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YOUR GUIDE TO LIFETIME PLANNING

4th Quarter 2008

WHAT TO EXPECT from your financial advisor

News and Notes



Karen J. Ellenbecker, President
ELLENBECKER INVESTMENT GROUP, INC.

Last quarter I emphasized the importance of understanding the tax laws surrounding individual retirement account (IRA) distributions. This is important if you are retiring, changing jobs or receiving an IRA as an inheritance. Remember, the IRS is not very forgiving when mistakes are made.¹

So the question that begs to be asked is, "what are you going to do with the distribution?" Once again it could come from when you retire or change jobs and roll over your 401(k) or other deferred retirement plan. It could come from the sale of a business, an inheritance or perhaps winning the lottery. One thing is for sure...none of us want to be the cocktail party story of going from riches to rags!

If you are currently working with a financial advisor and you're not sure if you would be comfortable turning over your nest egg... it is time to start asking yourself some pretty serious questions. I have found that individuals generally have a good sense of whether they are working with the right person or not, they just don't know what to do about it or who they can trust and often feel guilty terminating their current relationship. I asked a prospective client recently if they had an advisor and if they were happy. The husband said, "We don't know exactly why we're not happy, it just doesn't feel right. Every time one of us calls we feel like we aren't getting straight answers to our questions. For the most part he wants us to do what he suggests without much explanation. We really don't know what to expect and he talks fast; it's hard for us to explain what doesn't feel right." Does this scenario sound familiar?

Let's get right to the bottom line... everyone deserves to be in a trusted relationship with their advisor. Listed below are the services you should expect and deserve from a financial advisor. If you are receiving these services currently, you would not hesitate entrusting your current advisor with your nest egg.

What you should expect:

- A frank discussion of what this money means to you: will it be used for retirement, to pay off debt, to purchase a home or a business, or to meet family obligations? If it is for retirement, what does retirement look like to you and your spouse? Do you know how much income you will need in retirement? Do you or your spouse anticipate working in retirement? Will you move out of state or downsize your current residence?
- This discussion should flush out how much risk you are willing to take both emotionally and financially. Understanding how much risk is in your investment portfolio helps you to weather uncertain markets. I recently asked a potential client, "if you knew that your investments were quality, would you feel more comfortable in today's uncertain stock market?" She quickly said yes. Not knowing is a bad feeling, your vulnerability is heightened and financial decisions can be driven by emotion rather than solid financial advice.
- Your advisor should be interested in "all" of your investments. Comprehensive financial planning is the integration of all of your products and financial disciplines into a well designed strategic plan. This means everything that you and your spouse have invested, not just the investments on which the advisor is compensated. This may sound like a ridiculous request... "Why would someone give me advice if they are not getting paid?" Because it is the right thing to do! It is impossible to determine or create a solid investment plan if you do not take into consideration all investments. This includes annuities, employee stock option plans, pension plans, salary deferral retirement plans including 401(k) and 403(b), IRAs (SEP, Roth or traditional), money market balances and other managed accounts.

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WHAT TO EXPECT from your financial advisor

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Does it take more time? Yes it does, but it is the only way to determine if your investments are working together or if they are actually working against each other. Besides, if your advisor is invested in a long range plan for **both of you**, when you do retire or decide to move your assets, you will feel comfortable moving them to the person who has helped you make good investment decisions along the way.

- Once you have a written investment plan, you will want to understand how much risk is associated with each investment. What method of diversification is being implemented and what percent of the total portfolio will each asset class represent? How often will the portfolio be evaluated and how frequently will it be rebalanced? What is the advisor's buy/sell discipline? What sources of research are used in making investment recommendations? How will taxes be monitored? How will short-term and long-term gains and losses be provided at tax time? What fees are associated with buying and selling investments? Will there be up-front commissions on any of the investments recommended? If yes, what are they? What are the internal expenses associated with your investment portfolio? Will any of the investments you own have surrender charges should you decide to liquidate? What costs would be associated if you would choose to move your account? Do they utilize proprietary investments or will they select from the universe of investments? You also want to know if the fees and commissions are transparent and easy to understand.

