Korbitz Financial Planning

Newsletter

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Welcome to spring! After a colder and wetter winter than last year, it looks like spring has sprung, and change is in the air.

A change that I would like to make you aware of for Korbitz Financial Planning is the **relocation of our east side office.** Effective May 1st, the east side office is moving from the second floor of 5225 North Ironwood Road building to the Suite 119 on the first floor of the same building. The new address is 5225 North Ironwood Road, Suite 119, Milwaukee WI 53217.

Please note that the Elm Grove office location, phone number, email address and Post Office Box address all remain the same. The only change is to a larger office for our east side office. Next time you have a meeting, we hope you can see the new facility!

As always, please email or call if you wish to set up an appointment or have any questions.

Eric

April 2013

Making the Most of Your 401(k) Plan

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Making the Most of Your 401(k) Plan

A 401(k) plan represents one of the most powerful retirement savings opportunities available today. If your employer offers a 401(k) plan and you're not participating in it, you should be.

Contribute as much as possible

The more you can save for retirement, the better your chances of enjoying a comfortable retirement. If you can, max out your contribution up to the legal limit ($17,500 in 2013, $23,000 if you're age 50 or older). If you need to free up money to do that, try to cut certain expenses. (Note: some plans limit the amount you can contribute.)

Why invest your retirement dollars in a 401(k) plan instead of somewhere else? One reason is that your pretax contributions lower your taxable income for the year. This means you save money in taxes immediately when you contribute to the plan--a big advantage if you're in a high tax bracket. For example, if you earn $100,000 a year and contribute $17,500 to a 401(k) plan, you'll only pay federal income taxes on $82,500 instead of $100,000.

Another reason is the power of tax-deferred growth. Any investment earnings compound year after year and aren't taxable as long as they remain in the plan. Over the long term, this gives you the opportunity to build an substantial sum in your employer's plan. (Your pretax contributions and any earnings will be taxed when paid to you from the plan.)

Consider Roth contributions

Your 401(k) plan may also allow you to make after-tax Roth contributions. Unlike pre-tax contributions, Roth contributions don't lower your current taxable income so there's no immediate tax savings. But because you've already paid taxes on those contributions, they're free from federal income taxes when paid from the plan. And if your distribution is "qualified" (that is, the distribution is made after you satisfy a five-year holding period, and after you reach age 59½, become disabled, or die) any earnings are also tax free.

If your distribution isn't qualified, any earnings you receive are subject to income tax. A 10% early distribution penalty may also be imposed if you haven't reached age 59½ (unless an exception applies).

Capture the full employer match

Many employers will match all or part of your contributions. If you can't max out your 401(k) contributions, you should at least try to contribute as much as necessary to get the full employer match. Employer matching contributions are basically free money. By capturing the full benefit of your employer's match, you'll be surprised how much faster your balance grows. If you don't take advantage of your employer's generosity, you could be passing up a significant contribution towards your retirement.

Access funds if you must

Another beneficial feature that many 401(k) plans offer is the ability to borrow against your vested balance at a reasonable interest rate. You can use a plan loan to pay off high-interest debts or meet other large expenses, like the purchase of a car. You typically won't be taxed or penalized on amounts you borrow as long as the loan is repaid within five years. Immediate repayment may be required, however, if you leave your employer--if you can't repay the loan, you may be treated as having taken a taxable distribution from the plan.

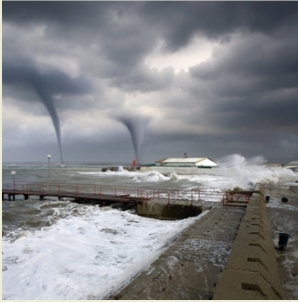
And remember that when you take a loan from your 401(k) plan, the funds you borrow are generally removed from your plan account until you repay the loan, so you may miss out on the opportunity for additional tax-deferred investment earnings. So loans (and withdrawals if available) should be a last resort.

