VESTPOINTEWEALTH
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Are Credit Cards Offering IRA Points A Good Deal?

It's never a good idea to carry large balances on credit card accounts. But plastic is undeniably convenient, and chances are you charge plenty of purchases every month. In the process, you probably rack up airline miles or rewards points that you can use to reduce the cost of a wide range of future purchases. Now, financial institutions have come up with a new twist, translating credit-card points into retirement plan contributions. Fidelity Investments recently led the way, and Charles Schwab sponsors a card that lets you deposit cash rewards into a regular brokerage account, from which you could move the money to your IRA. And while Fidelity and Schwab require you to put rewards cash into accounts at those brokerages, an independent rewards program, NestEggz, lets you direct money into any account at any bank or brokerage.

The new Fidelity retirement card, issued by American Express, awards two points for every dollar you spend on qualified purchases. Once you've accumulated a minimum of 5,000 points—in other words, you've purchased goods and services costing $2,500—a $50 contribution for the current tax year is swept into a retirement account you've designated. So your retirement account gets 2% of purchases you charge to the card. You can connect your credit card to a Fidelity traditional IRA, Roth IRA, or SEP-IRA. Fidelity also has an affinity card for rewards accrual in a Section 529 college savings plan, as do many other providers including Upromise Inc.

Of course, the maximum contribution limits for these retirement accounts still apply. For the 2010 tax year, you can contribute up to $5,000 ($6,000 if you're age 50 or over) to a traditional IRA or a Roth IRA, or a combination of the two. With a SEP-IRA, you can make deductible contributions for the 2010 tax year of up to the 25% of compensation (or 20% of net earned income if you're self-employed) or $49,000, whichever is less.

If you've already maxed out contributions to your IRA or SEP-IRA account, you can apply credit card points you earn to a different Fidelity account or redeem them for travel expenses, merchandise, or another reward. Or you could choose to roll over the points to be used for the same retirement account the following year.

There's no annual fee on the Fidelity retirement rewards card, so if you pay your account in full each month, this could be a painless way to give a small boost to retirement savings. But if you tend to run a balance on credit card accounts, that 2% reward on purchases will quickly be swallowed up by steep interest rate charges. Though there's a 1.99% introductory rate, that's replaced after six months by a 19.99% rate on purchases and 24.99% on cash

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Goodwill Will Take Your Old Electronics

Remember when every neighborhood had an electronics repair shop where you could trade in your old stuff or get it fixed? Nowadays, American homes and businesses dump a staggering 41 million computers, 27 million televisions, and 140 million cell phones every year, largely because we have no idea what to do with all those devices when they break down or just get old.

Most of the hardware ends up in landfills or incinerators, which turns the waste of perfectly good components into an ecological nightmare, with dangerous metals escaping into the air or seeping into groundwater. But even if your old computer is in good shape, a lot of charities and schools won't take it because they're already flooded with everyone else's hand-me-down machines.

The good news is that Goodwill will now accept your electronic devices even if they're broken. Just take a look at reconnectpartnership.com and see if any of the1,900 locations that currently support this program are convenient to you. (Some will even pick up computers, TVs, or other equipment for a small added fee.)

They'll refurbish, resell, or break down your gear for recycling. You'll get a tax receipt; in general, working computers are worth a $100 to $500 deduction, printers and scanners $25 to $100, and even those clunky old monitors will get you at least a $10 tax write-off.

Veil Lifted From Municipal Bond Market

Municipal bonds have long been prized for their tax-exempt status and because they aren't as likely to default as are corporate bonds. However, the default rate has skyrocketed amid the global economic crisis, increasing the need for transparency in this specialized market.

Regulators have responded with three new measures designed to help investors navigate the complex world of municipal bonds, which are debt instruments issued by cities, counties, and local agencies such as school districts, publicly owned airports, and development agencies. Munis pay for projects such as hospitals, schools, public buildings, roads, and utilities. Bonds that fund programs for the public good are usually exempt from most taxes, including federal. While mutual funds, banks, hedge funds, and corporations all invest in the $2.7 trillion municipal bond market, 64% of muni investors are individuals.

In 2008, 140 issuers defaulted on $7.6 billion in muni bonds as states and cities across the nation faced massive budget deficits. That compared with just $226 million in defaults during 2007. This trend, which is likely to continue, makes munis a bigger risk, and means investors need timely information more than ever. Here are three ways the federal government is bringing more transparency to the muni market.

Putting it all online. Over the summer, a new website called Electronic Municipal Market Access (EMMA, at http://emma.msrb.org) began offering free information, from financial filings to trading records, on most of the 1.2 million outstanding municipal bonds. Operated by the Municipal Securities Rulemaking Board (MSRB), the site allows investors to research municipal bond issues and keep track of new filings. In the past, investors often were not aware if an issuer had failed to file statements or had taken some action affecting a bond or its rating. The site also offers educational materials.

Into the open, and quickly. The Securities and Exchange Commission has proposed a new rule that would force issuers to disclose on EMMA any change in their financial status within 10 days. That would include changes in an issuer's credit rating, withdrawals from reserve funds, and late payments of principal or interest. In the past, investors have complained about delays in receiving this information and issuers' failure to file required disclosures.

