



Financial Services

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It's Not What You Earn--It's What You Keep

You work hard for your money. So why shouldn't you try to keep as much of it for yourself as you can? Here are some ways to pay less tax and keep more of your hard-earned dollars.

Tax deferrals rule

Take advantage of tax-deferred retirement plans, such as 401(k), 403(b), and 457(b) plans, offered by your employer. They all allow you to make pretax contributions of up to \$15,500 in 2008 (\$20,500 if you're age 50 or older), and 403(b) and 457(b) plans may also have special catch-up rules that might let you defer even more. The tax savings can be significant. For example, if your marginal tax rate is 28% and you defer \$15,500, you'll save \$4,340 in current taxes. Your \$15,500 contribution will generate tax-deferred earnings for you until you withdraw the funds from the plan, when you may be in a lower tax bracket. And, if your employer matches your contributions, the deal is even sweeter.



Another common way to use tax deferrals to save more of what you earn is by setting up a health-care flexible spending account (FSA) at work. Your contributions reduce your taxable income, saving current taxes, and the funds you set aside can be withdrawn tax free to pay a wide variety of health-related expenses that aren't covered by your health plan. See IRS Publication 502, *Medical and Dental Expenses*, for a list of qualifying expenses.

And don't forget traditional IRAs. If neither you nor your spouse is covered by a retirement plan at work, and you're not yet 70½, you can make a deductible contribution of up to \$5,000 to an IRA in 2008 (\$6,000 if you're age 50 or older). Even if you or your spouse is covered by a plan, all or part of your contribution may be deductible, depending on your income.

But tax free is even better

If you're an income-oriented investor, consider investing in municipal bonds. The income generated is free from federal income taxes and, in some cases, state income taxes as well. (Be sure to compare yields between taxable and tax-free securities, and keep in mind that certain municipal bond income may be subject to the alternative minimum tax.)

Another way you can generate tax-free income is by contributing to a Roth IRA, Roth 401(k), or Roth 403(b) plan. Unlike pretax deferrals, Roth contributions don't reduce your income, so there's no current tax savings. Because you've already paid tax on your contributions, they won't be taxed again when you withdraw them from the plan. But what really sets Roth contributions apart, and makes them so appealing, is that all earnings are also tax free if you satisfy a five-year holding period and certain other requirements are met.

If you have children, don't pass up the tax incentives offered by Section 529 plans and Coverdell education savings accounts (ESAs). Again, your contributions to these plans aren't tax deductible, but your savings grow tax deferred and withdrawals are tax free at the federal level (and typically at the state level too) when used to pay qualifying educational expenses. You can contribute up to \$2,000 to a child's Coverdell ESA in 2008, and most 529 plans let you contribute more than \$300,000 over the life of the plan.

Think long term--for capital gains

Long-term capital gains tax rates are currently very attractive--a maximum of 15% through 2010. Short-term capital gains, on the other hand, are generally taxed at ordinary income tax rates--currently as high as 35%. To qualify for long-term capital gains treatment, make sure you hold your securities and other capital assets for more than one year before selling them.

Securities offered through L.M. Kohn & Co., Member FINRA/SIPC 9810 Montgomery Rd., Cincinnati, OH 45242 800-478-0788

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Coping with a Slower Economy

Economics isn't called the "dismal science" for nothing. There's an old joke that accuses economists of having predicted 9 of the last 5 recessions (and yes, those figures are in the correct order). However, forecasting the direction of the economy can seem easy compared with trying to figure out how to weatherproof your finances. It can help to understand some of the questions that many investors ask themselves if they're concerned about the potential impact of slower growth.

Is it time to check my portfolio?

Changing consumption patterns can have implications for a variety of companies and industries, and create investing opportunities. Some investing sectors might be especially economically sensitive and might therefore suffer from any economic downturn. On the other hand, some industries or companies may actually benefit from a slower economy. For example, companies that produce high-end goods might be relatively immune from economic pressures--or maybe not. Shifts in spending patterns could also mean that consumers continue to spend money but choose less expensive alternatives, or focus more on getting the greatest value from each dollar.

If you rely on your investments for income, you may want to review how sensitive your portfolio might be to changes in interest rates. If the Federal Reserve Board sees greater danger from a slowing economy than from the possibility of higher inflation, lower interest rates could cut into your income. Conversely, if the Fed becomes increasingly concerned about inflation, rates could go up. It might be a good time to see whether the yields you're receiving are competitive, and what kind of impact on your monthly income you might expect from any changes in rates.

