

In This Issue...

Get These Decisions Right
Is the U.S. Past the Savings Crisis Yet?
Using IRAs for Charitable Contributions
Taking Required Minimum
Distributions
Business Data
News and Announcements



**CAPITAL FINANCIAL
GROUP, INC.**

**231 SPRINGSIDE DRIVE
SUITE 155
AKRON, OH 44333
330.668.6991
800.630.6991
330.670.6461 FAX**



RICHARD D. PETERSON
CERTIFIED SENIOR ADVISOR

Financial Briefs

SEPTEMBER/OCTOBER 2011

Get These Decisions Right

The sheer number of financial decisions required to manage our finances can seem overwhelming. But often we spend an inordinate amount of time on small stuff — getting the bills paid on time, reconciling bank accounts, and calling to have a late charge waived. While those things need to get done, how do we judge whether we're headed on the right course? There are six basic financial decisions that can determine the course of your financial life:

1. How you earn a living. Sure, we all want to enjoy our work. But within that parameter, why not choose a job that will pay more than another? Your income is going to drive all your other financial decisions, so investigate your options:

- Are you sure you're being paid a competitive wage with competitive benefits? Even if you aren't interested in changing jobs now, pay attention to what is going on in your field.
- Do you have an outside interest or hobby that can be turned into a paying job? This could be a good way to supplement your current salary, or it could turn into a part-time job or business after retirement.
- Can you get some additional training to help secure a promo-

tion or qualify for another job? Read up on what jobs are expected to experience the highest growth rates and/or highest salaries over the next five years. If you don't enjoy your current job, you have even more incentive to implement these suggestions.

2. How you spend your income. The amount of money left over for saving is a direct result of your lifestyle choices, so learn to live

within your means. To get a grip on spending, consider these tips:

- Analyze your spending for a month. In which categories do you spend more than you expected? Are you wasting money on impulse purchases? Give serious thought to your purchasing patterns, trying to find ways to reduce spending.
- One of your most significant spending decisions will be your

Continued on page 2

Is the U.S. Past the Savings Crisis Yet?

From the 1990s until just a few years ago, the U.S. was experiencing a savings crisis. People were spending nearly all the money they earned and more, by borrowing on credit cards and the equity in their homes. In late 2005, the U.S. saving rate officially went negative.

As a result, the federal government, corporations, and homebuyers had to rely on foreign investors purchasing American debt to fuel their spending. There was a chorus of woes that the binge would catch up with us, and the U.S. economy was destined to a future of weaker growth.

Then came the recent recession, plummeting stock and real estate prices and sending unemployment

to nearly 10%.

So what about the savings crisis now? It depends on how you define it.

If you define the health of U.S. savings in terms of the net worth of the American consumer, we're still a long way away from our peak just a few years ago. According to the Federal Reserve Board, the average American household saw its net worth — assets like home value and savings minus debts like home loans and others — shrink by 23% between 2007 and 2009 (Source: CNN, 2011). Millions of Americans not only lost their jobs, but 30% to 40% or more of the value of their retirement accounts, for a grand loss of

Continued on page 3

Copyright © Integrated Concepts 2011. Some articles in this newsletter were prepared by Integrated Concepts, a separate, nonaffiliated business entity. This newsletter intends to offer factual and up-to-date information on the subjects discussed, but should not be regarded as a complete analysis of these subjects. The appropriate professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

Get These Decisions

Continued from page 1

home. Many people purchase the largest home they can afford. Purchasing a smaller home will reduce your mortgage payment as well as other costs associated with owning a home.

- Prepare a budget to guide your spending. Few people enjoy setting or sticking to a budget, but inefficient and wasted expenditures can be major impediments to accomplishing your financial goals. Start by setting a budget for a couple of months, tracking your expenses closely over that time. You can then fine-tune your budget for an annual period.