Turning up the heat. The Financial Industry Regulatory Authority (FINRA) is looking into the sales practices of brokerage firms that sell municipal securities and has asked for detailed information on business conducted during 2009.

All of these actions should make for a more transparent municipal bond market. If you have questions about municipal bond investing or your muni holdings, please give us a call.

The term "municipal bonds" is typically used to describe all tax-exempt bonds. Although such bonds are commonly referred to as "tax-exempt," there are numerous federal and state tax consequences associated with the acquisition, ownership, and disposition of such bonds. The tax-exempt status of municipal bonds does not extend in all instances to the Alternative Minimum Tax. Please contact your tax advisor for more information.

401(k) Alternatives For Business Owners

If you have fewer than 25 employees in your small business, a 401(k) plan may not be right for you. But if your business offers no retirement plan at all, you could lose out in attracting the most qualified job candidates. One or more of these alternatives might be a better fit for your situation.

Simplified Employee Pension (SEP IRA). A SEP IRA is low cost and low maintenance.

- The employer makes all of the contributions; employees can't add to their accounts.
- The plan must cover all eligible employees.
- There is no "plan document."
- You don't have to file annual reports with the IRS.
- Contributions are tax deductible.
- Contributions can vary from year to year. So if you hit a lean spell, you aren't locked in.

Savings Incentive Match Plan for Employees (SIMPLE IRA). For a business with fewer than 10 employees, the SIMPLE IRA is a great starter plan.

- Your contribution is required; employees have the option of contributing.
- But you can't sock away as much for yourself as you can with a SEP IRA, which for 2010 allows a maximum contribution of $49,000. SIMPLE IRA contributions are normally capped at $11,500 ($14,000 for those 50 or older at year's end) plus an employer matching contribution that can't exceed 3% of salary.
- Don't confuse the SIMPLE IRA with the SIMPLE 401(k), which is like a traditional 401(k) plan but with higher fees and less flexibility.

Profit-Sharing Plan. This gives each employee a slice of the company's earnings.

- An overall annual contribution, based on the company's performance, is apportioned to individual accounts according to each employee's salary.
- Contributions are discretionary and

Need To Save For Retirement? Find Answers

Paying that last tuition bill for your children is reason for celebration. But after you go out on the town, take a sober look at your other looming financial responsibility—your own retirement. Getting there in good shape could mean making adjustments that go beyond salting away what you had been spending on your children's college expenses. Financial planning software can help you assess your situation and determine where to go from here. But software is only as good as the data you feed into it, and we can work with you to find solutions that make sense for you.

Consider the Smiths. John, age 55, and his wife, Jane, 52, have two children who recently graduated from college. John currently makes $200,000 a year as an executive and Jane earns $50,000 as a guidance counselor.

The assets in John's 401(k) plan are worth $500,000. He defers 10% of his salary to the plan and his employer provides a matching contribution equal to 3% of compensation. John has allocated 50% of his retirement assets to stocks, 30% to bonds, and 20% to cash. In addition, John owns an IRA valued at $500,000 that he built with tax-deductible contributions and earnings.

Jane participates in a 403(b) plan. Her account is worth $250,000. She funds it with contributions equal to 5% of compensation and follows the same asset allocation model as John. John anticipates working until age 65, while Jane plans to retire at age 62.

John is insured under a whole life policy with a death benefit of $500,000, while Jane is covered by a term life policy with a death benefit of $250,000. Each policy provides that 50% of the proceeds will go to the surviving spouse and the other half will be split between the children. John also has stock holdings in a taxable account valued at $300,000. A summary of the Smiths' assets and liabilities shows they have a net worth of $1.45 million (not counting their home).

All of that data is crucial for planning their financial future. But making projections is a tricky proposition, because so many variables can affect the outcome. What kind of return on their investments should the Smiths count on? Will inflation reduce their spending power during retirement? How will fluctuating interest rates enter in? And how will rising taxes affect the distributions from their retirement plans, which represent 80% of their savings? To evaluate their prospects, the Smiths' financial advisor uses professional financial planning software that can factor in all of the uncertainties about the future. The software projects thousands of possible scenarios that take into account a wide range of investment returns, inflation rates, and other variables and then calculates the odds of success. For the Smiths, the initial projection gives them less than a 40% chance of meeting their goals.

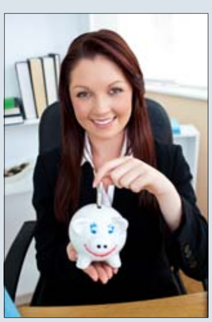
While that's not a comfortable result, it's also not unusual, particularly coming after an economic crisis and bear market that diminished almost everyone's investment portfolios. The Smiths' advisor asks them to consider tweaking their plans to improve their likelihood of funding the retirement they want. One relatively minor change is to have John work an extra two years. That increases their savings, and reduces the amount of time they need to live off their savings. Combined with a few other possible alterations, that improves their chance of success to between 70% and 90%.

