Korbitz Financial Planning
Newsletter

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Happy New Year! One full month is past us already as we move into 2013. I hope the New Year has started out well for you.

The great fiscal cliff tax situation ended with a result that was quite close to what I was expecting. For most taxpayers, 2013 is close to status quo. For those taxpayers with incomes over about $400,000, taxes will definitely be going up. The next step will be to see what Congress and the White House will do about the spending side of the ledger.

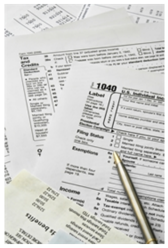
Home mortgage rates are still very favorable. Recent rates have had 15 year mortgages below 3% and 30 year mortgages in the 3-3.5% range. If you have not taken advantage of these low rates and have an existing mortgage, I urge you to at least look at the possibility of refinancing. It could pay huge dividends!

I hope you enjoy the newsletter.

Eric

January 2013

Federal Income Tax Filing Season Is Here



The due date for 2012 federal income tax returns is April 15, 2013. Whether you're preparing your own taxes or paying someone else to do them for you, you'll want to start pulling things together sooner rather than later. That includes gathering a copy of last year's tax return, W-2s, 1099s, and deduction records.

Filing for an extension

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2013) to file your return. Don't make the mistake of assuming that the extension gives you additional time to pay any taxes due, though. If you do not pay any taxes you owe by April 15, 2013, you'll owe interest on the tax due, and you may owe penalties as well. Special rules apply if you're living outside the country or serving in the military outside the country on April 15, 2013.

There's still time to contribute to an IRA

You generally have until the due date of your federal income tax return (April 15) to make contributions to either a Roth IRA or a traditional IRA for the 2012 tax year. That means there's still time to set aside up to $5,000 ($6,000 if you're age 50 or older) in one of these retirement savings vehicles. It's worth considering, in part because contributing to an IRA can have an immediate tax benefit. That benefit comes in the form of a potential tax deduction--with a traditional IRA, if you're not covered by a 401(k) or another employer-sponsored retirement plan (if your spouse is covered by an employer plan, you're considered to be covered as well), you can generally deduct the full amount of your contribution. (If you're covered by an employer-sponsored retirement plan, whether or not you can deduct some or all of your traditional IRA contribution depends on your filing status and income.)

It's a little different with a Roth IRA; if you qualify to make contributions to a Roth IRA (whether you can contribute depends on your filing status and income), the contributions you make aren't deductible, so there's no effect on your 2012 taxes. Nevertheless, a Roth IRA may be worth considering because qualified Roth distributions you take in the future are completely free from federal income tax.

There's also still time to undo a 2012 Roth conversion

Did you convert a traditional IRA to a Roth IRA in 2012, only to see the account drop in value? Wish you could go back in time so that you wouldn't have to pay tax on the value of the IRA assets lost in the downturn? Turns out, you can. If you undo ("recharacterize") the conversion, you're treated for tax purposes as if the conversion never happened--you wind up with a traditional IRA again and no tax bill for the conversion. You generally have until the due date of your 2012 return, including extensions, to recharacterize a 2012 Roth conversion (note that special rules allow individuals who file timely 2012 returns to recharacterize up until October 15, 2013--talk to a tax professional about the details).

If you do recharacterize your 2012 conversion in 2013, you're allowed to convert those dollars (and any earnings) back to a Roth IRA ("reconvert") after waiting 30 days, starting with the day you transferred the Roth dollars back to a traditional IRA. If you reconvert in 2013, then all taxes due as a result of the reconversion will be included on your 2013 federal income tax return.

Review casualty loss deduction rules

If you were one of the many individuals who suffered property damage or loss as a result of late-2012 storms (e.g., October's Hurricane Sandy), be sure to familiarize yourself with the casualty loss rules--you may be entitled to a deduction for storm-related losses that weren't covered by insurance. Review IRS Publication 547, Casualties, Disasters, and Thefts for details.

Real-life Financial Tips for Different Generations

Do you remember The Game of Life®? In Milton Bradley's popular board game, players progress through life stages making decisions that affect their prosperity. Like those players, today's generations face financial decisions with lasting effects. Here are some tips for staying focused despite life's ups and downs.

Generation Z (teens to early 20s):

Accustomed to instant gratification, the "Digital Generation" may need to recognize that financial success takes diligence and patience. Consider sharing the following advice with the Gen Zers in your life:

Live within your means. Your first paycheck provides the chance to learn valuable lessons, such as creating a budget and spending less than you earn.

Build a saving habit. You have one powerful advantage over other generations--time. Why not make saving automatic and direct a part of your paycheck into a savings or investment account?

