CG Financial Consulting Newsletter

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Market Review and 2011

It appears the market rally will have legs in 2011. I expect either 2011 or 2012 to be a very good year, but I believe one of the two years will be a great year in the market. 2010 was also a very good year! The S&P 500 is up 9.82% the Mid Cap Index is up 24.68% Small Cap Index is up 27.91% and the Total International Index is up 10.63% (YTD) [These numbers are as of the close of 12-29-2010 and approximate]. A very fine year indeed!

The Mid Cap index fund (at Vanguard, which I highly recommend) had a fantastic year. As investors fail to realize that even in rough economic times, the market can go up. So, having a plan and sticking to it is essential. The average investor's return is very bad...close to even. Why? They get scared and make bad moves, they sell when the market is low and buy when the market is high. If you listened to the news daily you would never buy any market assets. 2010 was an excellent market year. If you listened only to the news about employment and housing, you would never have invested. Don't listen to the daily noise! The best time to buy any market mutual fund or stock is when the market is down, way down is even better. We have a hard time understanding that the scariest times (economically), are the very best times to be a long term stock fund investor. Equate bad times in the market to a clearance sale in your favorite store, both are an excellent time to scoop up bargains. Obviously, this makes the most sense when you are still working and have the money to invest. If you are debt ridden, you can't be a buyer.

I have talked many times about keeping debt low. Having a mortgage you can easily afford, staying away from credit card debt and home equity loans. Why? Because with excess money--you can take advantage of market lows. You can swoop in and buy. The best buys in the market over the past 35 years were in the time frame of January - April of 2009. Did it take some courage to invest then? Yes, it did. But it has really paid off. Don't listen to the crowd. Good investing decisions are made by having a plan, having built up years of experience, learning from those experiences and making good choices for your future.

Have a joyful 2011! You can reach me at clark@cgfinan.com or ph: 515-733-2070. www.cgfinan.com See Page 4 for a free dinner opportunity.

Baby boomers near 65 with retirements in jeopardy

Through a combination of procrastination and bad timing, many baby boomers are facing a personal finance disaster just as they're hoping to retire. Starting in January, more than 10,000 baby boomers a day will turn 65, a pattern that will continue for the next 19 years.

The boomers, who in their youth revolutionized everything from music to race relations, are set to redefine retirement. But a generation that made its mark in the tumultuous 1960s now faces a crisis as it hits its own mid-60s.

"The situation is extremely serious because baby boomers have not saved very effectively for retirement and are still retiring too early," says Olivia Mitchell, director of the Boettner Center for Pensions and Retirement Research at the University of Pennsylvania.

There are several reasons to be concerned:

- The traditional pension plan is disappearing. In 1980, some 39 percent of private-sector workers had a pension that guaranteed a steady payout during retirement. Today that number stands closer to 15 percent, according to the Employee Benefit Research Institute in Washington, D.C.
- Many retirees banked on their homes as their retirement fund. But the crash in housing prices has slashed almost a third of a typical home's value. Now 22 percent of homeowners, or nearly 11 million people, owe more on their mortgage than their home is worth. Many are boomers.

Michael Vanatta, 61, of Vero Beach, Fl., is paying the price for being a boomer who enjoyed life without saving for the future. He put a daughter through college, but he also spent plenty of money on indulgences like dining out and the latest electronic gadgets. Vanatta was laid off last January from his $100,000-a-year job as a sales executive for a turf company. And with savings of just $5,000, he's on a budget for the first time. In April, he will start taking Social Security at age 62. "If I'd been smarter and planned and had the bucks, I'd wait until 70," says Vanatta, who is divorced and rents an apartment. "It's my fault. For years I was making plenty of money and spending plenty of money."

Vanatta is in the majority. Some 51 percent of early boomer households, headed by those ages 55 to 64, face a retirement with lower living standards, according to a 2009 study by the Center for Retirement Research at Boston College. Too many boomers have ignored or underestimated the worsening outlook for their finances, says Jean Setzfand, director of financial security for AARP, the group that represents Americans over age 50. By far the greatest shortcoming has been a failure to save. The personal savings rate — the amount of disposable income unspent — averaged close to 10 percent in the 1970s and `80s. By late 2007, the rate had sunk to negative 1 percent.

The recession has helped improve the savings rate — it's now back above 5 percent. Yet typical boomers are still woefully short on retirement savings. Even those in their 50s and 60s with a 401(k) for at least six years had an average balance of less than $150,000 at the end of 2009, according to the EBRI.

