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This month our website was revised. We hope you find it easier to navigate. The organization of articles, calculators and links were revised. A RSS feed from SmartMoney.com was added. If you subscribe to our RSS feed you will receive updates of changes on the website. A blog was also added. <http://jasfinancialllc.com/blog/> I will try to keep my comments short and succinct. You can publish your comments and questions. Unfortunately not every post and article will apply to everyone. You must determine if and how they apply to your unique situation.

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Have a Happy Thanksgiving.

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Your referrals are always appreciated. Regards,  
 Joe

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# Current Financial Topics

November 2010

## Financial Tips for Twenty-Somethings

You're on your own now. You've finished school, are working your first real job, and maybe you're even buying a home or getting married. Here are a few tips to help you start managing your finances.



**Construct a budget**

The foundation of any financial plan depends on knowing what your income and expenses are and budgeting accordingly. Your income may be easy to figure out (look at your paycheck), but don't forget to add in other income such as interest income, and maybe earnings from a seasonal job. Most of your expenses will also be fixed, such as rent, utilities, and groceries, but don't forget about occasional expenses, such as clothes or car repairs.

If your income is greater than your expenses, you're in good shape, but if it's the other way around, you'll need to generate more income or cut expenses, or both. If cutting expenses, look at your wants first (e.g., travel); there's less flexibility when it comes to your needs (e.g., groceries).

**Prioritize your debt**

Maybe you've got student loans, a car loan, and some credit card debt. Paying all your debts on time will help you establish and maintain a good credit history, so it's important to make debt repayment a priority expense in your budget. If you need to reduce your debt burden, perhaps you can consolidate your student loans to lower the monthly payment. As for credit card debt, resolve to pay it off in a systematic fashion: always pay more than the minimum payment due, and if you have more than one card, direct any extra money you have toward the card with the highest interest rate.

**Review your insurance coverage**

*Health insurance:* Hopefully, you'll have coverage through your employer. If not, as part of recent health-reform legislation, you may be able to remain on your parents' health insurance if you are under age 26.

*Disability insurance:* You're fine now, but that could change in a heartbeat if an injury or illness puts you out of commission. Disability insurance pays benefits that will help cover your living expenses if you can't work due to an injury or illness. It may be offered through your employer, or you can purchase it on your own.

*Life insurance:* If you're employed, you may receive life insurance as part of your employee benefits package. If not, you may want to purchase a small policy to cover any final expenses (e.g., funeral expenses) that might be incurred if you die. And if you're getting married or planning a family, you'll need life insurance to protect your loved ones.

**Plan for your future**

One "expense item" you should include in your budget is saving for your future. Although retirement seems far off, start saving as soon as possible. Due to compound interest, the sooner you start saving even a modest amount, the greater the amount you can potentially accumulate over time. For example, \$50 per month saved at 6% compounded monthly for 30 years yields a total accumulation of over \$50,000, even though you only deposited \$18,000 of that (\$50 x 12 months x 30 years). (This is a hypothetical example and is not intended to reflect the actual performance of any investment--results will vary.)

Take advantage of any employer-sponsored retirement plans you're offered; your contributions come out of your salary on a pretax basis, and any investment earnings are tax deferred until withdrawn. These plans often include employer-matching contributions. You may also want to look into opening an individual retirement account (IRA)--IRAs also feature tax deferral of earnings.

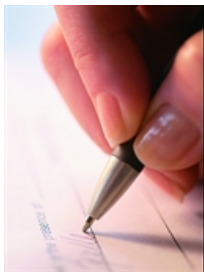
*Save for your short-term needs, too. Try to sock away at least three to six months of expenses in a savings or money market account, so that you'll have funds you can access in an emergency.*

## Cash-In Refinancing: Can You Benefit from This Growing Trend?



### A growing trend

*According to Freddie Mac, 33% of homeowners who refinanced their first-lien mortgages in the third quarter of 2010 did a cash-in refinance.*



With mortgage interest rates at or near historic lows, you may be wondering if it's time to refinance your home. But declining property values and stricter mortgage lending standards may make it harder for you to capitalize on low mortgage rates, because you may no longer have enough equity in your home to qualify for a new mortgage. Enter cash-in refinancing. With cash-in refinancing, you bring cash to closing to reduce your mortgage balance and increase your home equity, enabling you to meet the lender's loan requirements.

### Why is cash-in refinancing becoming popular?

Cash-in refinancing reverses the trend of cash-out refinancing that has been popular during the last decade. If, like many homeowners, you refinanced your home three or four years ago when home values were skyrocketing, you may have tapped into your available home equity to obtain cash to invest, put toward home improvements, or pay off debt. According to Freddie Mac, more than 80% of homeowners who refinanced a few years ago received cash back at closing. But the unfortunate combination of declining home values and rising foreclosure rates forced financial institutions to tighten lending standards, leading to a sharp increase in the number of homeowners now putting cash in at closing instead of taking cash out.

