JEREMY DAVID'S FINANCIAL NEWS DIGEST

A COMPILATION OF INFORMATION AND IDEAS FOR EFFECTIVE MONEY MANAGEMENT

Moneyline

Do You Have Enough?

By Jeremy L. David, CLTC

I hope you find you have enough when you consider what's really important in your life.

I recently read a letter to a financial columnist that read, "Many of my 50-something friends are wasting some invaluable time that they've been given on Earth. They are caught up in an 'earning and spending cycle' (must keep working hard so they can keep buying things they don't really need) while worrying they'll need to save a lot of money to retire.

"I can't believe the number of smart, talented friends I have who are not particularly happy doing what they are doing," the reader said. But they believe "they must continue so they can stop working at (fill-in-the-blank age) to play golf or sit by the pool."

I must agree. What a waste, doing something you don't like so eventually you can stop and do...nothing?

Why not pursue your passions even if the pay is less? (That reader did, returning to school for a degree in a different field.) If you love what you do, you may never feel the need to totally retire, or at least won't mind working a few more years. Retirement, as this reader said, would be a time to work for joy and learn new things.

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Financial Front

NEWS BRIEFS AND HIGHLIGHTS FROM THE FINANCIAL WORLD

Lump-sum pension payouts may not be available to all holders of defined-benefit plans. A new law requires employers to tell their workers if a defined-benefit plan is fully funded—that is, if it has all the money needed to pay all its obligations. Fully funded plans may offer retirees either a series of payments or a lump-sum payout, but plans that do not have enough money to pay in full at least 80% of employees are allowed to pay only 50% of a retiree's pension in a lump sum. And plans that do not have enough money to pay at least 60% of employees do not have to make any lump-sum payments at all. Ask your defined-benefit plan's manager for details on the financial health of your company's plan.

Looking for a lost savings bond? Go to TreasuryDirect.gov and download Form 1048, *Claim for Lost, Stolen or Destroyed US Savings Bonds*. Fill in the following information: the bond owner's name, address and Social Security number; approximate issue date; and serial number if available. Once the form is certified at a bank, mail to the Department of Treasury (the address can be found on the form). With the serial number, the process will take three to four weeks; without it, you may be waiting months to get a duplicate bond.

If you take photos of your home for posting on-line, be sure the pictures do not show off valuables. *Also:* Before holding an open house, lock up valuables or store them off the premises. There have been recent reports of well-dressed thieves coming to open houses and stealing jewelry, handbags, clothing, even champagne.

Don't remodel to increase a home's value if you plan to move soon. You would be lucky to recover even a portion of your investment if you sell before the depressed housing market recovers, and that may take another two years. Also, affordability is moving up in importance to home buyers, given tight economic conditions. "Sprucing up" your home still is worthwhile, however. *Examples:* Painting walls, trimming bushes and straightening up your garage.

If your mortgage lender fails, keep sending your monthly payments to the same address until you are told to do otherwise. If your lender transfers your mortgage to another servicer, you will be notified within 15 days and the new servicer must contact you within 15 days after the transfer. The Real Estate Settlement Procedures Act (RESPA) sets rules for mortgage transfers. For more information, visit www.hud.gov, and search for "RESPA." Your mortgage terms will not change—the contract is legally binding even if transferred to another party.

Wit & Wisdom

"A bone to the dog is not charity. Charity is the bone shared with the dog, when you are just as hungry as the dog."

— Jack London

Investment Strategies

ASSET ALLOCATION: Think Goals, Risk Tolerance, Timeline

By Humberto Cruz

Q: *I thought you were an investment guru. Instead, you apparently park a lot of money in the bank. Do you recommend safety first and don't get involved in stocks and bonds?*

A: Glad you asked, because a discussion about investment risk is needed these days.

First, I am no investment "guru." My success has come by keeping things simple and following basic rules.

I have diversified broadly and have kept my asset allocation (broadly speaking, the mix between stocks and bonds in my portfolio) in line with my risk tolerance.

"Never take more risk than you have the ability, willingness or need to take," said Larry Swedroe, an investment adviser in Clayton, MO and author or co-author of seven common-sense investment books.

"We live in a world of uncertainty," Swedroe said. "Stocks are high-risk investments, no matter how long the investment horizon." Never treat the unlikely (such as a major, prolonged bear market) as impossible, or the likely (stocks eventually always go up) as certain, he cautions.

I've interviewed Swedroe half a dozen times over the years and taken his advice to heart, drawing the distinction among the ability, willingness and need to take risks.

> ***"Never take more risk than you have the ability, willingness or need to take."***

For example, you may be able to take a fair amount of investment risk if you won't need the money for a long time and also have a steady, good-paying job.

But you may still not feel comfortable with too much risk, preferring to give up potential gains to sleep better at night.

On the other hand, you may need to take at least some risk to generate the returns to meet your goals. An all-cash portfolio may feel "safe" but likely is inadequate for long-term needs.

Swedroe's advice is to consider all three factors separately (ability, willingness and need to take risk) and choose the least overall amount of risk consistent with them.

Since retiring from full-time work in 2000, I've kept no more than 30 percent of my portfolio in stocks — just 20 percent since 2008 — as my need and willingness to take risk have decreased. Thirty years ago, while building up my career (and portfolio), I had 80 percent in stocks.

What's the most appropriate asset allocation for you? That's a personal decision for you to make, perhaps with professional help. Good advice would have kept a 70-year-old I met recently from having most of his retirement money in the single — and sinking — stock of his former employer, Wachovia bank.

While that's an extreme case, research by the Employee Benefit Research Institute (EBRI) and Investment Company Institute shows many older Americans are heavily exposed to the stock market.

