The
FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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Social Security Payout Choices Can Be Confusing

Social Security may make up only a small part of your expected retirement income, but it can be a crucial part, perhaps covering a significant portion of your basic expenses. Figuring out what you'll actually receive, however, can be complicated, and you'll have to choose from among many variables that could make a big difference in the amount of monthly income for you and your spouse. Understanding Social Security's complex rules needs to be an essential part of your retirement planning.

Social Security retirement benefits are generally based on your lifetime earnings and your age when you request the benefits. If you opt to start getting a monthly check at age 62, the earliest possibility, you'll receive less than you would if you started receiving benefits at your full retirement age—between ages 65 to 67, depending on the year you were born. Full retirement age for baby boomers born from 1943 through 1955 is 66.

How much you'll lose by beginning benefits at age 62 ranges between 20% and 30%, again depending on when you were born. For example, the reduction for someone born in 1950 is 25%. So if you would be entitled to a $2,500 monthly benefit at age 66, you would receive only $1,875 if you retired at age 62. The later you were born, the steeper the reduction, which peaks at 30% for those born after 1959.

There's an additional incentive for postponing benefits even longer. If you wait until age 70 to begin taking Social Security, you'll receive a significantly higher monthly amount—an extra 8% for each year you delay benefits—than if you had started at full retirement age. For someone born in 1953, for example, waiting those four extra years, from age 66 to age 70, could add more than 34% to the monthly benefit.

Things get really tricky when you try to figure out Social Security retirement benefits for a married couple. Each spouse is entitled to a benefit based on his or her own earning history and the age at which benefits begin. But if a wife, for example, has earned considerably less than her husband has, her benefit at full retirement age will be the greater of her own benefit or a spousal benefit that could be as much as half of her husband's benefit.

Other complications may arise if one spouse continues to work. If the low-earning spouse works past full retirement age while the other spouse has retired, also at full retirement age, the working spouse can begin receiving the 50% spousal benefit. Then, when the working spouse reaches age 70, he or she can claim increased benefits in lieu of the spousal benefit.

Though the Social Security Administration sends you an updated estimate each year of what your future benefits may be, that's unlikely to answer all of your questions. Here are

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Lack of Retirement Funds is Biggest Financial Worry

According to an April 2011 survey by Gallup, 66% of Americans are worried about not having enough money for retirement. A majority of Americans are also very or moderately worried about not being able to pay medical costs for a serious illness or accident. 58% are worried about not being able to maintain their current standard of living, the highest number yet recorded.

People tend to have these concerns regardless of their incomes or financial resources. They may be anxious about the amount they spend to maintain their standard of living, their low savings rates or money they have lost in the financial markets.

At Day & Ennis, we help clients avoid these pitfalls with comprehensive financial planning. We address everything from cash flow and retirement planning to insurance and risk management to planning for estate and income tax, as well as education for children. As fee-only advisors, we can recommend investments objectively. We do not sell any products or take any commissions, so we have no vested interest in selling anything. Many of our clients tell us that having a financial plan in place brings them peace of mind.

John R Day Bill Ennis

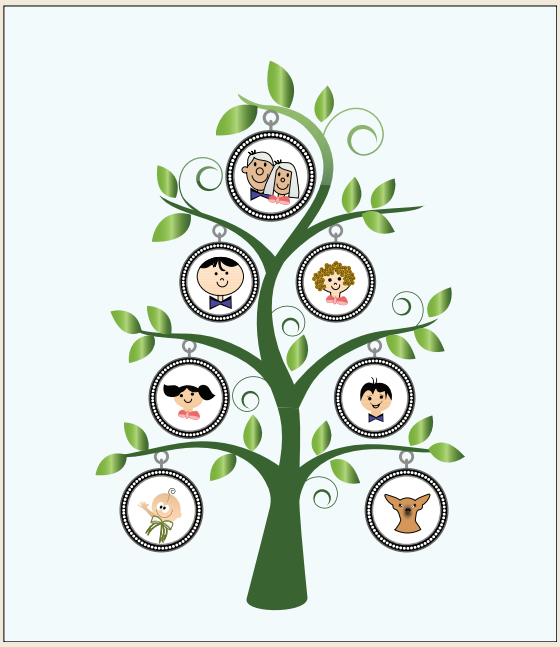
What Do You Want Your Legacy To Be?

