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Hi Everyone,

I hope you find this occasional newsletter to be educational and perhaps a source of motivation to schedule our next consultation.

To all the mothers and fathers:

"May you over and over again enjoy celebrations honoring both **Mother's Day and Father's Day.**"

I look forward to working with you for many years to come! Contact me at **610-716-6808** should you have any questions.

Please note I feel the same for the soon-to-be client.

Sincerely,

Robert

Robert A. Smolen

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The 1% Difference

Last year, New York City school children went door to door collecting pennies. By asking for only 1% of a dollar, they were able to raise \$1 million for charity.

Sometimes the small actions we take yield big results. Take a look at three examples of how adjusting your finances by just 1% can make a real difference over time.

Boost your retirement contribution

Making contributions to an employer-sponsored retirement account via payroll deductions can be a convenient way to save for retirement. But because these contributions come out of your salary automatically, you can easily lose track



of how much you're contributing, and end up with less than you should have--or could have--for retirement.

If you're not already saving the maximum amount allowed, why not commit to steadily increasing your contributions by 1% (or more) each year? For example, if you're earning \$100,000 per year, and you're currently contributing 10% of your salary to your retirement account at work, you'll have approximately \$1,181,340 by the time you retire in 30 years, assuming an average return of 8%. But if you increase your contribution by 1% (to 11% of your salary), your retirement account could be worth approximately \$1,299,484--10% more--by the time you retire.*

Review investment expenses

When you're focused on returns, it's easy to overlook the costs associated with investing. However, it's important to periodically review investment expenses and their impact on returns. These vary widely, but even a 1% difference can be significant over time. For example, the following table shows what a \$200,000 investment might be worth in the future, assuming an annual return of 8%

before expenses are taken into account. (Note that taxes and inflation are not considered.)*

	Annual expenses of 1.50% (net 6.5%)	Annual expenses of 2.50% (net 5.5%)	The 1% difference
After 10 years	\$375,428	\$341,629	\$33,799
After 20 years	\$704,729	\$583,551	\$121,178
After 30 years	\$1,322,873	\$996,790	\$326,083

Of course, there are other things to be concerned about when investing. For example, you may want to consider potential ways to generate higher returns through your asset allocation and investment management choices, taking into account your investment objectives, risk tolerance, and time horizon.

Refinance higher-cost loans

Concerns about the economy have led to rate cuts by the Federal Reserve. With some interest rates falling to their lowest levels in two years, now might be a good time to think about refinancing a higher-cost loan or mortgage. As the following examples show, interest rates don't need to fall far for you to save money. Here's what you could potentially save by reducing your interest rate by just 1%:

- Refinancing a 48-month, \$25,000 car loan to reduce the rate from 6.99% to 5.99% could save you approximately \$553 in interest over the life of the loan
- Refinancing a 25-year, \$400,000 mortgage to reduce the rate from 6.75% to 5.75% could save you approximately \$74,166 in interest over the life of the loan

* This is a hypothetical example, and does not reflect the performance of any specific investment.



Changing consumption patterns can have implications for a variety of companies and industries, and create investing opportunities.

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.

Will You Pay Taxes on Your Social Security Benefits?

Did you know that you might have to pay federal income tax on your Social Security benefits? If Social Security was the only income you had during the year, then your benefits generally won't be taxable. However, if you or your spouse worked and had any earned income during the year, or if you had other substantial income (such as investment income), then a portion of your Social Security benefits may be taxable.

Gather information

Your benefits are taxable if one-half of your Social Security benefit plus your other income (called your "combined income") exceeds a certain amount (called the "base amount"). To determine if your benefit is taxable, you need to know three things: (1) how much you received from Social Security during the year, (2) your combined income, and (3) the base amount for your filing status.

Find out how much you received from Social Security

Each January, the Social Security Administration (SSA) will send you a Social Security Benefit Statement (Form SSA-1099) showing the amount of benefits you received during the previous year. You'll need to use this information to figure out whether any of your benefit will be taxable.

Calculate your total income

Once you know how much you've received from Social Security, it's time to calculate your combined income. This figure includes the following:

- One-half of Social Security benefits received
- Other income including wage income, and taxable interest and dividends
- Tax-exempt interest income
- Income that's normally excludable-- interest from qualified savings bonds, employer-provided adoption assistance, foreign earned income or foreign housing, and income earned by bona fide residents of American Samoa and Puerto Rico

The IRS has a worksheet you can use to calculate your combined income and determine whether or not your Social Security benefits are taxable. You can find this worksheet and more information about the taxation of Social

Security benefits in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

Compare your combined income against the base amount for your filing status

Once you've calculated your combined income, you must compare that against the base amount for your federal income tax filing status. If your total income is less than the base amount, then your Social Security benefits won't be taxable. If your combined income is more than the base amount, then part of your benefits will be taxable. Base amounts aren't indexed for inflation, so they're the same year after year.

Your base amount is:

- \$25,000 if you file as single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for the entire tax year
- \$32,000 if you file as married filing jointly
- \$0 if you file as married filing separately and you lived with your spouse at any time during the tax year

For example, let's say your combined income for the year was \$30,000 and you file your taxes jointly with your spouse. Because your combined income is less than the base amount for your filing status, \$32,000, your benefits won't be taxable.

How much of your benefit is taxable?

Even if your combined income exceeds the base amount for your filing status, you won't have to pay taxes on the entire amount of benefits you've received. Generally, up to 50% of your benefits will be taxable, but if your combined income is more than \$34,000 (\$44,000 if you are married filing jointly), or if your tax filing status is married filing separately and you lived with your spouse at any time during the tax year, up to 85% of your benefit will be taxable. Again, see IRS Publication 915 for worksheets you can use to figure your taxable benefits.

Keep in mind that taxation of Social Security benefits can be complicated. Different rules apply to certain U.S. citizens and nonresident aliens living abroad and in other situations. If you have any questions, consult your tax professional.

Did you know?

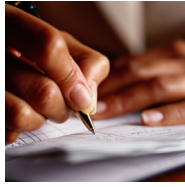
Social Security benefits were not subject to federal income taxation until 1984. They became taxable as a result of the 1983 Amendments to the Social Security Act.



Tax withholding

You can have federal income taxes (but not state income taxes) withheld from your benefits if you so choose. Complete IRS Form W-4V and select the percentage that you want withheld (7%, 10%, 15%, or 25%), then return it to your local Social Security office.

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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Robert Smolen is a registered representative offering securities and advisory services through Jefferson Pilot Securities Corporation, Member SIPC.

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