Based on the most recent figures, almost a third of 401(k) plan participants in their 60s had 80 percent or more of their 401(k) money in stocks, including company stock and mutual funds.

In the 56-65 age group, 27 percent had more than 90 percent in stocks. Another 15 percent had between 80 and 90 percent, and 11 percent had between 70 and 80 percent.

While such high allocations to stocks can be OK for younger workers, "it is less certain that those approaching retirement would receive similar recommendations," Jack VanDerhei, EBRI research director, told the House Education and Labor committee recently. Unpublished research by EBRI found the average allocation to stocks in so-called "target-date" mutual funds specifically designed for investors in the 56-65 age group was a more moderate 51 percent.

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Paying Off Your Mortgage Can Boost Cash Flow In Retirement

By Mark Miller

Should you carry a mortgage into retirement?

Before the economic crash last year, financial planners advised many pre-retirement and retired investors to invest any free cash in stocks, rather than pay down a mortgage. But the new economy has ushered in much more conservative attitudes about retirement planning — especially indebtedness.

Many planners now advise clients to focus on debt reduction as one of the best retirement security "investments" you can make. In retirement, you'll likely be on a fixed income and face pressure to keep pace with rising costs, and debt-related interest expense just adds to the challenge.

The no-brainers to focus on include credit card debt and auto loans. But if you're a homeowner, a mortgage likely is your most significant monthly debt-related expense. Let's look at the issues to consider in deciding whether a mortgage pay off is right for you near — or in — retirement:

Where's the best return? If you have a dollar to invest, consider whether your best return will come from investing it, or reducing the balance on an interest-bearing mortgage. If your mortgage rate's after-tax rate is five percent, you'd need to do better than that in the stock market to be in positive territory. Historically, stocks have returned eight to 10 percent a year over 30-year periods — but it's returned about zero over the past 10 years, and the market's short-term direction is anyone's guess.

Most importantly, stocks shouldn't be a big part of a retirement portfolio, so the appropriate comparison is a more conservative fixed-income investment, such as certificates of deposit, Treasury Bills or Treasury bonds.

Mortgage interest tax break: Many homeowners like the idea of keeping a mortgage for the tax deduction on interest costs. But that benefit applies to taxpayers who itemize beyond the standard deduction. And the greatest interest expense comes in the earlier years of a mortgage; with an older mortgage, the payment is mainly principal, reducing the value of any tax deduction.

> ***Many planners now advise clients to focus on debt reduction as one of the best retirement security "investments" you can make.***

The underwater dilemma: Many pre-retirement baby boomers took on higher mortgage debt in the years running up to the real estate crash; a study this year by the Center for Economic and Policy Research found that 30 percent of Americans age 45 to 54 are "underwater" on their mortgages — that is, their debt is higher than their homes' current value, and they would need to bring cash to a closing in the case of a sale.

For some, that raises a question about paying off mortgage debt that won't provide a return when the property ultimately is sold. Indeed, University of Arizona law professor Brent T. White even suggested in a recent research paper that the rational economic move for some underwater homeowners would be to default on their loans and give their homes back to the bank.

Since that raises more moral and legal issues than most people can stomach, the best advice is to simply look at your home as housing, not an investment. In that context, owning your property debt free is more efficient than carrying a loan.

Funding a pay-down: If you have sufficient savings to pay off your mortgage without raiding emergency savings funds, use lower-return taxable savings before tapping tax-advantaged IRA or 401(k) accounts.

If you don't have adequate cash to jettison the mortgage, refinancing to a lower rate may help you accelerate payments. Or, consider getting a part-time job and devoting your earnings entirely to accelerated mortgage payments.

Another option to consider: Sell your current home and move to an area — or home —with a lower cost of living that can be financed mortgage-free. "That can be one of the best ways to extricate yourself from mortgage debt," says Christine Fahlund, a senior financial planner at T. Rowe Price.

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On The Money

"I finally put something aside for my retirement. I put aside my plans to retire!"

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Retirement Planning

Seniors Can Boost Their Social Security Benefits By 'Re-retiring'

By Kathy Kristof

Retirees may be able to take advantage of a loophole in the Social Security law which allows you to "restart" your retirement benefits years after you've retired. If you're healthy, have some savings, and are under age 70, it may pay off.

Someone who originally retired at age 62 and "re-retires" at 70, for example, could boost monthly benefit payments by 76 percent, said Brett Horowitz, a certified financial planner with Evensky & Katz in Coral Gables, Fla.

The catch? You have to repay what Social Security has given you so far.

Sound crazy? It would be if you're in poor health, said Larry Kotlikoff, an economics professor at Boston University. Moreover, if you don't have more than enough in savings to repay the benefits in a lump sum plus some money left over, you shouldn't do it, Horowitz said.

That said, the typical retiree's biggest risk is outliving their savings. "The biggest risk old people have is living to 100," said Kotlikoff. "You can't count on dying on time."

Let's take a look at Peter and Kate, a hypothetical 70-year-old retired couple who originally started taking Social Security benefits at age 62. Kotlikoff estimates that each spouse would be receiving $13,250 per year or some $1,104 per month today.

However, if they had retired at age 70, they each would be receiving $1,724 per month, or $20,692 annually.

To restart their retirement, they would have to fill out form 521, a "request for withdrawal" of retirement benefits, said Kathleen Wiegand, a Social Security spokeswoman in San Francisco.

The agency would then respond with a letter saying how much they'd have to repay. Once they repaid those benefits, they could "re-retire" and start getting payments at the higher rate.

Kotlikoff estimates that his hypothetical couple would each need to write the government a check for $94,556.

That payment gets them an extra $620 per month, or about $7,440 per year. If they live at least another 13 years, until they're 83, they're ahead of the game. That would pay back their $94,556 outlay and then some.

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