Should I review my asset allocation?

Now might also be a good time to reexamine how your assets are divided among various types of investments. If you decide you need to shift a portion of your portfolio, those changes don't necessarily have to be made all at once. Consider:

- Adjusting only a portion of your bond or stock holdings
- Using systematic investing to shift allocations over time
- Investing any new money differently to

increase your exposure to asset classes you may have neglected

How close am I to the edge financially?

The benefits of reducing debt should be pretty obvious, given the recent credit crisis. Troubles in the mortgage industry have driven home the importance of managing debt wisely. The last thing you need if you're worried about uncertain economic times is to lock yourself into spending patterns that push you beyond your means.

Whether the economy is in robust health or seems to be catching the flu, it's never a bad idea to have a cushion against unexpected financial stress. An unanticipated medical emergency--and is there any other kind?--a sudden job loss, or anything else that affects your income stream can bring the effects of a slower economy home in a dramatic way.

If you're employed in a highly cyclical industry or one that's undergoing substantial changes, having a financial reserve becomes even more important. And if a lot of your retirement plan savings are invested in your employer's stock, think about whether your long-term finances might potentially face a double whammy. Serious financial trouble at your company could mean the possibility of layoffs, a drop in the value of your holdings--or both.

Have I planned for the unexpected?

If you're planning to retire in the next few years, consider the potential impact if you were to be "retired" prematurely. It's easy to assume you'll work until a certain date or earn income after retirement, but health concerns and the job market don't always permit that. Doing some "what if?" calculations with an earlier retirement date than you might otherwise choose could prepare you for what might happen if you were laid off and had difficulty finding new employment, or were unable to work for health reasons.

A transition to a post-retirement career is likely to be easier if you plan thoroughly. For example, launching a small business can be challenging under the best of circumstances; try to have as much of the groundwork laid as possible before relying on it for your entire income. Sales estimates that are more conservative than they might otherwise be may help minimize cash flow problems.

Asking questions such as these lets you hope for the best while preparing for the worst.

Tips for Selling Your Home in an Uncertain Market

Will the combination of lower mortgage interest rates, higher inventory, and falling prices send buyers to open houses in droves this summer? No one knows for sure, but here are some ways you can increase the odds that your home will be sold at the best possible price before the leaves fall.

Price your home to sell, not sit

Pricing your home correctly is extremely important. Although it's tempting to "test the market" by setting a high asking price, this may turn off prospective buyers, or result in lowball offers, and your home may continue to sit on the market. A better alternative? Ask a real estate agent to do a comparative market analysis to help determine a realistic asking price, taking into consideration how much similar properties have recently sold for, and the average number of days homes have been on the market. It's especially hard to pinpoint the right asking price in areas where sales are slow and prices are falling, so remain ready to adjust your asking price later if necessary.

Sellers are often afraid of shortchanging themselves by setting their asking price too low, but a lower asking price may actually generate more interest, potentially leading to a much higher sale price if buyers submit competing offers. Even if no bidding war is triggered, you may end up selling your home quickly, an advantage if you've already found another home to purchase.

Advertise, advertise, advertise

Whether you're selling your home yourself or using a real estate agent, advertising is key, especially when there are many homes on the market. Make sure that any sales materials you or your agent prepare emphasize the features that might convince someone to choose your home over another. Target the right audience, too. For example, if your home is right for a growing family, why not highlight the flexible floor plan, the child-friendly neighborhood, and the large yard?

Buyers today expect to begin their search for a new home without ever leaving home, and online advertising has become an indispensable tool for marketing real estate. According to the National Association of Realtors®, 74% of people who used the Internet to search for a new home eventually drove by or viewed a home that they saw online, so make sure that

your home is prominently featured on a real estate website. And remember, a picture is worth a thousand words. Buyers will look more closely at homes with numerous high-quality photos, and may bypass homes with none. For maximum exposure, consider adding a virtual tour that shows off your home's best features, even if it costs a little bit more to do so.

Sweeten the deal

To really make your home stand apart from the competition, consider offering incentives such as cash back at closing, payment of homeowners association dues, a home warranty, or even a gift card to a local furniture store. Incentives may help increase the number of home showings and encourage potential buyers to choose your home over another.