Of course, to complete a cash-in refinance, you must have a lump sum of money that you can put toward reducing your mortgage balance. Those contemplating a cash-in refinance often have funds sitting in a savings or money market account that is yielding low returns--e.g., 1% or less--that they would like to put to better use. For example, if you're nearing retirement and plan to stay put, you may especially welcome the opportunity to pay down your mortgage balance and refinance at a low interest rate, thereby reducing your retirement expenses.

Here are some other reasons to consider a cash-in refinance:

- You can't otherwise qualify to refinance because the value of your home has declined. If the appraised value of your home has fallen, your equity may not be enough to meet minimum lending requirements; bringing cash to the table may enable you to refinance your loan.

- You have enough equity in your home to meet a lender's criteria for refinancing, but not enough to avoid paying private mortgage insurance (PMI), which lenders generally require if you have less than 20% equity in your home. Bringing enough cash to the closing to reach that all-important 80% loan-to-value ratio will enable you to avoid paying PMI and reduce your mortgage balance at the same time.
- You want to qualify for a better mortgage interest rate and terms. For example, putting cash in at closing could help you avoid taking out a jumbo mortgage, which generally has a higher interest rate.
- You want to reduce your loan term. For example, now that interest rates are low, you may be able to afford the monthly payment on a 15-year mortgage rather than a 30-year mortgage, but to do so, you need additional home equity.

### Even if you can refinance, should you?

The prospect of potentially shaving hundreds of dollars off your monthly mortgage payment or saving thousands of dollars in interest over the life of your loan is obviously appealing. But there's a lot to think about before you take the plunge. One major drawback of increasing your home equity is that you could tie up money you may need for other purposes, such as reducing high interest debt or bolstering an emergency savings account. Home equity isn't liquid, and in difficult economic times it's wise to have some cash on hand. It's possible that home values will continue to decline instead of stabilize or even rise; if so, you may sink further underwater, so make sure you're able to ride out the economic storm.

Finally, make sure that you'll really benefit financially from a cash-in refinance. For example, if you plan on moving within the next couple of years, you may not have enough time to recoup the costs associated with obtaining a new mortgage, even if you're able to refinance at today's historically low interest rates.

## Fixed Annuities vs. CDs: Is One Better Than the Other?

For most people, the answer to this question is *it depends*. While some features are similar, fixed annuities and bank certificates of deposit (CDs) also have characteristics that differ. What works for you may depend on which features best fit your financial situation and investment objectives.

### Are you looking for safety?

Both CDs and fixed deferred annuities are generally considered "low-risk" investments compared to other investment options. CDs are sold by banks; fixed annuities are issued by insurance companies. In most instances, CDs are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 per account. Fixed annuities are not insured by the federal government, but are backed by the financial strength of the insurance company that issues the annuity. Of course, annuity guarantees are subject to the claims-paying ability of the issuing company, so when considering a fixed annuity, make sure the issuing company is financially sound. You can get an idea of the financial strength of a company by referring to an independent rating company such as Moody's, A.M. Best, or Standard & Poor's, which evaluate the financial strength of insurance companies and publish ratings based on their assessments.

### How long is your investment horizon?

CDs are often used for short-term accumulation. CDs are issued in a variety of maturity periods, from as short as one month to three years or longer. On the other hand, fixed annuities are better suited for long-term accumulation. Most fixed annuities have maturity periods of five years or longer, although some fixed annuities have maturity periods as short as two years.

In any case, most CDs and fixed annuities assess a penalty for taking money out of your account prior to the maturity date. Some CDs allow you to withdraw interest as it's earned. However, if you want to withdraw principal, you'll likely be assessed an early withdrawal penalty. Likewise, many fixed annuities allow you to receive earned interest, and some annuities even allow a limited penalty-free withdrawal of up to 10% of the account value annually. But annuity withdrawals exceeding any penalty-free amount will also be subject to a withdrawal or surrender charge.

### What type of return do you want?

Both CDs and fixed annuities credit interest to your account. The rate of interest is often

based, at least in part, on the maturity period of the vehicle: the longer the investment period, the higher the interest rate likely to be offered. CDs generally pay a fixed interest rate for the entire term. The interest rate paid by a fixed annuity may change annually, subject to a minimum interest rate that lasts for the entire term. There are some fixed annuities that pay a fixed rate of interest for a fixed period of time, usually to maturity. While the interest rates of CDs and fixed annuities with similar maturity periods are often similar, since most fixed annuities have longer maturity periods than CDs, the interest rate offered may be a little higher than a CD with a shorter maturity term. It's also worth noting that fixed annuity companies guarantee a minimum interest rate for the term of the annuity, and sometimes, may guarantee a higher interest rate for a certain period of time.

### Are taxes an issue?

If income taxes are a concern, be aware that the interest you earn on your CD (presuming it's not held within an IRA) is taxable in the year it's earned, even if you don't take the money. Conversely, the interest earned in a fixed annuity is not subject to income tax until you actually take the money out. With a fixed annuity, you have a little more control over when you'll pay taxes on your interest earnings. Also, interest earnings from CDs must be included as income when calculating whether a portion of your Social Security benefits will be subject to income tax. However, interest earned within a fixed deferred annuity (so long as it's not withdrawn) is not included in this calculation.