Imagine what would happen to your family if you died unexpectedly. Even if you have a will and an estate plan in place, your spouse and children may feel rudderless without your guidance. They won't be able to take advantage of what you might have taught them about financial matters or about life in general. And you'll never have the chance to pass along the stories and memories that helped make you the person you are.

A process known as legacy planning could help you avoid that sad result. This isn't about tangible items such as wills, trusts, and powers of attorney. Instead, legacy planning encompasses your personal values, hopes, and expectations. It also touches on practical issues you may not have addressed with your family.

The concept of a legacy plan isn't new. In fact, its roots can be traced back to the "ethical wills" used in biblical times. But legacy planning is often neglected today, to the detriment of family members who might benefit from your efforts. And while there's no precise blueprint for what to do, these four steps could get you started.

1. Organize and update documents. Create a spreadsheet listing where you keep important papers and other items. These locations may range from a safe deposit box in which you store trust documents to the hook in the garage where you hang spare car keys. Make sure the list includes the names and contact information of your professional advisors and other important people.



2. Share your personal values and history. Spell out in writing your preferences regarding culture, religion, education, and other traditions. Impart any personal messages and inspirations you would like to pass along to a younger generation. If you're especially diligent, you might even chronicle the main events of your life in a brief autobiography.

3. Document the details. Be as specific as you can be regarding your future wishes. For instance, you could leave detailed instructions regarding how to manage investments and other financial matters, funeral arrangements, and other related concerns. You might even include suggestions about how to care for a pet or run the household.

4. Live with a purpose. Going through this process will undoubtedly give you a new perspective, and may encourage you to find new ways to live your life to the fullest. For instance, you could create your own "bucket list" of things you'd like to accomplish during your lifetime and then start working your way through those experiences.

Keep in mind that a legacy plan is meant to complement—not replace—your existing estate plan, although the process of creating it might lead you to modify your will or other documents. We would be glad to help you coordinate these plans. ●

Bulletproofing Your Will Before Death

Estate planning is all about looking ahead to a time you'll never see, doing what you can now to ensure a comfortable life for your heirs after you're gone. But that doesn't mean everyone will be thrilled about the decisions you've made, and sometimes even seemingly minor disagreements escalate into full-fledged battles over assets or heirlooms. A dispute could even end up in court—hardly the legacy you want to leave. But there are steps you can take to head off trouble.

Although there are no reliable statistics about just how frequently it happens, beneficiaries—or would be-beneficiaries—often challenge the provisions of wills and trusts. It doesn't matter that an experienced attorney prepared the documents, or that the language seemed clear. Without you to clarify your intentions, they could be open to interpretation, and heirs may contest a will if they believe one of four conditions applies. They could contend that you were incapacitated when you made the will; that you were under duress; that you were unduly influenced by one or more people; or that you, or the preparer you hired, didn't follow proper procedures.

To avoid disputes, a will or trust may include a "no-contest clause," but these provisions have their own loopholes. They're not enforceable in some states, including Florida, and in other states, such a clause may be set aside if the person contesting the will can demonstrate a "reasonable belief" that the document is invalid. In some cases, those who would challenge a will's provisions may have to be compensated for agreeing to forego a claim.

To avoid such unwanted scenarios, Arkansas, North Dakota, and Ohio allow the "testator"—the person making the will—to have its validity verified in court while alive,

New Reports On Investment Tax Basis

A recent tax law change should end years of frustration for investors. No longer do you have to tear your hair out at tax return time trying to compute gains or losses from sales of stocks, mutual funds, and other investment products. Your brokerage firm will do most of the work for you by supplying the "tax basis" of your investments.

