance for a fresh start, and the opportunity to improve your financial picture. As you make financial resolutions for 2012, looking back at what happened last year can help you make some positive changes this year.

Automate your retirement savings

In 2011: The economic slowdown took its toll on retirement savings.

In 2012: While the economy--and its impact on financial markets--may be out of your hands, you can still look for ways to increase your retirement savings. First, determine whether you're leaving any money on the table. If you participate in an employer-sponsored retirement plan such as a 401(k) or a 403(b), contribute the maximum amount you can--particularly if your employer matches some or all of your contributions.

Contributing to an employer-sponsored retirement plan can help you save more consistently. Because your contributions are deducted automatically from your salary each pay period, you won't be tempted to skip one now and then. And this year, why not resolve to steadily increase your retirement contributions? Your employer may allow you to sign up for automatic contribution increases based on a certain schedule or triggering event (e.g., annually or whenever your pay increases).

If you're self-employed or contributing to a traditional or Roth IRA on your own, you can still automate your contributions by having money sent directly from a savings or checking account to your retirement account.

Plan ahead for a cash crunch

In 2011: According to the Federal Reserve, use of consumer credit rose in 2011 after falling for two straight years.

In 2012: If you've reigned in your spending but are still burdened by debt (especially credit card debt), your lack of emergency savings may be partly to blame. For example, even if you pay much more than your monthly minimum credit card payment, you'll be caught in an endless cycle of debt unless you can avoid using your credit card for new expenses. Resolve to have at least three to six months of your living expenses set aside in a liquid account such as a savings or money market account so that you have cash on hand to pay for unexpected expenses (e.g., costly car or home repairs, large medical bills) instead of racking up new credit card debt and interest charges.

Review your investments

In 2011: Market volatility was the norm.

In 2012: You can't control the market, but you can control your response to market volatility. Is your asset allocation still in line with your investment goals, time horizon, and risk tolerance? Is it time to rebalance your allocation in light of changing market conditions and/or your changing needs? Are you taking appropriate advantage of available investment products or offerings? Reviewing your portfolio periodically can help you stay on track.

Check your insurance coverage

In 2011: Floods, hurricanes, tornadoes, earthquakes, and wildfires were widespread.

In 2012: The federal government issued more disaster declarations in 2011 than in any other year on record, serving as a reminder that it's important to review your property and casualty coverage to make sure you're adequately protected. Is there coverage you really should have (e.g., personal umbrella liability, renters insurance, or flood protection), but don't?

Update your estate plan

In 2011: New estate and gift tax laws took effect.

In 2012: Your estate plan should be reviewed in light of the changes made last year to estate and gift tax laws. Certain life events, such as changes in employment, family circumstances (marriages, divorces, births, illness or incapacity, and deaths), or even the valuation of your estate, may also affect your estate plan.

How Much Do You Know about Social Security?

For more information, visit the Social Security website at www.socialsecurity.gov or call 800-772-1213.

Social Security is in the news more and more, as the first wave of baby boomers retire and economic pressures on the program increase. More than 90% of Americans are covered by Social Security,* but how much do you know about this important program?

How is Social Security funded?

Unlike many government programs, Social Security is funded primarily through the collection of payroll taxes. In 2010, 81.9% of funding came from this source, with the rest derived from interest earned on government bonds held by Social Security trust funds and income taxes paid on benefits.* That's why Social Security is known as a "pay-as-you-go" system. However, someone working and paying Social Security taxes today is not funding his or her own benefits, but is funding the benefits of someone who is receiving them now or in the near future--one of the reasons why Social Security is facing a potential funding shortfall. According to the Social Security Administration (SSA), the number of retired workers will double in less than 30 years, but there will be fewer workers paying into the system. And with life expectancies increasing, benefits will be paid for a longer period.*

How are earnings reported to the SSA?