- It is important to understand how much income your portfolio is generating on an annual basis. This is especially critical in a down market. The income your portfolio generates can be used to maintain your lifestyle or to invest back into your portfolio in a declining market like we are experiencing today. Income is a tool that can be used to provide stability, offset some of the risk associated with your growth investments and help define how you will be able to distribute income once you retire.

- It is important to annually evaluate the tax implications of your investment accounts, especially your tax-deferred accounts. So often a client will say, "I think I have saved enough to fund my retirement." I feel like the bearer of bad news when I say "don't forget that you have never paid taxes on those dollars and when you start to spend them they are taxed as ordinary income. Currently you could potentially lose 30% of your distributions to taxes — Uncle Sam!" Understanding the impact of taxes, cost of living increases, inflation, health care liabilities and other unforeseeable life events could make the difference between a comfortable or not so comfortable retirement. What you really want to know is, "how long can I expect my money to last?"

- It is important that your advisor become familiar with your estate planning documents and that they determine whether all of your beneficiary designations on the investments they monitor for you, as well as any employee retirement plans and life insurance policies, are in alignment with those documents. If you do not have a current estate plan or if it has not been reviewed in a while, they should have relationships with legal professionals who can either draft or review your current documents.

- Provide your advisor with a copy of your employee benefits so they can help evaluate which employee benefits you can take advantage of. There may be life insurance, health insurance, long term care, disability insurance, retirement savings and other creative employee benefits your company offers. This will prompt the discussion about bridging the gap between retirement, social security benefits and government health benefits should you want to retire early.

- Make sure you establish a regular meeting schedule with your advisor. In the beginning clients tend to meet more often until they become comfortable with the investments they own and how they are monitored. Let the advisor know what your expectations are for the meetings. Do they have a comprehensive asset allocation model that will show all of your investments, or just the ones that they manage? Make sure you understand how they will calculate your performance; will it be net of fees? Ask them to go over your monthly statements until you can comfortably determine what transactions have occurred in your accounts.

- And finally, ask your advisor what would happen to your investment accounts should your advisor change jobs, retire, become disabled or die. That question will clarify whether they have a succession plan in place. What you want to avoid

is having your account passed down to an inexperienced broker or financial advisor who does not understand your current investment plan.

Above are just some of the important issues to consider when looking for a financial advisor or broker. There are many more considerations, including education, designations, location, experience, personality, whether your spouse is comfortable, whether your children would be comfortable in the event that something happens to you, if there have been complaints filed or lawsuits pending or satisfied, and how long they have been with their current company. Do you feel that your opinions matter? Is your advisor interested in you and your family, or just your money?

To truly assist clients, a financial advisor needs to address all the dimensions of their client's wealth: financial, personal and social. In order to do this they must take time to understand what is important so they can help their clients through all of their life transitions. An advisor can no longer be concerned only about helping their clients pass on their investments; instead they must be positioned to help their clients pass on their values. Early on in this conversation I suggested that you listen to your intuition when selecting or changing financial advisors. If it doesn't feel right, I suggest you keep looking and keep interviewing. What I have experienced and know for sure is that when you start talking to your clients about how they are going to meet their liabilities in retirement, where they want to live and what they want to do, you can actually start to put dollar values on those expectations. Clearly, 401(k) rollovers are held to a higher standard. Clients feel differently about these "windfall dollars," more so than other money or investments they have accumulated... for them it is considered "safe" money and they don't want to risk losing it! So advisors and clients need to be in regular dialogue and revisit the plan annually to determine how both the market and the client's needs and goals might have shifted and changed.

Our goal at Ellenbecker Investment Group is to help you get to a place where you can do what you want with your money and enjoy life. Total wealth comes from three perspectives; financial, personal and social. It is only when we reach this final planning stage that a life of success can be transformed into a life of significance...and never lose sight of the fact that you deserve to be in a relationship with a person you trust.