There are other possibilities, too. Rather than work longer, the Smiths might decide they could live on a little less during retirement, or they could consider increasing the proportion of their portfolios that they invest in stocks, which bring higher risks but also the potential of higher returns. Saving more in their tax-deferred retirement accounts would also help, and they could look at how converting John's traditional IRA to a Roth IRA would affect their retirement income and taxes.

The Smiths' financial advisor plugs these different options into the software and explains the different outcomes. Just as important, though, is his role in helping the couple talk through their plans and consider their priorities. After the Great Recession, many people find themselves up against what may seem like insurmountable financial obstacles. In fact, even the stiffest challenges usually have solutions, and the sooner you begin to address yours, the more likely you'll have the outcome you like. We have the planning tools, expertise, and experience to help you assess your current situation, and we can work with you to map out a desirable financial future. ●

tend to vary from year to year.

- A business of any size may use a profit sharing plan and can combine it with other retirement plans.
- Businesses with profit-sharing plans must file IRS Form 5500 each year.
- Administrative costs may be higher than under more basic plans, because this plan must perform a non-discrimination test to ensure it doesn't favor highly compensated employees.



Defined-Benefit Plan. This is the most costly, complex plan for small businesses, but it has one big potential advantage—it lets you make very large contributions that can quickly build your nest egg. You're now allowed to fund a maximum annual retirement benefit of $195,000.

- Your contributions are mandatory.
- You can't decrease benefits retroactively.
- Defined-benefit plans are available to businesses of any size and can be combined with other retirement plans.
- Requires filing an IRS Form 5500 with a Schedule B each year.
- The Schedule B must be signed by an enrolled actuary, who will calculate contribution amounts based on your employees' ages and the target benefit. ●

Planning For A Child With Special Needs

The daily demands of caring for a child with autism or another developmental disability are daunting enough without worrying about future care. That may be why, in a recent survey, 62% of parents with disabled children said they hadn't established a plan for what would happen when the parents were no longer around. Moreover, about half of the surveyed parents said they planned to leave assets directly to the child, and 58% expected to designate the child as a beneficiary. Those decisions could make the child ineligible to receive public assistance, which could be crucial for the child's long-term welfare.

A better approach may be to create a "special needs trust" that can be funded now or through your will. (The money often comes from life insurance death benefits.) Structured correctly, this irrevocable trust will enable a special needs child to receive public assistance benefits while the trust covers other expenses—including for travel, recreation, and rehabilitation—that aren't fully paid for by government funds.

If the trust assets are used as a primary means of support, the disabled child may be disqualified from public assistance, just as would happen if the child received a direct bequest. To avoid problems, a special needs trust will have an independent trustee who controls distribution of trust assets but uses the money only to supplement government aid. A provision in the trust will typically prevent the trustee from using assets for "support, maintenance, welfare, and education" of the child.

Keep in mind, however, that laws governing trust language and operation may vary from state to state. In some states, for example, assets that remain in the trust after the disabled child's death must be used to pay back the government for public assistance benefits. But that provision doesn't limit the trust's ability to help a living child.

A special needs trust, like any other estate planning vehicle, needs to be part of an overall estate plan. One wrinkle here is that money you move into this kind of trust doesn't qualify for the annual gift tax exclusion ($13,000 in 2011) that otherwise limits tax liability on yearly gifts to individuals. Because of restrictions in the trust language of special needs trusts, transfers are classified as gifts of "future interest." That means parents who fund such a trust during their lifetimes will need to use all or part of their $5 million lifetime gift tax exclusion. As a result, asset transfers to other children may be more costly.

Good advice from experienced experts can make sure your special needs trust accomplishes its goals without shortchanging other family members. We can work with your attorney to help you establish a trust that protects everyone's interests. ●

IRA Points A Good Deal?

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advances—and 28.99% if you're late with a payment or exceed your credit limit. Those rates are much higher than the national credit card average.

Another downside to the Fidelity card is that you can deposit your rewards only to Fidelity accounts. And though you could open an IRA at the brokerage just to hold your rewards contributions, it's generally best to have as few IRAs as possible, for ease of managing the accounts and maintaining desired asset allocations.

Although it has the highest profile, the Fidelity retirement rewards card isn't the only new "savings" card in the marketplace. The NestEggz Loyalty Rewards Credit Card, issued by MXT and sponsored by Vesdia Corp. in Atlanta, applies at least 1% of purchases charged to the card to a designated retirement or savings account at any financial institution. Buy at a cooperating retailer and you may get more. Purchases at Target.com, for example, earn a 3% reward. At Restoration Hardware, there's a 2% rebate, and 5% at Eddie Bauer. There's no annual fee for the NestEggz card, and interest on unpaid balances accrues at a flat 14% annual rate.

Charles Schwab offers a Visa card that provides 2% back on purchases, with the refund automatically deposited into a Schwab One brokerage account each month.

Are the new credit cards worth a look? If you know you'll pay off your balance every month, they could provide a little "free money" for your retirement accounts. But keep in mind that even a month or two of paying interest on a large balance will negate anything you might gain with these rewards programs. Also, be sure to compare other potential charges including custodial fees, transaction fees, and termination fees. ●

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