If you work for an employer, your employer will send a copy of your W-2 form annually to the SSA. If you're self-employed, the IRS will report your earnings to the SSA annually after your federal income tax return has been processed.

What benefits are available?

Although Social Security is known as a retirement program, benefits are paid to people of all ages, including surviving family members and disabled individuals. In 2010, 5.7 million people were awarded Social Security benefits. Of those, 46% were retired workers, 36% were survivors or spouses/children of retired or disabled workers, and 18% were disabled workers.*

How do you qualify for benefits?

As you work and pay payroll taxes, you earn Social Security credits. Generally, you need to work 10 years to earn enough credits to qualify for retirement benefits--other benefits have different requirements. Contact the SSA if you have any questions about your benefit entitlement.

Do most people apply for early retirement benefits?

Yes. According to a report by the Government Accounting Office (GAO), 43% of people take early retirement benefits at age 62, while almost 73% of people apply for benefits before they reach full retirement age.**

How much more will you receive if you delay applying for benefits?

For each year past your full retirement age you delay receiving benefits, your Social Security benefit will increase by a certain percentage (8% for anyone who was born in 1943 or later). For example, if your full retirement age is 66 and you delay receiving benefits until age 70, your annual benefit will be 32% higher.

Can you receive benefits based on an ex-spouse's record?

You may qualify for divorced spousal benefits if you were married for at least 10 years, you haven't remarried, you are age 62 or older, and you don't qualify for a higher benefit based on your own work record.

Do workers with lower earnings receive more from Social Security?

A worker who has lower earnings will receive a lower monthly benefit than someone with higher earnings because benefits are based on average lifetime earnings (the highest 35 years of earnings are used in the calculation). However, the Social Security benefit formula is designed to ensure that workers with lower earnings receive a greater percentage of their preretirement earnings. For example, a worker with relatively low earnings may receive a benefit that is approximately 55% of his or her preretirement earnings, while a worker with relatively high earnings may receive a benefit that is approximately 25% of his or her earnings.***

Do you have to stop working to receive Social Security retirement benefits?

No. As long as you've reached early retirement age and meet eligibility requirements, you can apply for Social Security benefits even if you decide to continue working. However, if you're younger than full retirement age and earn more than a certain amount, your benefits will be temporarily reduced (once you reach full retirement age, your benefits will be increased to account for the money that was withheld).

***Source:** *Fast Facts & Figures About Social Security, 2011*

****Source:** *GAO-11-400, Retirement Income, June 2011, based on data compiled by the SSA Office of the Chief Actuary*

*****Source:** *SSA Publication No. 05-10045, 2011*

Infinex FINANCIAL GROUP

The Problem with Do-It-Yourself Estate Planning

The one-size-fits-all fill-in-the-blank forms that do-it-yourself estate planning sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk and potentially high cost of doing things incorrectly?

As the number of Internet websites and software packages have quickly multiplied, along with the many books and stationery store kits that have always been available, do-it-yourself (DIY) estate planning is on the rise. The one-size-fits-all fill-in-the-blank forms that these sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk and potentially high cost of doing things incorrectly?

Cheap, easy, and better than nothing?

Proponents of DIY estate planning typically have two arguments:

1. It's cheap and easy: A will, for instance, can be completed online in about 15 minutes for about $69. In comparison, working with an experienced attorney to create common estate planning documents (wills, trusts, health-care directives, and powers of attorney) may cost you anywhere from $800 to $3,000 or more, depending on the complexity of your estate.
2. It's better than nothing: The consequences of dying without estate planning documents are that the state will make important decisions for you, such as how your property will be distributed, who will care for your minor children, and what medical care you'll receive if you are unable to make your wishes known.

These points are valid; for those who cannot afford to pay an attorney, DIY may be the only economical alternative available. For others, a poorly drafted will is better than no will at all, especially where the naming of a guardian for minor children is involved. But the chances that DIY estate planning will effectively accomplish exactly what you intend is slim. Here's why.