3. How much you save. You should be saving a minimum of 10% of your gross income. But don't just rely on that rule of thumb. Calculate how much you need to meet your financial goals and how much you should be saving on an annual basis. If you can't seem to save that much, go back to your spending analysis and cut your spending. First, look for ways to reduce your spending by lowering the cost of your purchases. Perhaps you can refinance your mortgage, find insurance for a lower premium, or use strategies to reduce taxes. At some point, however, you may need to cut your discretionary spending.

4. How you invest. The ultimate size of your portfolio is a function of two factors — how much you save and how much you earn on those savings. Even small differences in return can significantly impact your investment portfolio. Typically, investments with potentially higher rates of return have more volatility than investments with lower rates of return. While you don't want to take on excessive risk, you also don't want to leave all your savings in investments with little growth potential. Your portfolio should contain a diversified mix of investment categories.

5. How you manage debt. Before you take on debt, consider the

Using IRAs for Charitable Contributions

As part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, taxpayers age 70½ and older can still take tax-free distributions, up to \$100,000 in 2011, from traditional and Roth individual retirement accounts (IRAs) for charitable purposes. Without this provision, donors typically find that the income tax deduction for the charitable contribution is not enough to offset the tax bill generated by the IRA distribution. With this provision, the income from the IRA is not included in gross income, and the charitable contribution cannot be deducted on the donor's tax return. To qualify, the distribution must meet these conditions:

- The distribution must be made from an IRA. Distributions from 401(k) plans, SEPs, and SIMPLE plans do not qualify.
- Charitable contributions must be made to public charities, such as churches, hospitals, museums, and educational organizations. Contributions cannot be made to private foundations, donor advised

funds, supporting organizations, or split-interest entities.

- The IRA owner must be at least age 70½.
- The distribution must be made directly to the charity. If the IRA owner takes the distribution and issues his/her own check to the charity, it will not qualify.
- The distribution must otherwise be fully deductible as a charitable contribution. Thus, the donor must not receive any benefit from the contribution.
- The distribution must otherwise be included in gross income. Thus, only the taxable portion of the IRA distribution qualifies. If a nontaxable distribution is taken from the IRA, the IRA owner would not have to include the distribution in income and could take a charitable contribution deduction. Qualified distributions from an IRA to charity are deemed to come first from the taxable portion of the IRA, leaving the maximum amount of tax-free dollars in the IRA.

Please call if you'd like to discuss this in more detail. ■■■

effect it will have on your long-term goals. If you are already having trouble finding money to save, additional debt will make it even more difficult to save. To keep your debt in check, consider these tips:

- Mortgage debt is acceptable as long as you can easily afford the home.
- Be careful about taking equity out of your home in the form of a home-equity loan. You might want to set up a home-equity line of credit for emergency use, but then make sure it is only used for emergencies.
- Never purchase items on credit that decrease in value. If you can't pay cash, don't buy them.

6. How you prepare for financial emergencies. Making arrangements to handle financial emergencies will help prevent

them from adversely affecting your financial goals. Make sure to have:

- An emergency fund covering several months of living expenses. Besides cash, that fund can include readily accessible investments or a line of credit.
- Insurance to cover catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability, and personal liability.
- A power of attorney so someone can step in and take over your finances if you become incapacitated.

Making the correct choices for these six basic financial decisions will help put you on the right financial course. If you'd like help with these decisions, please call. ■■■

Is the U.S. Past?

Continued from page 1

\$2 trillion, by some estimates (Source: NPR, 2011).

But if you define the health of U.S. savings in terms of the percentage of their earnings that Americans are socking away, the picture is much rosier. According to the U.S. Bureau of Economic Analysis, Americans are saving about 6% of what they earn, largely in an effort to replenish their accounts. That's close to the 7% we averaged throughout the 1960s, 1970s, and 1980s, and bodes well for the U.S. economy — if we can sustain it.

If you're among the unemployed, the good news about the U.S. saving rate is cold comfort. Still, it provides a glimmer of hope for the economy's future growth. Savings are a major contributor to growth, because they provide a capital base for business to invest in new equipment and productivity. In general, the greater the pool of available capital, the lower interest rates borrowers have to pay, which means more money available to hire and pay people.