Still, this tax headache isn't gone just yet. The basis reporting changes are being phased in gradually and don't apply at all to the investments you already own—the beginning date for the new rules was January 1, 2011.

To understand how the rule change will help, first consider the fundamentals of how investment taxes are calculated. When you sell securities, your gain or loss is equal to the difference between the sale price and your basis in the shares. For this purpose, your basis is normally what you paid for the investment, including brokerage commissions and fees. Also, your basis must be adjusted to reflect stock splits, mergers, and similar events.

Under current law, brokerage firms and other financial institutions must report the amount of proceeds an investor receives in a securities sale to both the investor and the IRS. So the tax agency will know that a stock sale netted you, say, $50,000. But financial firms don't have to report the basis of the shares that were sold, and for years, the IRS has complained that with taxpayers free to compute their own basis, some have inflated it on their tax returns to reduce taxable gains or increase deductible losses. The real motivation for the new rules is to make it more difficult to cheat, rather than to make you life easier. But you'll benefit, too.

Suppose you acquired a stock for $1,000 and sell it for $1,500, paying a combined total of $100 in transaction fees. In this case, your adjusted basis is $1,100 and your taxable gain is $400 ($1,500 minus $1,100).

When you fill out your federal income tax return, you must "net" your capital gains and losses for the year, and it's often possible to balance the two so that you come out more or less even. If you end up with a net long-term gain for 2011, the maximum tax rate is 15% (0% for individuals in the10% and 15% income brackets). That top capital gains rate is scheduled to increase to 20% in 2013 (10% for the lower-bracket taxpayers). If you show a net loss, you can use it to offset up to $3,000 of ordinary income and you can carry over unlimited excess losses to later years.

You're probably familiar with these basic rules. And it's usually not hard to figure out your adjusted basis if you bought one block of shares of an investment and then sell all of those shares at the same time. But things quickly get complicated if you bought or sold varying amounts of stock at different times. And you may not have kept the records needed to prove the initial cost of a security.

Under the Emergency Economic Stabilization Act of 2008, financial institutions are required to provide new "information returns" showing the basis of securities that have been sold and indicating whether a taxable gain or loss is short term or long term. But there's a three-year phase-in for the new rules, which apply to:

- Corporate stock shares and mutual fund shares acquired after 2010
- Stocks in a mutual fund or dividend reinvestment plan acquired after 2011
- Most other securities--including notes, bonds, and commodity contracts and options--acquired after 2012

So if you acquired shares in a mutual fund on, say, January 1, 2011, the fund will report your basis to both you and the IRS whenever you sell any of the shares. But if you sell a fund you bought a day earlier, on December 31, 2010, the fund won't be legally obligated to provide your basis when you sell (although it may do so). And you certainly can't count on financial firms supplying your basis for shares purchased years before the advent of the new rules.

The IRS recently issued proposed regulations for the scheduled changes. Under those rules, the basis for shares must be adjusted to reflect transactions within an account, but other transactions, including wash sales, may be ignored. Additional guidance is expected as the new rules begin to phase in.

The changes should eventually make it easier to compute your capital gains. Yet confusion may still reign regarding sales of shares you bought before the new rules took effect. We can help you sort through the intricacies. ●

thus avoiding the probate process after death. In those states, you could take your will to a probate court and verify that its provisions are exactly what you intended. Then family members may have a specified time in which to mount a challenge—but even if that happens, you'll be there to defend the will. Similarly, Delaware permits people who establish trusts to "pre-validate" them as well. And now Alaska, known for its progressive estate and trust laws, has been added to the short list of states allowing pre-validation of wills and trusts. In Alaska, unlike in other states, even non-residents can attempt to bulletproof a will or trust.