¹ Note: If you did not read last quarter's News & Notes, go to www.ellenbecker.com, click on Media Center, then Newsletters, and take a minute to review the tax implications.

BENCHMARK AND *economic indicators*



Joleen Kane
Director of Special Products
ELLENBECKER INVESTMENT GROUP, INC.

In a market like today's, most investors need a gauge to understand how their investments are performing compared to the overall market. Often, in a bull market, many investors become complacent in monitoring their investments as long as they see them growing. Today, when you open your statement and continually see declines, the question arises, "how are my investments doing compared to the benchmark?" The danger of relying on benchmarks is that your

attention becomes focused on short time frames and you lose sight of your long term goals. And what happens then? Either you take more risk than you normally would by chasing returns without understanding what you are buying, or fear sets in and you miss opportunities because you are waiting on the sidelines until the market improves. Both scenarios can be detrimental to your long term investment goals.

Believe it or not, market performance measurements have been around since 1884. Charles Henry Dow, an American Financial Journalist, co-founded Dow Jones and Company, Inc. He began publishing a daily average of the prices of nine railroad and two industrial stocks as a way of chronicling market direction and sentiment. The first investment benchmark was born.¹ Today the Dow Jones Industrial benchmark (Dow 30) tracks 30 of the largest companies in the United States. The S&P 500, another widely used benchmark, began in 1923. This benchmark is much more comprehensive than the Dow and attempts to cover all areas of the US economy by tracking 500 of the most widely held companies. To make things even more complicated, Morningstar Principia™ reports over 200 indices.

The bottom line is, benchmarks are invaluable but need to be utilized appropriately. Our portfolios consist of multiple asset classes and each has its own best-fit index. Within each asset class there are further sub-categories such as blend, growth, value or specific sectors.

¹American Funds "insights" Summer 2007 ²www.russell.com

The investment industry has become so complex that choosing the correct index can be challenging. For example, if you own a small cap growth investment, the index you would most likely use is the Russell 2000® Growth Index. The Russell 2000 Growth Index measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values.² You would certainly not want to use the S&P 500 Index to compare your small cap investment.

In conjunction with benchmarks, economic indicators can also be used to give you a broad idea of where the economy is headed. Some of the more common economic indicators include the unemployment rate, inflation, productivity and gross domestic product. Economic indicators are reported by The Conference Board, a non-profit research institution founded in 1916. If you are interested in learning more about economic indicators and how they affect the economy, check out www.conference-board.org. We certainly don't recommend timing your investment decisions solely on statistical analysis such as this; however, having a broad understanding of current market conditions will hopefully help you stay invested for the long term. We know that historically, long-term buy-and-hold investors are typically rewarded.

So we encourage you to stay invested for the long term and understand what you own. We welcome your questions regarding your investments and are happy to address any questions or concerns you might have. Feel free to call us: (262) 691-3200.

MONEY RULES *Kids need to know more than you think*



Lynne Finch
AUTHOR

What is the difference between a \$20 bill and a credit card? In terms of tools, cash is a simple hand tool with no power beyond its face value. A credit card is a power tool, convenient and efficient when used carefully, but dangerous when out of control. So how does this apply to kids and money?

Of course, kids need to know about cash and how it works, but cash is only one way to get and spend money. Look at your latest bank statement to see how you use money without ever handling cash. Deposits in all forms arrive electronically. Checks and electronic fund transfers pay the bills. Purchases are made using credit cards, debit cards, and gift cards. Money flows in and out continually.

All of these non-cash methods are tools to use money in your account. Each tool has its own set of rules for using it and some have associated fees. Managing these tools responsibly is the key to getting the most out of your money as represented by that number in the balance column.

For kids, cash is the simplest tool to use but does not require the long-term money management skills they will need as adults in a society that is becoming more and more cashless. Of all the tools, credit cards require the most skill because deferring payment and not paying the monthly balance in full adds to the cost of each purchase. Think of this as taking out a loan to buy toothpaste.