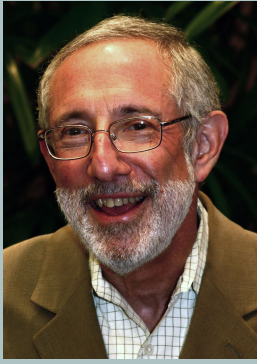
### Withdrawing money at maturity

When your CD matures, you're able to take the principal and any interest earnings out in a lump sum, or you can usually renew the CD for the same or a different term, and often at a different interest rate. You can do the same thing with money from a deferred annuity. You'll be taxed on the interest earnings at that time, and, if you're not at least age 59½, you may also face a 10% tax penalty on earnings as well, unless an exception applies. However, a deferred annuity provides you with the option to convert your account to a stream of payments that can last for your entire life. Known as annuitization, this gives you the option to receive periodic payments (e.g., monthly, quarterly, or annually) from your annuity for a fixed period of time, such as ten years, or for the rest of your life.



*While some features are similar, fixed annuities and bank certificates of deposit (CDs) also have characteristics that differ. Fixed annuities are not FDIC insured, are not issued by a bank or government agency, and are not a deposit.*





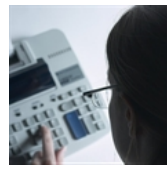
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## Ask the Experts



### Can I roll over my traditional 401(k) plan distribution to a Roth IRA?

In general, yes, but there are some important exceptions. You cannot roll over required minimum distributions (RMDs).

You also cannot roll over hardship distributions from your 401(k) plan, or certain periodic payments you receive from the plan. Most other distributions are eligible for rollover.

A rollover of regular 401(k) assets to a Roth IRA is similar to a conversion of a traditional IRA to a Roth IRA (and it's often referred to as a conversion). You'll need to pay taxes on the amount you roll over to the Roth IRA, except to the extent your distribution includes your own after-tax contributions (you receive those back tax free). But a special rule applies to rollovers in 2010 only--you can elect either to pay all of the conversion taxes in 2010, or instead include half of the resulting income from the conversion on your 2011 federal tax return, and the other half on your 2012 tax return.

Your rollover can be either direct (the 401(k) plan transfers the funds directly to your Roth IRA for you) or indirect (the plan distributes the funds to you, and then you roll the funds over to

the IRA within 60 days). A direct rollover is almost always the best way to transfer the funds. If you choose to make an indirect rollover, you run the risk of missing the 60-day deadline. More importantly, the plan will be required to withhold 20% of the taxable portion of your distribution for federal income taxes. If you want to roll over the full amount of your distribution, you'll need to come up with other funds to make up for the 20% that was withheld (you'll get credit for those withheld funds when you file your income tax return).

Qualified distributions from your Roth IRA will be tax free. To be qualified, your distribution must satisfy a five-year holding period *and* must be made after you reach age 59½, become disabled, or have qualifying first-time homebuyer expenses (up to \$10,000 lifetime). The five-year holding period begins on January 1 of the year you first opened *any* Roth IRA (either by a regular contribution, rollover, or conversion).

(Note: special rules apply if you inherit a 401(k) plan account or IRA.)



### Can I roll over my Roth 401(k) plan distribution to a Roth IRA?

Yes. You can roll your Roth 401(k) plan distribution over to a Roth IRA. Your rollover can be direct (the plan transfers the assets to the Roth IRA on your behalf) or indirect (you receive the distribution and then roll it over to the Roth IRA yourself within 60 days). Your rollover will be tax free regardless of whether your distribution from the Roth 401(k) plan is qualified or nonqualified.

But whether your Roth 401(k) plan distribution is qualified or nonqualified is important for determining the taxation of future distributions from the Roth IRA. A distribution from a Roth 401(k) plan is qualified if you satisfy a five-year holding period *and* the distribution is made after you attain age 59½, become disabled, or have qualifying first-time homebuyer expenses (up to \$10,000 lifetime). The five-year holding period begins on January 1 of the year you first started participating in that particular employer's Roth 401(k) plan.

If you receive a qualified distribution from your Roth 401(k) plan and roll it over to your Roth IRA, the entire amount rolled over is treated as

a nontaxable contribution to the Roth IRA. You can withdraw this amount tax free from the Roth IRA at any time. Only additional earnings will be subject to the Roth IRA's five-year holding period.

But if you receive a nonqualified distribution from your Roth 401(k) account and roll it over to a Roth IRA, only an amount equal to your contributions to the Roth 401(k) plan, not the investment earnings, are treated as a nontaxable contribution to the Roth IRA. The investment earnings rolled over, along with any additional investment earnings, will be subject to the Roth IRA's five-year holding period.

IRS regulations provide that separate five-year holding periods apply to Roth 401(k) accounts and Roth IRAs. That is, you don't get to carry over your Roth 401(k) holding period to your Roth IRA. Your Roth IRA five-year holding period begins on January 1 of the year you first establish *any* Roth (by regular contribution, rollover, or conversion). (Special rules apply to inherited Roth IRAs.)