Signs of coming trouble are visible on several other fronts, too:

• Mortgage Debt. Nearly two in three people age 55 to 64 had a mortgage in 2007, with a median debt of $85,000.

• Social Security. Nearly 3 out of 4 people file to claim Social Security benefits as soon as they're eligible at age 62. That locks them in at a much lower amount than they would get if they waited. The monthly checks are about 25 percent less if you retire at 62 instead of full retirement age, which is 66 for those born from 1943 to 1954. If you wait until 70, your check can be 75 to 80 percent more than at 62. So, a boomer who claimed a $1,200 monthly benefit in 2008 at age 62 could have received about $2,000 by holding off until 70.

• Medical Costs. Health care expenses are soaring, and the availability of retiree benefits is declining.

"People cannot fathom how much money will be needed to simply cover out-of-pocket medical care costs," says Mitchell of the University of Pennsylvania.

A 55-year-old man with typical drug expenses needs to have about $187,000 just to cover future medical costs. That's if he wants to be 90 percent certain to have enough money to supplement Medicare coverage in retirement, the EBRI said. Because of greater longevity, a 65-year-old woman would need even more to cover her health insurance premiums and out-of-pocket health expenses: an estimated $213,000.

• Employment. Boomers both need and want to work longer than previous generations. But unemployment is near 10 percent, and many have lost their jobs. The average unemployment period for those 55 and older was 45 weeks in November. That's 12 weeks longer than for younger job-seekers. It's also more than double the 20-week period this group faced at the beginning of the recession in December 2007. If financial neglect turns out to be many boomers' undoing, challenging circumstances are stymieing others.

Linda Reaves of Silver Spring, Md., never had much opportunity to save as a single mother raising two sons and a daughter. After holding a variety of positions over the years — hotel office manager, research analyst for a mortgage company, hospital mental health counselor — she was still living paycheck to paycheck. Then she was laid off in 2007 at the age of 57. She entered a training program to learn new skills, but all she has found since is a string of temporary jobs. In her daily quest for clerical or administrative work, she competes against much younger applicants. Reaves, who turns 60 this month, plans to work until she's at least 70 and then wants to travel, even if she doesn't know where the money will come from. "I just keep going. I don't really worry about it," she says. Add this all up, and there's a "slow-burning" retirement crisis for boomers, says Anthony Webb, a research economist at the Center for Retirement Research. "If you have a crisis where the adverse consequences are immediately clear, then people understand that they have to do something," Webb says. "When the consequences will be felt 20 or 30 years in the future, the temptation is that we kick the can down the road."

As a result, he believes many won't change their behavior. For less affluent boomers, it won't take that long to feel the pain of poor planning. Concerns about financial trouble will hang over many of those 65th birthday celebrations in 2011. Many seem to view their plight through rose-colored granny glasses. An AARP survey last month of boomers turning 65 next year found that they worry no more about money than they did at age 60— before the recession or the collapse of home prices. But in an acknowledgement of reality, 40 percent said they plan to work "until I drop."

Put that pizza on my student loan

It happened at a bar and restaurant in Grand Forks, N.D., but it could have been at any college campus in America.

College kids were enjoying pizza and beer, and paying for it all with a debit MasterCard. But this was not any debit card. The funds behind it come from student financial aid.

The card is the brainchild of Miles Lasater and Mark Volchek, who came up with the concept when they were students at Yale and turned it into a business called *Higher One* which went public in 2010. Higher One reported $75 million in revenue in

2009, and is on pace to more than double that in 2010, with some 700 colleges and 5 million students on board. And the business is built around that debit card.

According to the company, roughly half of student borrowers receive aid that covers more than their tuition. Those funds are supposed to cover books, housing and living costs. Schools are required to refund that money to students, and in the past did so in the form of a paper check.

Lasater, who was a computer science major at Yale, and Volchek, who studied economics, reasoned they could streamline the process for schools and students, while at the same time making money from MasterCard transaction fees collected from merchants and debit-card fees collected from students. Schools quickly signed on, including the University of North Dakota.

“We really looked at it as a pretty reasonable win-win kind of arrangement,” University of North Dakota Vice President Peggy Lucke said.

But not everyone views it that way.

Higher One’s fees have drawn the ire of some students, like University of North Dakota senior Shane Gerbert.

“I don’t like the fact that someone’s taking money from money I borrowed,” Gerbert said.

And the money can add up. Higher One charges $20 to replace a lost card. $19 a month for account that has been inactive for nine months, and 50 cents any time a customer keys in a PIN instead of swiping the card, which is how Higher One earns transaction fees.

The company defends the fees as competitive, noting that students can avoid all fees if they use the card properly.

