

# JOE LEE'S FINANCIAL NEWS DIGEST



A COMPILATION OF INFORMATION AND IDEAS FOR EFFECTIVE MONEY MANAGEMENT

## Money line

### 50% Penalty For Not Taking Your Money

Courtesy of  
Joe Lee

Note to seniors: Minimum retirement distributions are mandatory again if you're over 70 1/2 and have tax-deferred retirement accounts.

There was a lot of confusion last year. Based on a Fidelity survey, half of the people didn't know that retirement distributions were required last year.

Part of the confusion stems from a temporary suspension of mandatory distributions in 2009. That suspension was meant to help seniors cope with the stock market crash that wiped out billions of dollars in retirement savings. The government granted a one-year suspension for 2009 — if you didn't want to take money out of retirement accounts, you didn't have to.

In 2010, distributions from IRAs and other tax-deferred retirement accounts were required, and they are again this year.

The IRS can hit you with a 50 percent tax penalty — instead of your ordinary tax rate — on the amount that should have been withdrawn if you fail to make the requisite withdrawals.

Unfortunately, required minimum distribution rules are complex. Many people don't understand them at all, and others simply find it difficult to calculate how much they need to take. Consult with your tax advisor for details.

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## Financial Front

NEWS BRIEFS AND HIGHLIGHTS FROM THE FINANCIAL WORLD

### Health costs are expected to rise

by an average of 12.5% in 2011. That will bring employee-paid premium and out-of-pocket costs to an average of \$4,386. Annual employer costs for health insurance are expected to increase by about 9% to \$9,821 per employee.

### If you have made an offer on a foreclosed home

that the bank accepted, assume that the sale will not move forward until the bank makes sure that the foreclosure is accurate. Many big lenders have suspended foreclosures to investigate complaints about foreclosures being filed incorrectly. Consider having a real estate attorney review the seller's title policy for any problems. Even if you are in contract, you may have no choice but to wait for the bank to investigate the details of the foreclosure—but you can call the bank and request that your case be reviewed quickly if your closing date is soon.

### Some companies are raising dividends

as the economy slowly recovers from the recession. In a survey of 7,000 publicly traded companies, 299 boosted dividends in the third quarter of 2010, an increase of 56% from the third quarter of 2009. Only 35 cut dividends—a 74% drop from last year's third quarter.

### According to 401(k) expert,

David Wray, a few cash-strapped companies—typically small, private firms—have redirected employee contributions illegally to cover bills. Check your account statements to make sure that there are no shortfalls or gaps in contributions. If you suspect your employer, contact the US Department of Labor.

### Bank accounts are frozen at death

**unless** they are held in a living trust or by joint tenants with right of survivorship. All other accounts may not be used until the estate is settled in probate court, although a judge may let an estate's executor or administrator use an account to pay funeral expenses. When you set up accounts in a living trust or a joint account with right of survivorship, heirs can use them as needed. This also avoids the lengthy and costly probate process.

### A credit card that has not been activated

still affects your credit score. Credit scores treat activated and unactivated cards the same way—which means that canceling a card that you never activated is considered an account closure, which could hurt your credit score. So, be sure to apply only for credit cards that you intend to activate and use.

### Credit card information at hotels often is not secure.

Hackers hit the hotel industry more frequently than many other industries. Card information is easy to steal, and hackers quickly use it to run up charges, often while card holders still are traveling and may not notice what is going on. *What to do:* Check credit card bills carefully after any travel, and immediately report unrecognized charges to your card issuer.

## Wit & Wisdom

*"Money may kindle, but it cannot by itself, and for very long, burn."*

— Igor Stravinski

# As Boomers Start Turning 65, The Big Question Is, “What’s Next?”

By Mark Miller

The oldest baby boomers turned 65 in January. For the next two decades, roughly 10,000 Americans will be getting their Medicare cards in the mail every month.

The largest generation’s symbolic milestone has sparked predictable newspaper feature stories and polls about how boomers are feeling about the big six-five. Take your pick among the findings—boomers are satisfied with their lives (AARP), or they’re glum and pessimistic about the future (Pew Research Center).

Why is 65 our official senior moment? Mainly because it was adopted as the official retirement age when Social Security was created in the 1930s under Franklin Delano Roosevelt. But rising longevity has reduced the relevance of 65 as a symbol of old age. So has the boomer desire to rebel against stereotypes at each stage of their lives.