Parents need to help kids understand that each money decision affects the total money supply. Kids need to know that there is a bottom line that is real. By setting up a system as explained in "The No-Cash Allowance" kids will learn that no matter what money tool they use, the balance will change. Managing money is all about making decisions. This is one of the best lessons that kids can learn before they leave home.

Lynne L. Finch, author of "The No-Cash Allowance: A Practical Guide for Teaching Your Children How to Manage Money" (Walnut Row, paperback, 2004)

Your life's mission goes beyond making a living. It's deeper, stronger and more compelling than a day-to-day grind.

Your life's mission is your burning desire to make a difference.

What is your *Life's Mission?*

A life's mission isn't only a career. It can be a hobby, a vocation or a pastime. Your mission in life is manifested when you nurture and foster the special talents that make you unique and special.

A true life's mission never dies, no matter the challenges or setbacks. When you're living a life's mission you have a burning desire that won't allow you to give up. A mission is like a dream that doesn't go away, it keeps coming back to remind you again and again.

A life's mission comes from the soul. It's emotional and spiritual. You know in your heart that it's right.

Your life's mission is a part of your value and belief system. For example, if you believe your mission is to help people, you will be miserable doing anything that contradicts that core belief.

Living your life's mission is fun. You owe it to yourself to make your life enjoyable. Life shouldn't be a struggle. If it is, you're battling something inside. Your values and beliefs are in conflict with what you're doing with, or in, your life.

DESIRING SUCCESS

Success means investing time, energy and money into motivating yourself to reach your full potential and live out your life's mission. Your desire for success must be compelling!

Success can mean different things to different people. Success is not only measured by money or material possessions; it is an inner knowing, peace and self-satisfaction.

HOW DO YOU DEVELOP THE PASSION and DESIRE TO SUCCEED?

1. Convince yourself that you can and will succeed. It's easier and safer to tell yourself that you can't do something than risk failure. The only failure is not trying at all. Success is a choice.
2. Consciously focus on what you want. Make workable and rewarding goals for yourself. When you accomplish a goal or task, reward yourself. Acknowledge all the achievements.
3. Take one day at a time. It'll only feel overwhelming when you lose sight of all the baby steps you'll need to take before reaching a major goal. The majority of successes aren't achieved by leaps and bounds, but in working your plan one step at a time.
4. Stretch yourself, but don't break. Aim high enough to motivate and excite, but not so high that you become paralyzed with fear. Stretch yourself enough so you're constantly growing and experiencing new things.

Leave your mind open and receptive to all the possibilities.

Passion, desire and enthusiasm are essential for lasting success. If you don't have a well thought out purpose for all of your excitement, it becomes a waste of valuable energy.

Your life's mission is the glue holding your desire, enthusiasm, energy and persistence in place.

— AUTHOR UNKNOWN —



DON'T LET INDECISION *put your life in neutral*



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Indecision can chew you up and spit you out from the tug-of-war that comes from being unable to choose (or even terrified of making a choice at all), and the yes-no pull of options that seem mutually exclusive, yet equally attractive. It's exhausting, frustrating and sometimes even crippling.

If you find yourself plagued with indecision or suffering from analysis paralysis, here are a few tips to get you off the trepidation treadmill and on to your next move.

1. Know what you want, and why.

Most people have only a vague idea of what they want. And few of those know why they want it. This absence of direction quickly leads to indecision. Becoming very clear about what you want and the reasons why is the first step to clearing out that roadblock. A corollary to this is to make sure you have enough information to make the decision. (Note that I did not say "all the information;" it's rarely possible to have all the information you think you might need to decide, but it's often possible to have enough information to decide.)

2. Haul the monsters from under the bed.

What fears are keeping you from making a decision? What's the cost of making the wrong decision? What's the cost of failing to decide at all? What's the upside of deciding? What's the downside? What benefits are you getting from not deciding (staying in a comfort zone, not risking failure, etc)? What is indecision keeping you from?

