JOE LEE'S
FINANCIAL NEWS DIGEST
A COMPILATION OF INFORMATION AND IDEAS FOR EFFECTIVE MONEY MANAGEMENT

Money line

Making The Most Of The 2009 Waiver On IRA RMDs

By Joe Lee

By now you have likely heard that Congress has waived mandatory withdrawals from IRAs, 401(k)s and other qualified retirement plans for 2009.

These required minimum distributions or "RMDs" begin after age 70 and a half. The rationale for RMDs is that at some point the government wants us to pay taxes on the money we've sheltered in these accounts and there is a 50 percent tax penalty for not making the withdrawals. The rationale for suspending RMDs for 2009 was that the one-year reprieve would help build up account balances ravaged by the bear market.

Even if you don't need the income, retirees with AGIs under $100,000 may want to consider converting some of the money to a Roth IRA in 2009.

RMDs cannot be converted to Roth IRAs. But without RMDs for 2009, you could take what the distribution would have been and convert it in 2009. Although taxes are due on the conversion, money in a Roth IRA can then grow tax-free and without more RMDs while you are alive.

If you later change your mind about a 2009 conversion, you have until Oct. 15, 2010, to undo it and put the money back in the traditional IRA.

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Financial Front

NEWS BRIEFS AND HIGHLIGHTS FROM THE FINANCIAL WORLD

Mortgage scam alert. With the launch of the federal mortgage assistance program, people calling themselves "loss-mitigation specialists" are preying on consumers. They charge upfront fees of as much as several thousand dollars, claiming that they can help get modified loans for people who are having trouble paying their mortgages. *Self-defense:* Nonprofit agencies approved by the Department of Housing and Urban Development provide free counseling. Go to **www.hud.gov** for a list, or call 800-569-4287.

New rules for credit card interest rates. Effective next year, under new federal regulations, card issuers will not be able to raise interest rates unless you are more than 30 days late paying your bill. Currently, they can raise rates on existing balances at any time. Also: Bills will have to show terms, fees and total interest clearly, not in hard-to-read fine print. Issuers will have to give 45 days' notice of new terms and rates—up from the current 15 days. Interest will be calculated only on what you currently owe, not on a two-cycle basis combining balances for the current month and the previous month.

Fast Social Security sign-up. Use the new Web form, which can be completed in about 15 minutes. The previous version took 45 minutes. With the shorter form, applicants are not required to fill in every item—only those that apply to their personal situations. Also, many applicants no longer need to provide an original copy of their birth certificate by mail or in person at a Social Security office. If additional documents are needed, Social Security will contact you. **http://ssa.gov/retireonline**

Use pretax dollars to pay for commuting expenses with a Commuter Savings Account. This lowers taxable income and money left in the account at the end of the year rolls over to the next year. Under IRS rules, employees can put up to $230 per month in pretax dollars into a commuter account for mass-transit passes, including van pools, and $230 per month for qualified parking. New this year is a $20-a-month allowance for biking expenses, but you cannot claim the biking benefits during any month in which you use the parking or mass-transit benefits. These accounts are set up by employers at their discretion—if your company does not offer them, ask about having them established.

To save money on your next flight, try splitting your trip into two fares. *Examples:* If you're planning a trip to Eleuthera in the Bahamas, consider flying from JFK airport to Nassau and then from Nassua to Governor's Harbor in the Bahamas. Recently the cost for a direct flight was about $560 - splitting the trip into two flights costs about $430. Or if you are heading to France, fly first to London or Manchester, then take a discount European airline to your final destination.

Wit & Wisdom

"Change is inevitable – except from a vending machine."

— Robert C. Gallagher

Recession Reality

Recession Has Taught Us Some Important Lessons About Money And Retirement

By Humberto Cruz, Tribune Media Services

A saner approach to money and retirement may be a positive outcome of the severe economic downturn.

"People have been frightened, people have lost money," said Ken Dychtwald, founder and CEO of Age Wave, a San Francisco-based think tank and consulting firm that specializes in demographic and retirement-related issues.

"But in some ways, there is great hopefulness," Dychtwald said. "And the fact that people are sobering up and learning important lessons and being more responsible for their money, that's extremely positive."

"Retirement at the Tipping Point: The Year That Changed Everything," a newly-released study by Age Wave conducted by Harris Interactive, found "new fears, new hopes, and a new purpose for retirement" compared to a similar survey a year ago.

It also found a need for "Financial Rehab" for Americans of all ages, but also signs of progress.