If the largest generation in American history can look forward to a couple more decades of usefulness and engagement, what will they do with those years? I posed this question recently to Marc Freedman, one of the country’s leading thinkers and writers on how Americans can redefine life after 50.

Freedman advocates continued participation in the labor force by older people who need and want to keep working. Labor force participation helps generate economic growth, and can contribute to national deficit reduction. There’s even evidence that working longer could extend the solvency of the Social Security Trust Fund, currently projected to be exhausted around 2035.

“I think what we need to do is focus on those who voluntarily are going to work longer—not necessarily those who don’t want to, but have to,” he says. “Rather than try raise the

retirement age or coerce someone who doesn’t want to work longer, let’s help those who are already determined to go in that direction get from aspiration to action.”

Freedman urges creation of public

## *What we need are new pathways for people in their 50s, 60s and 70s.*

policies and programs that can help with these critical life transitions. “Right now, the only transition we do a decent job on is the one young people make from adolescence to adulthood. At this later juncture, it’s a do-it-yourself process—you’re on your own.

“People are hungry for help with this. What we need are new pathways for people in their 50s, 60s and 70s. Let’s meet them halfway with additional education, internships or service projects. Let’s make it easier for this group to do what they want to do—and what we need them to do as a society.”

Here are some of the key ideas:

**Education:** Our higher education system offers undergraduate training for 18-to-25-year-olds and lifelong learning for those who are over 70 and truly retired. “A school for the second half of life has not been developed yet,” Freedman says. “It would be tailored for those who have another phase of their working lives yet to come.”



Freedman sees community colleges as the best candidates to offer this new encore career pathway, since they already offer career training, can offer affordable classes, and are well-connected to local labor markets and employers.

**Financing transitions:** Freedman wants to re-think the way retirement assets are used by splitting savings into two buckets—one for lifetime security and the other invested to produce income that can help pay for a mid-life career transition. Some people already are using 529 education accounts and Roth IRAs for this purpose, but Civic Ventures has been advocating creation of a new type of savings vehicle to support midlife education called an Individual Purpose Account (IPA). IPAs could incorporate valuable features such as tax credits, employer matches and loan options.

**Volunteering as a pathway:** The Serve America Act of 2009 funded a dramatic expansion of public service programs, and it envisioned national service “encore fellowships” to help people transition to public service in the non-profit sector, but the fellowships haven’t yet been funded. Some corporations are adding encore career programs, and some community colleges are starting programs. Freedman still hopes the fellowship program will be funded and expanded.

Does the push for encore careers make practical sense in a period of high unemployment and scarce jobs? Freedman argues that the new life stage he envisions involves “a long-term structural change in the shape of our lives, and it will include upturns and downturns in the economy.”

# When Debt Collectors Go After The Wrong Person

By Kathy Kristof

If you have a common name, watch out. You could get “tagged” with someone else’s debt.

Debt-tagging is the term used in the collections field for a situation in which an innocent consumer is mistakenly blamed for someone else’s overdue debt, usually because of a similarity in names or some other type of mix-up.

But even though it’s a mistake, the person who is tagged can go through a lot of trouble to clear his or her name.

It happened to Michael Hughes, a retiree in Virginia, who suddenly started getting calls from collection agents telling him he owed \$12,000. Hughes, who had always been financially cautious, knew it could not have been him.

“I tried to tell them that they had the wrong Mike Hughes,” he said. “They didn’t care. They let me know that if I didn’t pay the debt I’d be in big trouble.”

The problem of debt-tagging has gotten worse in recent years because banks and credit card companies are increasingly selling debt for pennies on the dollar.

“This rarely happens when the original credit issuer is doing the collecting,” said Bill Bartmann, president of CFS II, a collection company headquartered in Tulsa, OK. “But when debt gets sold, it’s like that old game of telephone.”

“You start out with all the information about the person who owes the money, but the file gets transferred and something gets lost or misinterpreted. Then the debt is sold again and again, and the problem is magnified.”

You’re most likely to be a victim of debt-tagging when you have a common name, said Adam Levin, president of Identity Theft 911, which specializes in identity theft resolution services. In some cases, the name and an address — or perhaps an old cell phone number — are all that a collection agent has to go by.

“Maybe you have a new cell phone number that used to be assigned to somebody who didn’t pay their bills,” Levin said. “Some of the [collection agents] don’t care whether they’ve confused you with someone else. They have a live fish on the line, and they’re going to pressure you to pay.”

It’s important to know that debtors have rights. Those rights also extend to those who have been wrongly tagged with a debt.