3. Slay your dragons.

Once you know what's holding you back, you need to realistically rate these dangers and take steps to eliminate or mitigate them. For example, if you've been holding off on changing careers because you're afraid to wind up in the wrong one, remember that if it doesn't work out, you can always leave for something better (and take all of your experience and skills with you). On the other hand, fears around making the right choice of treatments for a medical condition could be mitigated by getting more information about options and procedures, and seeking the counsel of people who've gone through this process successfully.

4. Obey the law of diminishing returns.

In some cases, indecision is a result of trying to choose between two options that are almost identical, such as two different models of cars. Once you've eliminated options based on the biggest concerns (safety, reliability, gas efficiency) and all you're left with is superficial differences (color, trim options, styling), you're better off flipping a coin than driving yourself nuts trying to decide. After all, the differences are minimal and involve no risk or downside.

5. Get real.

Sometimes indecision comes from fear of extreme worst-case scenarios and unlikely alternatives, or ye olde free-floating anxiety about failure, success or the unknown. In the first case, you need to recognize when the chance of catastrophic failure is pretty low, and just move on. (The only exception is when catastrophic failure can result in serious harm to yourself or others. If this is true, you need to take steps to prevent that or decide against taking that step.) In the second case, try to ignore your fears and move on. In severe cases of decision anxiety, you may need some help dealing with your issues before you can decide. Only you can make that call.

Medicare seminars this fall at Ellenbecker Investment Group

Medicare is a subject that raises questions for many people. Each year between November 15 and December 31, anyone on Medicare has the opportunity to review their current coverage for medical and prescription drugs and to make changes if they so desire. In our ongoing effort to provide the best of service to our clients, we have developed a relationship with a Medicare Advantage Plan Specialist. If you or someone you know is on Medicare, or will be turning 65 very soon, you may want to attend one of the seminars we are offering. These seminars will be 90 minutes long and are designed to help you sort through your options and determine the best plan for you. The seminar will be presented at our office at the following times: Tuesday, October 14, at 2 pm and 6 pm, and Saturday, November 8 at 9 am. To reserve a spot or get more information, please call our office at 262-691-3200 or email pam@ellenbecker.com.

Have you seen Karen in your living room?

In September, Ellenbecker Investment Group began airing television commercials on WISN Channel 12. We are also running radio ads on several stations including WISN AM 1130. If you catch any of our ads, we would love to hear what you think! Contact us at (262) 691-3200 or email lori@ellenbecker.com.



New Office Signage

You will notice new signage for our building that will better identify Ellenbecker Investment Group's location. Also, we would like everyone to be aware that we have parking spots close to the front door reserved for our clients. We hope this makes your visits to us easier and stress-free.

CHOOSING A MEDICARE PLAN:

five steps to selecting the plan that's best for you



Dawn Lotz
Sales Representative
HUMANA MARKETPOINT

Here are five simple steps to help select the best Medicare plan for you.

STEP ONE: **Review your medical spending from 2007 and 2008**

Give yourself a "healthcare audit." Review your records and receipts to see how much you spent on health care. Don't forget to include charges from physicians, hospitals and pharmacies – they all count. Many insurance companies provide annual summaries that track all your spending for you. You can also ask your doctor's office or pharmacy for information.

STEP TWO: **Identify future healthcare needs**

While you don't have a crystal ball that can predict what next year will bring, you can estimate what health care services you might need. Think about whether you have a condition that requires ongoing care, whether you need to stay on your current medications or if you need annual screenings. Talk to your doctor, too.

And, when you know all of this, use online resources such as the Family Health Budget (www.familyhealthbudget.com) to estimate your actual costs.

STEP THREE: **Think about what you need from your Medicare plan**

You've looked at what you spend, now think about other things, including cost, benefits, networks and convenience. Here are some things to consider:

- **Cost** — How much will you pay for premiums, deductibles and copayments? Plans with lower premiums may have higher out-of-pocket expenses (the amount you pay when receiving care, such as copayments, deductibles and coinsurance). The inverse is also true: if you're paying a higher monthly premium, your out-of-pocket costs may be less.
- **Benefits** — Does the plan include all Medicare benefits in Part A and Part B? Does it also include prescription drug coverage? Is there supplemental coverage for the coverage gap? Do you need it?
- **Doctor and hospital choice** — Do the doctors, hospitals, pharmacies and other providers you use accept the plan? Are they conveniently located?