But you don't have to be an economist to understand why it is so important to you and your family to save money. It's the best way to provide financial security, now and in the future. A "rainy day" fund of 3-6 months of expenses saved in safe, highly liquid accounts will help you weather the storms that always come, from an unexpected vehicle repair to job loss or illness. And saving — in special tax-advantaged plans for education to 401(k)s and IRAs for retirement — leverages the power of compounding in the market to help you fund your future.

Are you doing all you can to save? Are your investments working as hard for you as you are for your paycheck? From finding ways for greater tax efficiency to potentially increasing your returns, please call for help. ■■■

Taking Required Minimum Distributions

While the tax code allows you to save money tax deferred in retirement plans such as individual retirement accounts (IRAs), 401(k) plans, and other retirement plans, the Internal Revenue Service wants its cut sometime. That's why many holders of most retirement accounts must start withdrawing money at age 70½. The amount that you are required to withdraw is called a required minimum distribution (RMD).

Generally speaking, the RMD applies to all retirement funds except those in Roth IRAs and employer plans like a 401(k) plan for those still working at age 70½. Once you retire after age 70½, you must begin taking your RMD from that plan as well.

If you fail to withdraw your RMD, the IRS will impose an excess accumulation tax, which equals 50% of the RMD you failed to withdraw. To avoid the excess accumulation tax, follow these steps:

- **Determine whether you're required to take an RMD.** For your retirement accounts, you must take your first RMD by April 1 of the year after you turn 70½. If you wait until then (rather than taking your first RMD that same year), you'll have to take another RMD by December 31 of that same year. After that, you'll be required to take your RMDs by December 31 of each following year. For example, if you turn 70½ in 2011, you must take your first RMD by April 1, 2012. Then, you must take your second RMD by December 31, 2012.

If you've inherited a retirement plan, you're generally required to take an RMD the year after the plan holder's death, unless the plan owner turned 70½ before death. In that case, you're required to take the RMD the

same year as the owner's death. Spouse beneficiaries may be able to delay required distributions.

- **Identify all your retirement accounts.** List all your retirement accounts, including employer plans, traditional IRAs, SEP, and SIMPLE accounts. This list will help ensure you calculate your RMD correctly and that you've considered all accounts.
- **Calculate your RMD.** Your total account balance as of the preceding year is divided by your life expectancy to calculate your RMD. The IRS publishes life expectancy tables for this purpose.
- **Create a withdrawal plan.** You don't have to take an RMD from every one of your accounts, as long as your total withdrawal equals the total amount calculated in the step above. You can group your retirement accounts by account type and take a single distribution from one account in each group. However, you can't cross over between IRAs, 401(k)s, and 403(b)s, for instance. You'll also have to decide whether you want to take your withdrawals monthly, quarterly, or annually.
- **Perform a year-end checkup.** Toward the end of each year, make sure you've identified all your accounts, calculated your RMD accurately, and distributions have been taken. You only have until December 31 to make any necessary adjustments to avoid the 50% excess accumulation tax.

This is just a brief guide to RMDs. Please call if you'd like to discuss the topic in more detail. ■■■