The most important of these rights, in this situation, is that you’re legally entitled to detailed information about the debt you supposedly owe.

*You’re legally entitled to detailed information about the debt you supposedly owe.*

“The first thing to do is to ask for verification of the debt,” Bartmann said.

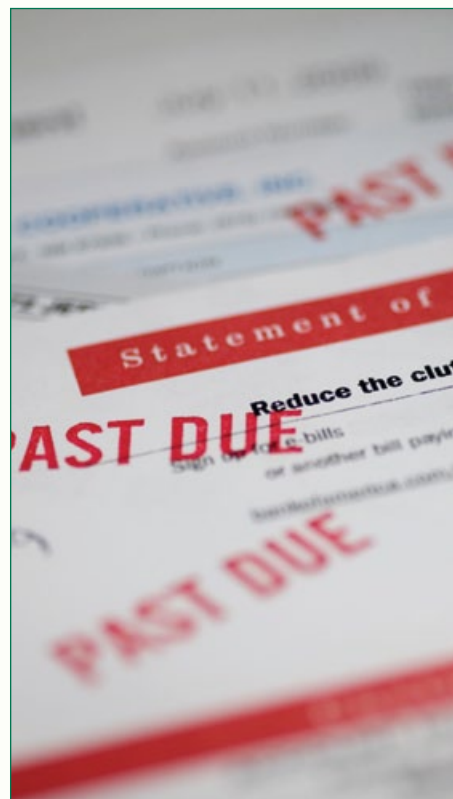
The Fair Debt Collection Practices Act requires the collection company to provide you with the precise amount owed, the company to which it’s owed and information about when the debt was incurred. You can ask for the original loan application, a payment history, and other documentation.

Some collection agents will attempt to send an affidavit that simply states you owe the debt, Bartmann said. But in these days of robo-signing, affidavits are not as compelling evidence of a debt as they once were.

Demand to see written proof that this debt is yours and when it originated, he suggested. Keep as much as possible of your communications with the collection company in writing so that if you end up in court you’ll have documentation.

If you receive information about the debt and know it isn’t yours, you may dispute it by sending the collection company a written letter, explaining that while your name is Jane Young, you are not the same Jane Young who owes \$10,000 to Sears, for example. It’s helpful to include the discrepancies between the real you and the person who took out this debt.

In Hughes’ case, he had a different middle initial, street address and Social Security number. The only similarity, besides the first and last names, was that the other Michael Hughes worked at the same tire manufacturing company as the mistaken Hughes.



“A blind person could see that I was not the same person,” Hughes said. “But they said they knew I was lying and I had to go ahead and pay my bills.”

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## On The Money



“You saved \$126 for your retirement. My advice is to convert it all to pennies and reinvest it at the nearest wishing well.”



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## Investment Strategies

# Avoid These Common Personal Finance Mistakes

By Elliot Raphaelson

I've made my share of investing mistakes, as have my students, friends and acquaintances. And, from my observation, the well-educated and well-to-do make just as many mistakes as everybody else. The best way to get your financial house in order is to be sure you're avoiding these all-too-common mistakes:

**Waiting too long to save.** The vast majority of Americans don't think seriously about retirement until their 50s, or even later. By then, with rare exceptions, it is too late. They will not be able to set aside enough savings to live on with the same standard of living. Nor is there any guarantee that, in the short time frame in which they do save, the financial markets will be favorable.

**Insufficient diversification.** Diversification is key to obtaining optimum

returns on investments. Unfortunately, most investors pay insufficient attention to its importance. One of the most successful endowment managers in the U.S. is David Swenson, who managed the Yale investment portfolio for several years with outstanding success. I recommend his books highly. He provides several examples of effective diversification, as well as emphasizing the importance of low-cost, tax-efficient "market-mimicking" portfolios. Other excellent authors who support this viewpoint are Burton Malkiel and John Bogle.

**Not rebalancing often enough.** It's very difficult to predict when the stock market will outperform the bond market, and vice-versa. At least once a year, you should consider re-allocating your portfolio back to the percentages you have

determined make sense for you. For example, let's say you're in your 40s and you have adopted the following portfolio mix: 60 percent in the stock market, 30 percent in the bond market and 10 percent in the real estate and/or commodities markets.

At the end of the year, let's say your portfolio is 55 percent in stocks, 33 percent in bonds and 12 percent in real estate and commodities.

Assuming you are comfortable with your initial allocation, consider selling some of the bonds, real estate and commodities, and buy additional stock market assets. Rebalancing may help smooth out your overall market performance.

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