STEP FOUR: **Explore your options**

There are many resources that can help you understand all the plan options available:

- **State Health Insurance Assistance Program** — Wisconsin has a State Health Insurance Assistance Program (SHIP) that gives free local health insurance counseling. Visit www.shipusa.org or call 1-800-242-1060.
- **Medicare** – www.medicare.gov enables you to find and compare Medicare prescription drug plans and health plans in your area. You can also call 1-800-MEDICARE (1-800-633-4227).
- **AHIP** – www.healthdecisions.org/guide, a resource from the health insurance industry trade group America's Health Insurance Plans, offers an easy-to-use, interactive online publication.

Once you understand the options that are available to you that fit your needs, you can visit the Web sites of the specific health plans and compare. Look at the things that are important to you and use tools like those available at www.humana-medicare.com/humana-medicare-drug-plan/medicare-rx.asp to compare plans, calculate prescription costs and learn about value-added wellness programs.

STEP FIVE: **Find out if you qualify for extra help**

If you have limited income and resources, you may qualify for help paying for your Medicare health coverage. To find out if you qualify, contact your local Medicaid office or call the Social Security Administration at 1-800-772-1213. If you use a TYY, call 1-800-325-0778.

No matter which Medicare health plan you've chosen previously, you can switch to a different plan between November 15 and December 31. Or, if you are satisfied with your existing Medicare coverage and don't need to make changes, you don't have to do anything during the enrollment period. You will be automatically re-enrolled for the same plan for 2009.

As the fall approaches, use this time to make sound choices and get a full understanding of your options. After all, this is an important decision that you are committing to for an entire year. At the end of the day, few things are as important as your health and health care.

As you compare health care coverage, keep in mind:

- When considering prescription drug plans, take into account Medicare Advantage plans, including stand-alone prescription drug plans (Medicare Part D) and supplemental plans in which you may be qualified to enroll, such as Medigap.
- Check out special, additional services offered by health plans for Medicare members, such as gym memberships, and vision, hearing and dental coverage.
- Before selecting a plan, make sure you'll have access to the physicians, hospitals and other health care providers/facilities that are important to you.

IMPORTANT DATES:

October 1, 2008:

Benefit and premium information is available for all 2008 Medicare plans, including prescription drug plans.

November 15-December 31, 2008:

Enrollment period for 2009 Medicare plans.

IS YOUR 401(k) PLAN *above average?*



Mark Maurice
President

EVOLUTION RETIREMENT SERVICES, INC.

Over the next 20 months most 401(k) plans using a prototype plan document will need to be amended and brought into compliance with the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). Since it has been many years since the last major plan amendment, this is a great time to review and incorporate any plan design changes along with the required EGTRRA plan language.

Employers often ask what the standard practices of other plans are, regarding provisions such as eligibility, matching formula, contribution levels, etc. The following are the results of surveys taken in 2007 from a large group of 401(k) employers.

These answers will help a company benchmark where their current provisions rate in comparison to other 401(k) plans. The results are also compared to a 2004 survey (data compiled in 2003) and discernable trends are apparent with many of the provisions.

ELIGIBILITY — at what frequency are new employees allowed to join a plan?

Immediate entry	51%
90 days	16%
180 days	11%
12 months	17%
Other	5%

The trend over the last few years is to shorten the waiting time for eligibility. For example in 2003, 29% of the plans surveyed had a 12 month eligibility wait. A main reason for the reduction in waiting time is the gradual shift away from company-funded profit sharing contributions to employee-funded 401(k) contributions.

MATCHING CONTRIBUTIONS FORMULAS

— for plans that provide a fixed company match (30% of all plans) the following are the most common formulas.