Understand credit and credit reports. A good credit history helps you get a car loan and a mortgage, but a bad one can ruin your borrowing chances for years. Reviewing your credit report regularly can help you manage your finances and protect your identity.

Generation Y (20s and early 30s):

In this group, you could be juggling your first "real" job, college loans, marriage, a first home, and young children. Three points for you:

Risk management isn't just for companies. Save 6 to 12 months' worth of living expenses in a savings account for unexpected emergencies. Review your insurance, and at a minimum, have health and property coverage. Also consider disability insurance, which helps pay the bills during a health crisis.

Start saving for retirement ... Like Generation Z, time is your strongest ally. Participate in a retirement savings plan at work, if offered, and if your employer offers a match (free money!), contribute enough to get all of it. If you don't have a plan at work, open an individual retirement account (IRA) and invest what you can (up to annual limits).

... And your children's college. In 18 years, a four-year degree could cost as much as several hundred thousand dollars. Give your children a head start by saving now.

Generation X (30s and 40s):

Home ownership, older children, a career in full swing--if you're in this group, your finances may take a back seat to life's daily demands. To help stay focused, consider the following:

Retirement savings trump college savings. Don't risk your future to pay for your children's entire education. There's no financial aid office in retirement.

Don't neglect your health. Are you experiencing new aches and pains? At this age, medical issues can begin to surface, demanding time, energy, and financial resources. Take care of yourself, and before an emergency arises, review your health and disability coverage.

Create a will, if you don't already have one. This important document can help ensure your children are cared for and your assets are distributed according to your wishes. Medical directives should also be established now.

Baby boomers (50s and 60s):

If you're in this age group, you may have both adult children and elderly parents who need assistance, as well as an impending or current retirement. Pointers for you include:

Shift your retirement savings into high gear. People over 50 benefit from higher savings limits on 401(k)s and IRAs. Strive for the maximum.

Visit a financial professional. When should you tap Social Security and your retirement savings? How should you invest your assets to potentially provide a lifetime of income? A financial professional can be a critical coach at this time of your life.

Investigate long-term care insurance. These policies help protect your family's assets from the potentially devastating effects of long-term care. The older you get, the more expensive these policies can be.

Retirees:

The Game of Life ends when players reach retirement, but not so in real life--you still have years ahead of you. Consider the following:

Review the basics. Whether you plan to travel to exotic locales or play board games with your grandchildren, a key to happiness is living within your means. Develop a realistic budget and don't exceed your spending limits.

Manage your income stream. A financial professional can help you choose vehicles and determine an investment strategy to help ensure you don't outlive your assets.

Plan for your family's well-being. A properly crafted estate plan can help you ensure that your wishes are carried out--for both your and your family's peace of mind.

Questions and Answers about Social Security

Did you know that according to the Social Security Administration, 94% of all workers are covered under Social Security?

Whether you're close to retirement or years away from receiving Social Security benefits, you may not know much about the intricacies of this important program. Here are some questions and answers that can help you learn more.

Will Social Security be around when you need it?

You've probably heard media reports about the worrisome financial condition of Social Security, but how heavily should you weigh this information? While it's very likely that some changes will be made to Social Security (e.g., payroll taxes may increase, benefits may be reduced by a certain percentage, or cost-of-living adjustments may be calculated differently), there's been no proposal to eliminate Social Security. Although no one knows what will happen, if you're approaching retirement, it's probable that you'll receive the benefits you've been expecting. If you're still a long way from retirement, it may be wise to consider various scenarios when planning for Social Security income.

How does the Social Security Administration know how much you've earned?

If you work for an employer, your employer will deduct Social Security taxes from your paycheck and report your wages to the Social Security Administration (SSA). If you're self-employed, you pay your self-employment Social Security taxes and report your earnings to the SSA by filing your federal income tax return. To view your lifetime earnings record, you can sign up to access your Social Security Statement online at the SSA's website, www.socialsecurity.gov.

Will a retirement pension affect your Social Security benefit?

If your pension is from a job where you paid Social Security taxes, it won't affect your Social Security benefit. However, if your pension is from a job where you did not pay Social Security taxes (such as certain government jobs) two special provisions may apply.

The first provision, called the government pension offset (GPO), may apply if you're entitled to receive a government pension as well as Social Security spousal retirement or survivor's benefits based on your spouse's (or former spouse's) earnings. Under this provision, your spousal or survivor's benefit may be reduced by two-thirds of your government pension (some exceptions apply).

The second provision, called the windfall elimination provision (WEP), affects how your Social Security retirement or disability benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit is modified, resulting in a lower Social Security benefit.

If someone else receives benefits based on your earnings record, will your benefit be reduced as a result?