Because some of these laws are new, it's not clear whether they'll have the intended effect of limiting estate planning squabbles. But if you're concerned that your will could one day be challenged, consult your attorney now to see what you might do to keep that from happening. ●

Children In College Need A Health Proxy

Have you just sent your child off to college for the first time? For your offspring, this marks a new, exciting chapter in life. But your child will also face new challenges and perils, and it makes sense to take precautions, such as obtaining a "health care proxy" (also known as a "health care power of attorney") for your son or daughter. This document will give you access to your child's medical history and enable you to make health care decisions in the case of a serious illness or injury.

Although health care proxies are frequently used for elderly relatives, the same basic premise applies to a child in college. Once your child turns age 18, he or she is treated as an adult for legal purposes. Under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), your child is entitled to full confidentiality unless you have a health care proxy. Without a proxy, you might not even learn of a child's health problem at school or receive information about the child's health status.

The health care proxy is a legally binding document appointing someone—usually another family member such as a parent—to make health care decisions for an individual if he or she is temporarily or permanently incapable of making those decisions. It's a narrow power of attorney that gives authority to the designated party and allows you to take action on behalf of your child.

Of course, you can't execute a health care proxy unilaterally. Your son or daughter will need to sign the document, thus giving up his or her right to complete medical privacy. But you can reassure children that you'll have access to information about them only under very specific circumstances. A health care provider may discuss only the immediate medical condition, and only when prompt attention is needed for someone who is incapacitated. Very likely your kids will see the wisdom of having a health care proxy and may even be surprised to learn that otherwise you would have no say about their care even in life-threatening situations.

Once the proxy has been signed and notarized, you'll need to make sure that everyone who might be involved in a child's care knows that it exists. Give a copy to your child's college health service as well as to physicians and hospitals in your town from whom your son or daughter might receive care. If your child has a car, you could put a copy of the proxy in the glove compartment, and you might want to give copies to close friends or roommates.

To get a form for the proxy, check online or with your physician or attorney. You can also file a HIPAA release form that gives you additional access to information about your child's health. ●

Choices Can Be Confusing

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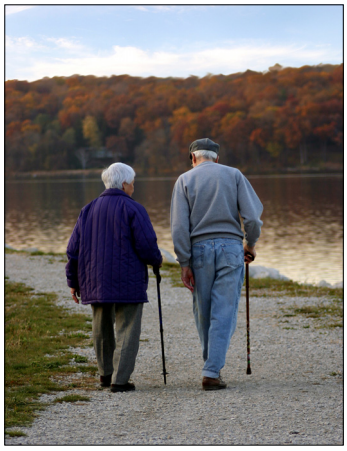
two hypothetical examples illustrating strategies that might maximize a couple's total benefits. The first involves something known as the 62/70 split. Suppose that a husband's full retirement benefit is $2,150 a month and the full benefit for his wife, who's the same age, is $1,080. If she begins taking benefits at age 62, she'll receive a reduced amount—$720 a month. But if her husband delays his claim until age 70, he'll collect $3,300. If he dies at 82, his monthly benefit will have grown to $4,600, and that becomes the wife's survivor benefit—almost 90% more than she would receive if her husband had also begun taking benefits at age 62.

But could this couple do even better? Suppose that the husband applied at age 66 for a spousal benefit based on his wife's earnings record, letting his own benefit continue to grow. Because he has reached his full retirement age, the husband qualifies for the maximum spousal benefit of $540 a month—half of the wife's $1,080 benefit. When he reaches age 70, he can drop the spousal benefit and begin collecting his own much larger benefit.



Beyond studying your annual benefits statement from the government, you can visit www.ssa.gov for a wealth of additional information as well as online calculators that can help you estimate your benefits under different scenarios. But as you weigh your choices, you may also want to factor in other factors, including your health, your life expectancy, your need for cash during retirement, and the retirement lifestyle you're planning. We can help you consider the role Social Security may play for you and work with you to make informed decisions about your government benefits. ●

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