Evaluate your investment choices

Choose your investments carefully. The right investment mix could be one of your keys to a comfortable retirement. That's because over the long term, varying rates of return can make a big difference in the size of your 401(k) plan account.

See disclaimer on final page

Are You Prepared If a Natural Disaster Strikes?



Handling a dispute with your insurance company

Disagreements may arise with your insurance company about the amount the company paid on a claim, or the nonpayment of a claim. Be aware that the insurance industry is highly regulated. Your state has laws that dictate what insurance companies can and cannot do when it comes to bill collecting, settling claims, and other matters. The law may be called the Unfair Insurance Practices Act, the Unfair Claims Settlement Practices Act, or something similar. To learn about insurance laws in your state, call your state insurance department or check its website.

It seems as though there's always a hurricane, tornado, earthquake, flood, fire, blizzard, or mudslide happening somewhere in the United States. A storm or other natural disaster could destroy your home, business, or workplace and put you in financial straits, but there are things you can do both before and after the event to help you recover quickly.

Pre-disaster

Create a financial emergency kit. Put together a kit that contains some cash and checks, a list of important contacts (e.g., your insurance agent), and copies of important documents, including identification cards, birth and marriage certificates, insurance policies and inventories, wills, trusts, and deeds. Make sure your kit is stored in a safe, secure place in your home, is easy to reach and carry, and is both waterproof and fireproof. You'll want to stash enough cash (or a credit card) to pay for immediate expenses such as gas, food, and lodging.

Tip: *While you're at it, you might also want to keep your most precious items in the kit, such as your special photos and family heirlooms.*

Protect your assets. Take some commonsense precautions to safeguard your home, business, car, boat, and similar assets against damage from wind, water, fire, or other risks. For example, install an emergency generator and paperless drywall, keep loose objects (e.g., grills and patio furniture) secure, cut down overhanging tree limbs, park your car in a garage, and invest in storm windows, doors, and shutters.

Take inventory. Create and maintain an inventory of your valuables, including appliances, electronics, furniture, clothing, jewelry, and artwork. Record models and serial numbers, and take pictures or a video of the items. This will help when it comes time to file insurance claims and purchase replacements.

Check your insurance coverage. Make sure your insurance policies (e.g., homeowners, auto) include all the coverage you need, and understand that damage caused by natural disasters may not be covered under general types of policies. You may need to consider buying separate coverage for hurricanes, floods, earthquakes, or other disasters. Consult your insurance agent to determine whether you have adequate coverage given the likelihood of such events occurring in your area.

Post-disaster

In the immediate aftermath, proceed with caution. While the disaster may have passed, health and safety hazards still may exist. Be aware that any building you're in, including your home, may not be structurally sound, so carefully look for any apparent damage. Also, report contamination from spills of oil, gas, chemicals, or any hazardous substance.

Assess your property for damage. Take pictures of damaged areas both inside and outside your home, including trees, landscaping, and yard structures such as sheds.

File insurance claims immediately. Contact your insurance agent and file claims as soon as possible. The quicker you do so, the sooner you can get back on your feet.

Protect your income. If you end up out of work, take advantage of any employee assistance programs that your employer may offer. Seek unemployment compensation from your state and ask about special job considerations for disaster victims. Find out if special unemployment benefits are available through the Department of Labor.

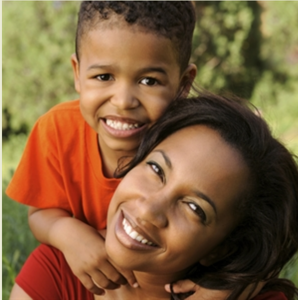
Get help from emergency sources. If you need immediate financial help, disaster relief funds and special programs (for example, housing assistance) may be available through the Federal Emergency Management Agency (FEMA) or your state and local governments, as well as the American Red Cross, United Way, Salvation Army, social services, and local churches.