Your benefit will not be affected if other people, such as your spouse, former spouse, or dependent children, receive Social Security benefits based on your earnings record.

If you delay receiving benefits until after full retirement age, should you still sign up for Medicare at age 65?

Even if you plan on waiting until full retirement age or later to take your Social Security retirement benefits, make sure to sign up for Medicare three months before you reach age 65. If you enroll late for Medicare Part B (medical insurance) your coverage may be delayed or cost more later. Visit the Medicare website, www.medicare.gov to learn more.

Do IRA withdrawals count toward the Social Security earnings limit?

Prior to full retirement age, an earnings limit applies if you receive Social Security benefits. If you earn more than this amount, your benefit will be reduced. However, only wages from a job or net earnings from self-employment count toward this limit. Unearned income, such as IRA withdrawals, investment earnings, or capital gains, does not count.

What if you change your mind about when to begin Social Security benefits?

You have a limited opportunity to change your mind after you've applied for benefits. You can complete Form SSA-521, Request for Withdrawal of Application, and reapply at a later date. But if you're already receiving benefits, you can withdraw your claim only if it has been less than 12 months since you first became entitled to benefits, and you're limited to one withdrawal per lifetime. In addition, there are financial consequences--you must repay all benefits already paid to you or your family members based on your application, as well as any money withheld from your checks, including Medicare premiums or income taxes.

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Should I be worried about recent municipal bankruptcies?

Municipal bonds have received a lot of attention recently, in part because their tax advantages could become more valuable in 2013. However, they also have come under scrutiny because of some widely publicized bankruptcy filings by local governments.

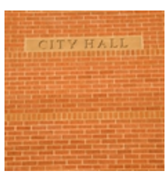
Economic problems, lower investment returns, and cuts in federal aid have led to an increase in the number of local governments filing under Chapter 9 of the U.S. bankruptcy code. They included the single largest U.S. municipal bankruptcy on record (Stockton, California, one of three municipalities in the state to file for bankruptcy in a single month).

Despite the increased pace of filings, muni bankruptcies are still extremely rare. From June 2011 to June 2012, only 17 municipalities or local government entities filed for bankruptcy in federal courts. Compare that to the 9,285 Chapter 11 filings by businesses during the same time.*

One way to check on your muni holdings is to use information available through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA®) database, available at http://emma.msrb.org . You'll need to know the bond's CUSIP number; this nine-digit identifier can be found on a trade confirmation or brokerage statement. The information available generally includes the revenue sources pledged to repay a bond and whether any bond insurance, letter of credit, or other guarantees have been provided for its repayment.

The database doesn't include all municipal offerings, and though it's updated yearly, information can become outdated. The bond's current credit rating from one of the three major ratings agencies can suggest its most recent status. However, remember that a high credit rating doesn't reflect or guarantee a bond's market value or liquidity.

*According to the Administrative Office of the U.S. Courts.



Are municipal bonds still a good investment?

That may depend on your situation. Bond prices generally have benefitted greatly over the last few years from low interest rates, and munis have been no exception. Also, income from munis is generally exempt from federal income taxes; that has enhanced their after-tax return relative to corporate bonds or U.S. Treasuries, especially since Treasury yields are at historically low levels.

Some munis, known as private activity bonds, may be subject to the alternative minimum tax. However, if there is no further legislative action to avert impending tax increases scheduled for 2013, the tax advantages of munis are likely to become even more valuable. If investors in higher tax brackets adjust their portfolios to try to minimize next year's tax bite, increased demand for munis might have a positive effect on prices. (There are no guarantees that will happen, of course, especially given the uncertainty over whether there will be a political bargain to avert the so-called "fiscal cliff.")

Because many local governments are struggling to balance their books, bankruptcy filings by local governments have increased in the last year. However, they are still extremely rare. According to statistics from the Administrative Office of the U.S. Courts, from June 2011 to June 2012 there were only 17 muni bankruptcy filings compared to 9,285 Chapter 11 filings for businesses, though some analysts have expressed concern that the number could pick up if economic hard times, cuts in federal aid, underfunded pension obligations, and challenges in global credit markets continue to take a toll. So far, dire predictions of disaster in the muni market haven't come to pass, but the situation is worth keeping an eye on.

Also, remember that current low interest rates won't last forever. Because bond prices move in the opposite direction from interest rates, when rates do begin to go up, the increase likely will affect the value of all of your bond holdings, including municipals.

Though transparency in muni markets has increased in recent years, bonds can be more challenging to research on your own than stocks. If you're unsure about whether munis are a good investment for you, or whether you should rethink their role in your portfolio, don't hesitate to get expert help.