"After years of out-of-control spending, Americans have been jolted into realizing that they must get back to basics and learn to live within their means in order to find financial peace of mind," said the study, based on online interviews with 2082 Americans 21 to 84 years of age.

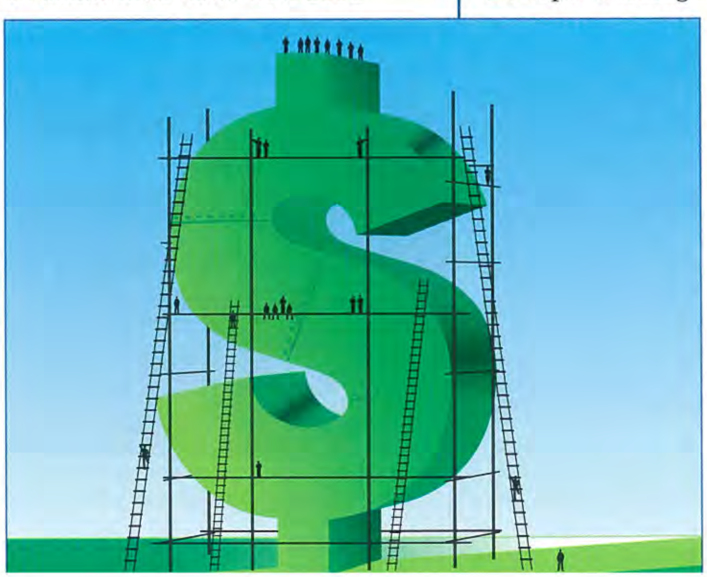
The study also found "a renewed focus on what's important and an optimistic outlook about the possibilities for retirees' new role in American life."

"Americans have been jolted into realizing that they must get back to basics and learn to live within their means in order to find financial peace of mind."

Among the findings:

■ Nearly 60 percent of Americans lost money in mutual funds, stocks and/or 401(k) plans in the past year, with those near retirement suffering the greatest losses. On average, Americans think it will take seven years to recover those losses. (My comment: Those near retirement tend to have the biggest account balances, so they lose the most in a market downturn. If an investment loses half its value, it will take more than seven years of 10 percent gains to get back to even.)

■ People working now say they will need to postpone retirement 4.2 years on average. If that happens, it would be the first time the retirement age increased substantially in the United States.



■ Four of five Americans said they've learned valuable lessons about financial responsibility, with the most important financial advice for parents to pass to their children being "live within your means" and "begin saving at an early age." The so-called "Millennials" (those 21 to 32 years old) were the most likely to have learned a lesson and had the biggest jump in their concern about living within their means (from 63 percent last year to 81 percent now).

■ Many Americans have gone back to financial basics. The U.S. savings rate has increased to 4.2 percent, double that over the past decade, and household credit card debt has gone down 9.7 percent.

■ A new and in some ways more optimistic vision for retirement is emerging, with 60 percent of Americans viewing retirement as "a new, exciting chapter in life" compared to 52 percent a year ago. "We expected people to be disheartened (about prospects for retirement) but in fact they are not," Dychtwald said.

■ Also, 70 percent want to continue working in retirement as a way to contribute, remain stimulated and pay the bills. Three-quarters think our country would benefit in important ways if retirees were more involved in contributing their skills and experience to our communities, with the most enthusiastic response (83 percent) coming from retirees themselves.

"Should continued work be viewed as a failure? Absolutely not!" Dychtwald said. Retirees who stay productive and engaged are happier and healthier on average and think of their retirement years as the best.

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Market Strategies

A Strategy For The Market? Look Inward First

By Kathy Kristof, Tribune Media Services

Uncomfortable putting your hard-earned money in the stock market? That's probably a good sign.

"When people as a group are the least comfortable is the best time to invest," said Gerald Appel, president of Signalert Corp., a money management firm in New York.

Even though some investors, like Appel, are optimistic, many remain terrified that stock prices will plunge again soon. They may be right if the recent rebound is no more than a bear-market rally almost certain to fizzle in the face of continuing economic woes.

"The level of fear that was in this market is unlike anything I've ever seen before," said Adam Bold, author of the book "The Bold Truth About Investing."

It's not foolish to be fearful, particularly if you panicked when the market fell. But your fear shouldn't be about the market -- it should be about you. The market is doing what it frequently does -- testing investors' true risk tolerance with a good crash.

If you're wise, you won't ask whether the market will go up or down over the next six months. (That answer is obvious: yes. The only thing that's ever certain about stock prices is that they're volatile, swinging both up and down.) The question to consider is what you should do about it. Here's a guide.