Business Data

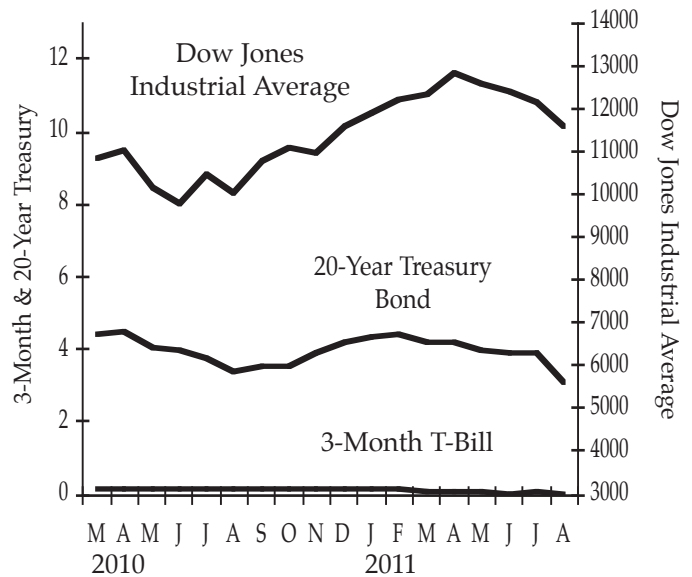


| Indicator | Month-end | | | | |
|-------------------------|-----------|--------|--------|--------|--------|
| | Jun-11 | Jul-11 | Aug-11 | Dec-10 | Aug-10 |
| Prime rate | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| 3-month T-bill yield | 0.03 | 0.06 | 0.02 | 0.18 | 0.15 |
| 10-year T-note yield | 2.99 | 2.97 | 2.17 | 3.37 | 2.61 |
| 20-year T-bond yield | 3.90 | 3.93 | 3.13 | 4.23 | 3.42 |
| Dow Jones Corp. | 3.56 | 3.54 | 3.60 | 3.89 | 3.47 |
| GDP (adj. annual rate)# | +3.10 | +0.40 | +1.00 | +3.10 | +1.70 |

| Indicator | Month-end | | | % Change | |
|------------------------|-----------|----------|----------|------------|-------|
| | Jun-11 | Jul-11 | Aug-11 | YTD 12 Mon | |
| Dow Jones Industrials | 12414.34 | 12143.24 | 11613.53 | 0.3% | 16.0% |
| Standard & Poor's 500 | 1320.64 | 1292.28 | 1218.89 | -3.1% | 16.2% |
| Nasdaq Composite | 2773.52 | 2756.38 | 2579.46 | -2.8% | 22.0% |
| Gold | 1505.50 | 1628.50 | 1813.50 | 29.0% | 45.5% |
| Unemployment rate@ | 9.10 | 9.20 | 9.10 | -7.1% | -4.2% |
| Consumer price index@ | 225.70 | 225.70 | 225.90 | 3.2% | 3.6% |
| Index of leading ind.@ | 114.90 | 115.20 | 115.80 | 4.0% | 5.4% |

— 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's*, *Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield March 2010 to August 2011



News and Announcements

Contributing to Spousal IRAs

A spousal individual retirement account (IRA) allows a nonworking spouse to contribute to an IRA, even though the spouse has little or no earned income. Here are the basics:

- To be eligible to contribute, the couple must be legally married at tax year-end and file taxes jointly. The couple's combined earned income must equal or exceed the combined IRA contribution.
- Contributions can be made to traditional IRAs as long as the owner is under age 70½, while there is no age limit for Roth IRAs.
- In 2011, the maximum contribution to an IRA is \$5,000, with an additional \$1,000 catch-up contribution for individuals age 50 and over.
- For traditional IRAs, if the working spouse is covered by a qualified retirement plan but the nonworking spouse is not, the contribution for the nonworking spouse is phased out once adjusted gross income (AGI) is between \$169,000

and \$179,000 in 2011 and totally phased out once income exceeds \$179,000. If you both have earned income equal to at least the maximum IRA contribution amount and are both covered by a qualified retirement plan, your contribution is phased out at joint AGI between \$90,000 and \$110,000 in 2011. If neither of you is covered by a qualified plan, both of you can make a deductible contribution regardless of your AGI.

- For Roth IRAs, eligibility is phased out for AGI levels between \$169,000 and \$179,000 in 2011. It doesn't matter whether your spouse is covered by a qualified retirement plan at work.

Contributing to a spouse's IRA may be as beneficial to the working spouse as to the nonworking spouse, since the assets are likely to be shared during retirement. Please call if you'd like to review whether you or your spouse are eligible to contribute to a spousal IRA.

FR2011-0511-0052

Anyone who would like a copy of our ADV Part II, give us a call at 330.668.6991.

Rick

GRANTLAND®