\$.50 per \$1 up to the first 6% of pay	32%
\$1 per \$1 up to the first 4% of pay	10%
\$1 per \$1 up to the first 3% of pay	9%
All others	49%

The average company contribution of all plans (including plans that made profit sharing contributions) were 3.0% of pay. This rate has decreased recently as the average company contribution in 2003 was at 4.1%.

ROTH CONTRIBUTIONS — this provision allows employees to contribute on an after-tax basis (versus pre-tax for traditional 401(k) plans) and avoid taxation of earnings assuming certain withdrawal criteria are met.

22% of plans permit a Roth contribution, although exact data is not available as to actual participant utilization of Roth contributions.

The Roth provision first became available to plans in 2006. There is a strong trend to add this benefit to allow employees to control how they will be taxed on their contributions.

LOANS — Plans can choose to permit employees to borrow vested funds from the plan. Employee loans are normally limited to 50% of an employee's vested account balance (maximum of \$50,000) and must be established at a market rate of interest and mature in no more than five years.

51% of plans offer a loan provision. This percentage has stayed constant since 2003.

EMPLOYEE PARTICIPATION — what percentage of eligible employees have made 401(k) employee contributions at some time to their plan?

77.7% of eligible employees have made some level of contributions. This percentage has dropped from 80.3% in 2003.

If you are interested in learning more or evaluating your current 401(k) plan, call Ellenbecker Investment Group at (262) 691-3200, or Evolution Retirement Services Inc. at (414) 258-5500.

Sources:

1. "Benchmark for 401(k) Plan – 2008" Published by 401khelpcenter.com
2. "401k Plan Participants: Characteristics, Contributions and Account Activity" published by Investment Company Institute

TAX UPDATE for 2008

As usual, tax laws were changed again in 2008. There were two pieces of legislation affecting income taxes: the Economic Stimulus Act and the Housing and Economic Recovery Act of 2008. The following is a brief summary of the ones that most likely could affect you.

First-Time Homebuyer Tax Credit

First-time homebuyers are now eligible for a temporary refundable tax credit equal to 10% of the purchase price of a principal residence, up to \$7,500 (\$3,750 for married individuals filing separately). The credit starts to phase out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married filing joint tax returns). The credit is available for homes purchased between April 9, 2008 and July 1, 2009. A person is considered to be a first-time homebuyer if he or she (and his or her spouse, if married) has no ownership interest in a principal residence during the three-year period before the qualifying home is purchased.

But there's a catch - the credit is in effect an interest-free loan because it must be repaid to the IRS in equal installments over a 15-year period beginning two years after the year in which the residence was purchased. If a taxpayer sells the home or no longer uses the home as a principal residence before the credit is repaid, the unpaid balance of the credit becomes due in that year.



*Daniel Hau, C.P.A.
President and Managing Partner
HAU & ASSOCIATES, S.C.*

Property Tax Deduction for Non-Itemizers

The new law allows non-itemizers an additional deduction for real estate taxes for 2008 by increasing their standard deduction by the lesser of their real estate taxes paid during the year or \$500 (\$1,000 for a married couple filing jointly).

Low-Income Housing Tax Credit Expansion and Simplification

The new law contains an expansion of the low income housing tax credit (LIHTC), and also allows taxpayers to use the LIHTC to offset the alternative minimum tax (AMT) liability.

Limitations on Capital Gains Exclusion from Sale of Vacation Home

Some of the gain from the sale of a principal residence will no longer be excluded from gross income if the home was not always used as a principal residence. Effective January 1, 2009, the gain from the sale of a vacation home or rental property is allocated between excludable and non-excludable portions, based on the ratio of months of personal usage relative to the total months of ownership after 2008.

Bonus Depreciation

Under the Economic Stimulus Act of 2008, new equipment purchased during 2008 qualifies for an immediate 50% write-off.

Don't forget to listen to "MONEY SENSE" on WISN AM 1130

— since 1991 —

Saturdays 2-3 pm

Sundays 12-1 pm

Hosted by Karen J. Ellenbecker



Share this newsletter and your experience with friends and family.
Don't keep us a secret. We always appreciate referrals.