Measure your real risk tolerance.

Risk tolerance is a mix of personality and practicality. Your sunny disposition may convince you that what goes down will eventually go up and you shouldn't sweat short-term market moves. But if you've got a near-term goal that's likely to be derailed by a market upset, practical needs come first.

To evaluate your practical risk tolerance, look at how much you need to finance near-term needs -- the goals that need to be paid for in the next three years. That could be next year's college tuition, a major repair for the junker in your driveway, or living expenses to handle a job loss or retirement.

No matter how risk-tolerant you are, that portion of your portfolio should be in safe accounts that won't swing in value.

> ***Your fear shouldn't be about the market -- it should be about you.***

What if you have plenty of safe assets, but the market's plunge gave you ulcers, kept you up at night or left you screaming "Sell!" at your broker at the absolutely worst time? Then you may be risk-averse enough that you would be better off investing in safer vehicles even for long-term goals.

Control what you can.

You can't control stock market swings, but you can control how much you need for major goals such as retirement, said Stuart Ritter, a certified financial planner with T. Rowe Price.

How? What you need depends on what you'll spend and how much of that spending must come from savings. If you buy less or work part-time in retirement, you'll tap your retirement savings more slowly and need dramatically less.

Make an all-weather portfolio.

A good portfolio ought to be manageable yet diversified. That means different types of investments – stock market, bond market, real estate, cash and an international component -- and you may want different individual investments in each of those categories.

Once you've determined a good asset mix for your goals, you adjust only once or twice a year to maintain the mix, pulling money out of the sectors that have done well and putting more in the sectors that have done poorly, Ritter said. That keeps your allocation plan intact.

Take your hands off the wheel.

Investors have always had an innate desire to micromanage their money. But now they're also barraged with information about their investments. That makes it harder than ever to suppress the urge to react, said author Bold.

"It used to be that you'd get a 401(k) statement four times a year; now you're getting messages several times a day on your BlackBerry," he said. "People think because they have this information, they should act on it."

That's a big mistake. Academic studies say that the more you trade, the less you earn. Bold likens acting on the day-to-day gyrations of the market to tinkering with the engine of your car when you hear a slight noise.

"Once you have a program in place that you feel comfortable with, don't look at it every day," he said. "Sure, you need to rotate the tires every once in a while. But that's it."

On The Money

"I admire the way you're coping with the economic slowdown."

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Retirement Savings

A Roth IRA Q&A

By Humberto Cruz, Tribune Media Services

Q: My company is offering both a traditional and a Roth 401(k) plan this year. Is a Roth 401(k) the same as a Roth IRA? Is it better than a traditional 401(k)?

A: A Roth 401(k) and Roth IRA are not the same. But their basic underlying concept is: You put money away for retirement with no tax deduction for your contributions. But when you retire, you withdraw contributions and earnings tax-free.

As much as we like easy answers, you can't say one type of 401(k) or IRA is better than the other without qualifications. The right choice depends on individual circumstances and involves tradeoffs.

In a traditional 401(k), the most common type, workers contribute a portion of their salary to an employer-sponsored plan. The employer may add a matching contribution. None of the contributions counts as taxable income and all investment gains accumulate tax-deferred. When the money is withdrawn, everything is taxed as ordinary income. As with traditional IRAs, workers must generally start taking money out after age 70 and a half.

With a Roth 401(k), employee contributions count as taxable income. But investment gains accumulate tax deferred and withdrawals of both employee contributions and investment gains can be tax-free in retirement.

In a Roth 401(k), however, any employer-matching contributions are kept separate and get the same tax treatment as in traditional 401(k)s.

Unlike Roth IRAs, which never require the account holder to take money out, Roth 401(k)s impose mandatory withdrawals after age 70 and a half. But withdrawals can be avoided simply by rolling over a Roth 401(k) into a Roth IRA. Roth 401(k)s are open to all eligible workers regardless of income, while Roth IRAs have an income ceiling.

Subject to each employer's rules, the most an employee can put in a traditional or Roth 401(k) plan (or in both plans combined) is $16,500 in 2009 plus an additional $5,500 "catch-up" contribution for workers 50 and over, for a total of $22,000.

By comparison, IRAs are individual plans, not employer-sponsored, and contribution limits are lower. The maximum contribution for 2009 to a traditional or Roth IRA (or both combined) is $5,000 with an additional $1,000 "catch up" or $6,000 total for people 50 and over. You can contribute to an IRA and 401(k) the same year in any combination of traditional and Roth plans for which you qualify.

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