It's too easy to make mistakes

DIY sources typically only handle simple estates, and can't deal with even the most common complexities such as children from a prior marriage, children with special needs, property that has appreciated in value resulting in capital gains, or estates that are large enough to be subject to estate taxes. And, DIY sources generally fail altogether to take advantage of sophisticated estate planning strategies because they typically can't account for an individual's unique circumstances.

Further, you may make an error by failing to understand the instructions or by following the instructions incorrectly.

The result is that the documents you create could be invalid, ineffective, or contain legal language having consequences you never intended. You might not know if that is the case during your lifetime, but at your death your loved ones will find out and may suffer the lasting consequences of your mistakes.

You're not getting legal advice

DIY sources provide forms but not legal advice. In fact, these sources clearly state that they are not a substitute for an attorney, and that they are prohibited from providing any kind of legal advice.

Estate planning involves a lot more than producing documents. It's impossible to know, without a legal education and years of experience, what the right legal solution is to your particular situation and what planning opportunities are available. The actual documents produced are simply tools to put into effect a plan that should be specifically tailored to your circumstances and goals.

Estate planning laws change

Laws are not static. They constantly change because of new case law and legislation, especially when it comes to estate taxes. Attorneys keep up with these changes. DIY websites, makers of software, and other sources may not do as good a job at keeping current and up-to-date.

Fixing mistakes can be costly

As previously stated, estate planning documents can be obtained from a lawyer for $800 to $3,000 or more, depending on the complexity of your estate. But these costs are minor in comparison to the costs that your loved ones may incur if there are serious errors in your DIY estate planning. Many more thousands of dollars may have to be spent by your loved ones to undo what was done wrong.

The bottom line

There are obvious savings in legal fees by using form wills and trusts, but there are also risks involved. One of them is that problems such as defective forms, violations of state law, or improper witnessing will not be apparent to you when the documents are signed. It may be only after death occurs many years later when the problems are discovered, and at that point it may be very costly, or even worse, too late to revise the documents.

Infinex
FINANCIAL GROUP

Pentucket Financial Services
Kevin McKinnon
Financial Advisor, CFP®
234 North Broadway
Salem, NH 03079

Infinex FINANCIAL GROUP

Ask the Experts

Is a stop limit the same as a stop order?

A stop limit is typically used when you're trading during a volatile market and want to target a specific price as closely as possible. When placing a market order, the price you pay is the best price available in the market at the time the order is executed. With a market order you can't be sure of the price you'll get, especially for more thinly traded securities or larger orders that may need to be handled in multiple transactions.

A stop order instructs your broker to buy a stock only when it is selling at or below a specified price (or if you're selling, when it is at or above a certain price). Once the stop is triggered--in other words, once your specified price is reached--your order becomes a market order and is executed at the market price. However, if markets are volatile or the security is illiquid, the market price can change between the time the stop is triggered and when the order is fully executed. If you're buying a stock and that price is lower, you benefit, but if the execution price is higher, you may pay more than you expected. For example, if you're buying a thinly traded security and your order isn't fully executed before the end of the trading day, you could run the risk of the market opening up strongly the next day--a phenomenon sometimes known as "gapping up"--potentially taking the price of your targeted stock with it. Conversely, if you're selling a stock and the price moves lower before the trade is fully executed, you might make less from the sale than you intended.

A stop-limit order puts a limit on the price you're willing to pay for your purchase (or accept if you're selling). It mandates that a purchase be executed at a specific price or better; that price can be different from the stop level that triggers a trade, and increases the odds of the transaction meeting your expectations. If you're selling, a stop-limit order also can be used to set a minimum price for the sale. Stop limits are typically good for a specific time frame, such as a day, a week, or a month.

Why wouldn't everyone use a stop-limit order with every trade? Because they typically cost more to use than market orders. As a result, a stop limit probably makes the most sense for large orders in volatile markets, when a difference of even a penny or two per share can mount up.