



Effective Strategies for Retirement Saving

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Ready or not, retirement is coming. Whether it's around the corner or decades away, there are more options than ever to help you plan for it. Let's look at some effective strategies that can put your retirement savings plan on the right track. **Individual Retirement Accounts (IRAs)** and **401(k) plans** offer tax benefits that can help you save for your future.

Traditional IRAs

IRAs remain an attractive option for retirement savings. In 2009, you can contribute up to \$5,000 to your traditional IRA, or a combination of IRAs, and contributions for 2009 may be made through April 17, 2010. If you are age 50 or older, you can make additional "catch-up" contributions of up to \$1,000. Earnings have the potential for tax-deferred growth, and contributions may be tax deductible, depending on your income and participation in an employer-sponsored retirement plan.

Because IRAs are intended to help you save for retirement, rules govern when you can begin accessing funds. Distributions before the age of 59½ may be subject to a 10% Federal income tax penalty, in addition to the income tax that will be due. However, there are exceptions. For example, if you tap your IRA early to pay for qualified higher education expenses or to fund up to \$10,000 of your first home, the 10% penalty will not apply.

Roth IRAs

Roth IRAs operate differently from traditional IRAs. Contributions, which are limited to \$5,000 in 2009 (\$6,000 for those age 50 and older), are not tax deductible. Earnings have the potential for tax-deferred growth, and qualified distributions are *tax free*. Contributions phase out for single filers with adjusted gross income (AGI) between \$105,000 and \$120,000, and joint filers with AGI between \$166,000 and 176,000 in 2009.



Valuing a Closely Held Business

For many small business owners, valuing a **closely held business** is an important part of estate planning. Because valuation is a multifaceted endeavor, a comprehensive approach is needed. Equity interests in a closely held business are not frequently sold or otherwise transferred, which can make it difficult to ascertain a valuation. Therefore, when valuing a business (a **sole proprietorship**, a **partnership**, or a **corporation**), you must analyze specific areas that affect closely held businesses.

Getting Down to Business

Whenever there is a need to perform a business valuation for estate purposes, there are areas that must be researched in order to arrive at a fair value for the total business. Each area may address issues that are somewhat abstract and/or difficult to quantify. Here is a general overview:

1) The nature, scope, and history of the business operation must be reviewed. The product or service rendered must be evaluated by past performance, as well as the risks inherent in all phases of operations. While disregarding past events that are unlikely to recur, capital structure, sales records, growth, and diversity of operations can speak volumes about past business performance and how the business might fare in the future.

2) By analyzing both related business sectors and current economic conditions, an appraisal can be made regarding the future potential for business profits. The appraiser should evaluate the industry, as well as the position of the particular business within the industry. The economic climate may impact the ability of all businesses to generate profits. Often, insight can be gained from looking at

several competitors' past performance and future growth potential.

3) Book value, defined as assets minus liabilities, is readily obtained from the balance sheet. However, in most cases, balance sheet adjustments will have to be made to book value to accurately reflect economic versus tax depreciation.



4) Profit and loss statements can help to determine the company's earnings history. While the Internal Revenue Service (IRS) typically requires the past five years of profit and loss statements, it generally will not respect five- or ten-year earnings averages, due to the belief that averages do not indicate realistic valuations. It is common for appraisers to "capitalize" earnings as a means of reducing future income to a single number, otherwise referred to as present value. Capitalizing earnings is a method used to determine how much an individual will pay for a business given the level of risk involved. Naturally, the greater the risk, the less the buyer will pay, and vice versa.

5) Most difficult for valuation purposes is goodwill, or the ability of a

business to earn a return over and above what it could on its fixed assets alone. Consumer satisfaction, trust, and trademarks may be important factors in gross revenue. In addition, intangible goodwill value can be based upon such things as location, reputation, or clientele. While it might be difficult to determine a precise valuation, an independent appraiser may be able to discern the significance of the business's goodwill.

6) If shares were purchased in the last three years, the price paid for an interest in the business may be a significant factor in valuation. In this case, the IRS evaluates when the sale was made, whether the interest sold was controlling or a minority block, and whether or not the sale was forced by other business conditions or circumstances associated with the buyer or seller.

Where possible, each area must be reduced to numerical values. The cautious stance of the IRS toward averages prevents the appraiser from simply averaging factors such as book value, goodwill, and capitalized earnings and coming up with a figure. Courts generally agree with the IRS in not giving credence to averages and formulas. As a result, valuation has become more sophisticated and complex.