But is it wise to outfit students with a card that lets them access student loan funds with a simple swipe to spend on anything from books and housing to pizza and beer?

Lasater said students are capable of using the money wisely.

“The financial aid system is designed to provide living expense money as well,” Lasater said. “So it's everyday money that you use, yes, to buy food, to buy drink if that's appropriate.”

University of North Dakota student Alexandra McLaflin got her Higher One card right after her 24th birthday. She did not use all the funds for school.

“I kind of went out and spent some on clothes and shoes and went to the bar,” she said. “But most of it I did try to save for some bills.”

Not all of it, though.

“I did buy a new car,” she said. “The interest rate was a little lower than through a car dealership.”

A new car with student loan money?

Higher One still says it is reducing costs for schools by streamlining the financial aid process. But the schools are not necessarily applying all the savings to tuition costs.

In November, Higher One hosted a weeklong conference for college financial aid conference at the luxurious *Meritage Resort and Spa*, nestled on a private vineyard in Napa, California. While the company notes the conference included 20 hours of meetings and educational sessions over five days, there was also a lesson in wine tasting from one of the vineyard’s experts, and time for spa treatments and tours of the Meritage’s vineyards.

“This is a paid conference that people are attending for educational purposes,” Lasater said. “This is not for entertainment.”

The conference also included raffles with prizes, and dinner at an award winning Napa restaurant. But Volchek said that was not the primary focus for the attendees.

“Networking with other administrators is really important for them to learn about how other campuses use products and are more efficient,” Volchek said.

The schools, many of them state institutions, paid for their administrators to attend. A spokesman for the University of North Dakota insisted the cost was “not out of line,” though the roughly $1,700 would cover approximately half a semester’s room and board at a University of North Dakota dorm.

The Higher One debit card is optional for students, who can still choose to receive their funds as a paper check or an electronic transfer to a bank account. Higher One acknowledges it relies on colleges to help communicate the benefits of the debit card to students, and Lasater insisted the financial aid officers have their students’ interests at heart regardless of the pampering in Napa Valley.

“I think university administrators are spending their time learning about a valuable service offering,” Lasater said. “And we spent the time at the conference focused on that and talking with each other. There were some social events as you mentioned.”

2011 Tax Brackets: What Will Change?

So what *will* be different about the 2011 tax year as opposed to 2010? A few things, for example:

- The $400 ($800 if married filing jointly) Making Work Pay Credit will expire,
- The Social Security payroll tax rate will decrease by 2%, as will Self-Employment Tax for self-employed taxpayers, and
- The estate tax will return with a rate of 35% and a lifetime exclusion of $5 million for 2011 and 2012.

SINGLE 2011 Tax Brackets

Taxable Income	Marginal Tax Rate:
$0-$8,500	10%
$8,500-$34,500	15%
$34,500-$83,600	25%
$83,600-$174,400	28%
$174,400-$379,150	33%
$379,150+	35%

MARRIED FILING JOINTLY 2011 Tax Brackets

Taxable Income	Marginal Tax Rate:
$0-$17,000	10%
$17,000-$69,000	15%
$69,000-$139,350	25%
$139,350-$212,300	28%
$212,300-$379,150	33%
$379,150+	35%

HEAD OF HOUSEHOLD 2011 Tax Brackets

Taxable Income	Marginal Tax Rate:
$0-$12,150	10%
$12,150-$46,250	15%
$46,250-$119,400	25%
$119,400-$193,350	28%
$193,350-$379,150	33%
$379,150+	35%

MARRIED FILING SEPARATELY 2011 Tax Brackets

Taxable Income	Marginal Tax Rate:
$0-$8,500	10%
$8,500-$34,500	15%
$34,500-$69,675	25%
$69,675-$106,150	28%
$106,150-$189,575	33%
$189,575+	35%

2011 Standard Deduction and Exemption Amounts

For 2011, the personal exemption amount will increase to $3,700 (from $3,650 in 2010).

The 2011 standard deduction will be:

- $5,800 for unmarried taxpayers or married taxpayers filing separately,
- $11,600 for married taxpayers filing jointly, and
- $8,500 for taxpayers filing as head of household.

The additional standard deduction allowed for blind taxpayers and senior citizens will be $1,150 if married filing jointly and $1,450 if single.

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Free Dinner Opportunity in April:
CG Financial Consulting will be holding
A free educational 45 min. financial
workshop in Story City.
It will be a 6pm presentation.
There will be no sales pitch.
This is just information for my clients
and a few selected individuals to use.
Food will be provided by The Bistro or
Hickory Park Restaurant.