Consider available tax breaks. Tax law allows taxpayers to deduct certain unreimbursed casualty losses in the year in which they are incurred, subject to certain limitations. In certain presidentially declared disaster areas, individuals can claim the loss (again, subject to certain limitations) in the prior tax year by filing an amended return. Moreover, special relief (for example, bonus depreciation for business property) may be granted in the case of specific disaster events. Be sure to consult your tax professional about any tax relief that may be available to you.

Get legal help, if necessary. If you experience legal difficulties, you may want to consider hiring an attorney who specializes in the complex area of natural disaster law.

Don't ignore the stress. Surviving a natural disaster can be a very stressful situation. Don't hesitate to ask for help from family and friends. If you have young children, they may be upset about damage to their home and belongings. Be patient and try to explain what's happened and how you're going to try to get back to normal as soon as possible.

Four Retirement Saving Myths



At every stage of your life, there will be competing financial needs. Don't make the mistake of thinking it will be easier to save for retirement in just a few years. It won't.

Before investing in a mutual fund, consider its investment objectives, risks, charges, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.

No matter how many years you are from retirement, it's essential to have some kind of game plan in place for financing it. With today's longer life expectancies, retirement can last 25 years or more, and counting on Social Security or a company pension to cover all your retirement income needs isn't a strategy you really want to rely on. As you put a plan together, watch out for these common myths.

Myth No. 1: I can postpone saving now and make it up later

Reality: This is very hard to do. If you wait until--fill in the blank--you buy a new car, the kids are in college, you've paid off your own student loans, your business is off the ground, or you've remodeled your kitchen, you might never have the money to save for retirement. Bottom line--at every stage of your life, there will be competing financial needs. Don't make the mistake of thinking it will be easier to save for retirement in just a few years. It won't.

Consider this: A 25 year old who saves $400 per month for retirement until age 65 in a tax-deferred account earning 4% a year would have $472,785 by age 65. By comparison, a 35 year old would have $277,620 by age 65, a 45 year old would have $146,710, and a 55 year old would have $58,900.

Note: *This is a hypothetical example and is not intended to reflect the actual performance of any specific investment.*

Why such a difference? Compounding. Compounding is the process by which earnings are reinvested back into a portfolio, and those earnings may themselves earn returns, then those returns may earn returns, and so on. The key is to allow enough time for compounding to go to work--thus the importance of starting to save early.

Now, is it likely that a 25 year old will be able to save for retirement month after month for 40 straight years? Probably not. There are times when saving for retirement will likely need to take a back seat--for example, if you're between jobs, at home caring for children, or amassing funds for a down payment on a home. However, by starting to save for retirement early, not only do you put yourself in the best possible position to take advantage of compounding, but you get into the retirement mindset, which hopefully makes you more likely to resume contributions as soon as you can.

Myth No. 2: A retirement target date fund puts me on investment autopilot

Reality: Not necessarily. Retirement target date mutual funds--funds that automatically adjust to a more conservative asset mix as you approach retirement and the fund's target date--are appealing to retirement investors because the fund assumes the job of reallocating the asset mix over time. But these funds can vary quite a bit. Even funds with the same target date can vary in their exposure to stocks.

If you decide to invest in a retirement target date fund, make sure you understand the fund's "glide path," which refers to how the asset allocation will change over time, including when it turns the most conservative. You should also compare fees among similar target date funds.

Myth No. 3: I should invest primarily in bonds rather than stocks as I get older

Reality: Not necessarily. A common guideline is to subtract your age from 100 to determine the percentage of stocks you should have in your portfolio, with the remainder in bonds and cash alternatives. But this strategy may need some updating for two reasons. One, with more retirements lasting 25 years or longer, your savings could be threatened by years of inflation. Though inflation is relatively low right now, it's possible that it may get worse in coming years, and historically, stocks have had a better chance than bonds of beating inflation over the long term (though keep in mind that past performance is no guarantee of future results). And two, because interest rates are bound to rise eventually, bond prices could be threatened since they tend to move in the opposite direction from interest rates.