Professional Assistance a Must

While determining the value of a closely held business may seem daunting, it can be done and is important for estate planning, as well as **business succession planning**. Due to the complexity of the valuation process, the assistance of qualified professionals is a must. ■

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In general, you may convert a traditional IRA to a Roth IRA as long as your adjusted gross income (AGI) is below \$100,000 in the year of conversion. The distribution from your traditional IRA will be taxed, but you won't be penalized for the early withdrawal, provided you keep the converted funds in the Roth IRA for at least five years. Recent tax reform eliminates the current \$100,000 adjusted gross income (AGI) cap on converting traditional IRAs to Roth IRAs in 2010.

As with traditional IRAs, a penalty may apply to distributions taken before the age of 59½, unless a qualified exception applies. Furthermore, before tax-free distributions can be received from a Roth IRA, the account must be five years old.

401(k) Plans

The 401(k) is a retirement plan offered by thousands of employers,

many of whom match employee contributions. This means that, for every dollar you contribute to your account, your employer may contribute 50 cents, for example. This increases your principal at no cost to you.

As a participating employee, you can contribute the lesser of \$16,500 in 2009 or a percentage of salary as defined by the plan. Those age 50 and older can contribute an additional \$5,500. As with IRAs, non-qualified withdrawals from a 401(k) before the age of 59½ are subject to a 10% Federal income tax penalty.

Contributions to a 401(k) are pre-tax, which means you don't pay taxes until you receive money from the plan. This may be attractive for people who find themselves in a lower tax bracket during retirement than during their working years. From the time you open your account, the

money you put in has the potential to grow on a tax-deferred basis.

Some employers may also offer a Roth 401(k), which allows workers to make Roth IRA-type (after-tax) contributions to a 401(k)-type plan without the income restrictions and lower contribution limits that apply to Roth IRAs. The contribution limits are the same as for traditional 401(k)s, but salary deferrals to Roth 401(k)s are not tax deductible. Also, the combined contributions to a traditional 401(k) and a Roth 401(k) cannot exceed the contribution limits (\$16,500 or \$22,000 for those over age 50 in 2009). Any employer matching contributions must be made to a traditional 401(k) account, not a Roth. Qualified distributions are tax free.

These are just some of the retirement savings options available. Remember, early planning puts time on your side. ■

Planning Your Estate before Remarriage

Despite the best intentions, marriages don't always last forever. If you are divorced or widowed, and planning a second marriage, you may wish to review and revise your estate conservation strategies. This is especially important if you and your future spouse have children from your former marriages.

Consider the following points:

1) Regardless of the details of your situation, it is important to be aware of the potentially delicate aspects of estate planning. When multiple families are involved, objective



professional counsel may provide essential assistance to help you achieve your desired results.

2) Familiarize yourself with the consequences of different types of asset ownership. If you want your assets to pass entirely to your children, you may wish to put them in your own name. It is important to know that new assets acquired in **joint tenancy** with your spouse will automatically be passed on to the surviving spouse.

3) Consider a pre-marital agreement to legally detail your property

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Your College Grad and the Boomerang Effect

In recent years, many baby boomers have witnessed a growing trend: Their college-aged children are moving back home after they complete their education. In part, the return of these so-called “boomerang” children to the nest may be due to the high cost of living and a competitive job market. Yet, parents who may have already spent tens of thousands of dollars sending their children to good colleges, and paying for their vacations and cars, may be justifiably concerned about this turn of events.

Behind the Trend

While no one knows how long this trend will last, it seems reasonable to assume that it may continue as long as the prices of starter homes and condominiums exceed the spending and saving habits of today’s young adults. After college, many young adults find themselves struggling to stand on their own feet financially. Besides the job market and high cost

of housing in some parts of the country, it may be because these young adults have become accustomed to *spending* rather than *saving* and lack the necessary financial self-sufficiency to live on their own.

The Push toward Financial Self-Sufficiency

Parents who wish to see their children leave the nest and make it on their own might consider establishing new ground rules. As rule number one, adult children may be obliged to contribute cash or services in lieu of rent to the household. At the same time, they may also be expected to save a significant portion of their earnings for a down payment on a starter home, to furnish a first apartment, or to establish a business.

Parents can help their children achieve financial self-sufficiency by helping them set financial goals and then working with them to monitor

their progress in meeting those goals. An incentive plan can help further this effort: Perhaps for every dollar a young adult saves, his or her parents may wish to contribute a certain percentage.



For parents who are struggling to teach their adult children good financial habits, a financial professional can serve as an objective party in counseling young adults on how to pursue financial independence. ■

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arrangements. While you may feel ambivalent about broaching this subject, a formalized agreement can help facilitate your wishes.

4) Review your **will** and update the beneficiary arrangements of your **life insurance policy** to ensure that

your property will be distributed according to your wishes upon your death.

As you prepare for and experience major life changes, such as remarriage, it is important to review your estate plan. Like many financial

endeavors, estate planning often requires professional expertise. An estate planning team, comprised of qualified tax, legal, and financial professionals, may help ensure that your strategies will meet your current needs and long-term objectives. ■

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