Enhance your home's appeal

How many times have you seen a home for sale that has obvious shortcomings--overgrown shrubs, peeling paint, or a jarring color scheme, for example? That's a home that may languish on the market while other similar homes sell quickly, because the owners are unaware that the appearance or condition of their home is the reason it isn't selling. Take a close and impartial look at your home, or better yet, ask your real estate agent to do so. Potential buyers may be noticing something that you're not. Often, completing simple tasks such as painting, cleaning, and getting rid of clutter can make your home more appealing to buyers. If your home needs updating, prioritize areas that are the most important and visible, such as the front of your home, the kitchen, and the bathrooms.

Don't curb your enthusiasm

One hazard of having a home on the market for a while is that your enthusiasm may wane over time. Buyer interest often peaks quickly (within the first few weeks after your home is listed), and it's easy to get discouraged if you don't receive any acceptable offers. But if you really want to sell your home, it's up to you to keep the momentum going. Schedule another open house, keep your home in good repair, and look for new ways to advertise. If your home hasn't sold within a reasonable time, you may have to reevaluate your asking price or even your decision to sell, but before you throw in the towel, make sure that you've done all that you can to attract qualified buyers.



Is it a beautiful day in your neighborhood?

An often-used phrase in the real estate industry is that "real estate is local." Though the news may be full of stories about nationwide housing trends, what's really important is what's going on in your area. A real estate agent can help you identify local housing patterns, such as which homes are selling (and for what price), so that you can maximize your chances of success.

Ask the Experts



Can I be automatically enrolled in a 401(k) plan?

Yes. The IRS has long permitted employers to automatically enroll employees in 401(k) plans. These are sometimes referred to as

"negative enrollments" because you have to elect not to participate.

Some employers have shied away from automatic enrollment plans because they were concerned that automatic payroll deductions might not be permitted under state law.

Others were concerned that the default investments they chose for employees might be found to be "imprudent," resulting in fiduciary liability for any investment losses incurred by those employees.

In order to address these concerns, and to encourage retirement savings, Congress included provisions in the Pension Protection Act of 2006 that make automatic enrollment plans more attractive to employers. Under the law, employers who adopt "qualified automatic contribution arrangements" (QACAs) are exempt from some of the complicated testing

requirements that usually apply to 401(k) plans. Under a QACA, your automatic contribution will be at least 3% of your pay for your first two calendar years of participation. The minimum contribution then increases by 1% each year until your automatic contribution reaches 6%. The maximum automatic contribution is 10%. An employer contribution is also required—either 3% (or more) of your pay, or a prescribed matching contribution.

The law provides that QACAs aren't subject to state payroll laws, and that employers who choose certain investments as the plan's default investment will be relieved of fiduciary responsibility for those investments.

In general, your plan administrator must provide you with a notice that explains the QACA and notifies you of your right to reduce or stop the contributions, and to change the default investments that have been chosen for you. Your plan may also provide a 90-day period in which you can opt out of the auto-enrollment arrangement and receive a refund of your contributions (plus any earnings).

What are qualified default investment alternatives?

There are times when an employer must make an investment election for employees participating in a retirement plan if the employee fails to make an investment election. For example, 401(k) plans with automatic enrollment arrangements must specify where the employees' contributions will be invested.

Some employers have been concerned about these "default" investments, because it hasn't been entirely clear if an employer has fiduciary liability for losses an employee might incur while in the default investment.

Congress addressed some of these concerns in the Pension Protection Act of 2006. The Act provides that employers won't have fiduciary liability if the default investment chosen for an employee is a "qualified default investment alternative" (QDIA). The Department of Labor has recently issued regulations describing which investments will satisfy the QDIA requirements. In general, an employer will avoid fiduciary responsibility if the plan offers a broad range of investment alternatives, and the default investment for employees who fail to make an affirmative investment election is

one of the following:

- A product with a mix of investments that takes into account the employee's age or retirement date (for example, a lifecycle or targeted-retirement-date fund)
- An investment service that provides a mix of the investment options available under the plan based on the employee's age or retirement date (for example, a professionally managed account)
- A product with a mix of investments that takes into account the characteristics of the group of employees as a whole, rather than each individual (for example, a balanced fund)
- A capital preservation fund (for example, a money market or stable value fund), but only for the employee's first 120 days of participation

Employers must provide a notice to employees prior to the first QDIA investment, and must allow employees to change investments at least quarterly.

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