Myth No. 4: I will need much less income in retirement

Reality: Maybe, but it might be a mistake to count on it. In fact, in the early years of retirement, you may find that you spend just as much money, or maybe more, than when you were working, especially if you are still paying a mortgage and possibly other loans like auto or college-related loans.

Even if you pay off your mortgage and other loans, you'll still be on the hook for utilities, property maintenance and insurance, property taxes, federal (and maybe state) income taxes, and other insurance costs, along with food, transportation, and miscellaneous personal items. Wild card expenses during retirement--meaning they can vary dramatically from person to person--include travel/leisure costs, health-care costs, financial help for adult children, and expenses related to grandchildren. Because spending habits in retirement can vary widely, it's a good idea as you approach retirement to analyze what expenses you expect to have when you retire.

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What are health Exchanges and do I have to buy health insurance through them?

A health insurance Exchange is essentially a one-stop health insurance marketplace. Exchanges are not issuers of health insurance. Rather, they contract with insurance companies who then make their insurance coverage available for examination and purchase through the Exchange. In essence, Exchanges are designed to bring buyers and sellers of health insurance together, with the goal of increasing access to affordable coverage.

The Patient Protection and Affordable Care Act does not require that anyone buy coverage through an Exchange. However, beginning in 2014, each state will have one Exchange for individuals and one for small businesses (or they may combine them). States have the option of running their own state-based Exchange or partnering with the federal government to operate a federally facilitated Exchange. States not making a choice default to a federally run Exchange.

Through an Exchange, you can compare private health plans based on coverage options, deductibles, and cost; get direct answers to questions about coverage options and eligibility for tax credits, cost-sharing reductions, or subsidies; and obtain information on a provider's claims payment policies and practices, denied claims history, and payment policy for out-of-network benefits.

Policies sold through an Exchange must meet certain requirements. Exchange policies can't impose lifetime limits on the dollar value of coverage, nor may plans place annual limits on the dollar value of coverage. Insurance must also be "guaranteed renewable" and can only be cancelled in cases of fraud. And Exchanges can only offer qualified health plans that cover essential benefits.

In order to be eligible to participate in an individual Exchange:

- You must be a U.S. citizen, national, or noncitizen lawfully present in the United States
- You cannot be incarcerated
- You must meet applicable state residency standards

I already have health insurance. Will I have to change my plan because of the new health-care reform law?

For the most part, no. The Patient Protection and Affordable Care Act (ACA) does not require you to change insurance plans, as long as your plan, whether issued privately or through your employer, meets certain minimum requirements. In fact, the ACA may add benefits to your existing plan that you have not had before.

Your present insurance plan may be considered a grandfathered plan under the ACA if your plan has been continually in existence since March 23, 2010 (the date of enactment of the ACA), and has not significantly cut or reduced benefits, raised co-insurance charges, significantly raised co-payments or deductibles, and your employer contribution toward the cost of the plan hasn't significantly decreased. However, if a grandfathered plan significantly reduces your benefits, decreases the annual dollar limit of coverage, or increases your out-of-pocket spending above what it was on March 23, 2010, then the plan will lose its grandfathered status.

Some provisions of the ACA apply to all plans, including grandfathered plans. These provisions include:

- No lifetime limits on the dollar cost of coverage provided by the plan
- Coverage can't be rescinded or cancelled due to illness or medical condition
- Coverage must be extended to adult dependents up to age 26

The ACA doesn't apply to all types of insurance. For example, the law doesn't apply to property and casualty insurance such as automobile insurance, homeowners insurance, and umbrella liability coverage. The ACA also doesn't affect life, accident, disability, and workers' compensation insurance. Nor does the law apply to long-term care insurance, nursing home insurance, and home health-care plans, as long as they're sold as stand-alone plans and are not part of a health plan. Medicare supplement insurance (Medigap) is generally not covered by the ACA if it's sold as a separate plan and not as part of a health insurance policy.

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