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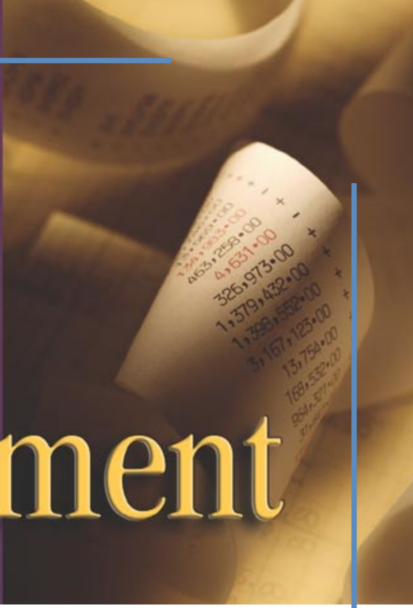
Money Management



Ten Ways to Stretch Your Money

We all want more money. Many of us would also like to work less. While this may seem like a dilemma, there may be a solution. The best way to increase money without increasing your hours is to *avoid* excess spending. Some people call this a budget, but you could just as easily call it a spending plan. Here are ten tips to help you maximize and stretch your hard-earned cash:

1. Create a spending plan. Many people resist the idea of a budget and associate it with hardship. Instead, look at it in a *positive* way. Create a monthly "spending plan" for your fixed and discretionary expenses. When you *plan* your spending, you may find you spend more wisely because *you're taking control.*

2. Pay yourself first. Put savings at the top of your spending plan. If you wait until the end of the month to save any leftover cash, you may find yourself without a nest egg when you need it most. A good rule of thumb is to save at least 10% of your income before spending the rest.

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Add Flexibility to Your Pension Plan

Until recently, one of the primary decisions you would need to make if you were approaching retirement would be what kind of annuity payout you should take from your company's pension plan: **single life**, which will last for your lifetime, or a **joint and survivor option**, which will last for your life plus that of a designated beneficiary, usually your spouse.

However, you may have had two questions concerning the inherent fairness and flexibility of these two basic payout options: What if you died sooner than expected? What if you needed some emergency funds? If you died early, you'd lose out on some of the retirement monies you had earned. And, in the event of an emergency, you couldn't quickly utilize your retirement funds due to the fixed distribution schedule. So, how could you get your "money's worth" out of your company's pension (even with survivor benefits), and how could you gain access to additional funds in an emergency?

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When Giving, Get a Receipt

Charitable donations allow you to give *and* take—you *give* money or property to a qualified charity and then *take* an income tax deduction. As you plan your giving, remember it's important to keep accurate records. Receipts for your charitable donations can confirm your contributions should the Internal Revenue Service (IRS) require documentation.

If you make a donation to a charity of cash or property, you need to obtain a bank record or *written* acknowledgment from the recipient charity that specifies the amount and date of contribution, as well as the name of the charity. For property, the acknowledgment must describe the gift and provide an estimated valuation. It is important to note that donations of clothing and household items must be in "good condition" in order to qualify for a tax deduction. Bear in mind that non-cash contributions exceeding $5,000 generally require a qualified, written appraisal within 60 days of the date of the gift.

In addition, the donation statement from the recipient charity must specify if any considerations (e.g., meals, clothing, concert tickets, trips, or books) were given in exchange for the contribution. (Honoring contributors with a symbolic gift of appreciation is a common practice, especially with television fund-raising.) Your tax deduction is reduced by the amount of the consideration.

While receipts and other acknowledgments are not filed with your annual federal income tax return (Form 1040), these should be carefully stored with other tax documents for the year in which the donations were made. As a general rule, you should keep tax records, including all tax forms, investment statements, bank statements, proof of deductions, or any receipts associated with a particular return, for at least six years. *MM*

Work-Related Educational Expenses: Are They Deductible?

An increasing number of individuals are going back to school to improve their technical or professional skills, qualify for advancement, bring home higher paychecks, or just improve their quality of life. We all know education costs money and tuition is expensive. But you may be able to offset some of the expense by claiming a deduction for your work-related educational expenses on your tax return. Let's take a closer look at the rules.

First, in order to deduct work-related educational expenses, you must *itemize* deductions on your tax return, rather than take the standard deduction. In general, a taxpayer will itemize deductions when the total of qualified deductible expenses exceeds the standard deduction or if the taxpayer does not qualify for the standard deduction because of income limitations. For tax year 2009, the standard deduction is $5,700 for single filers and $11,400 for joint filers.

Second, work-related educational expenses are considered "miscellaneous" expenses when itemizing and are therefore subject to a 2% floor. This means that you can only deduct the amount of miscellaneous expenses that exceed 2% of your gross income.

To be deductible, your expenses must be for education that maintains or improves your job performance, serves the purpose of your employer, or is required by your employer or by law to keep your salary, status, or job. The education must be linked with "carrying on a trade or business" in which you are already active, and it must be closely related to your current job skills. For instance, an accountant can write off courses that explain new tax rules, and a professional pianist can write off music lessons.

Expenses do not qualify if the education is needed to meet the minimum requirements of your present trade or business, or if it is part of

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Add Flexibility to Your Pension Plan

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The answer? A **lump-sum distribution**. This one-time payment, based on your life expectancy and an assumed interest rate, means you will immediately receive everything you "earned," providing you with total control of your money.

You can roll the lump sum over into an **Individual Retirement Account (IRA)** that will allow you to defer any taxes until you take any distributions. You can take the required minimum distributions from your IRA and, in an emergency, tap deeper into the account. But there's one potential problem with this scenario: It introduces the possibility that you may outlive your assets. You may not necessarily have an *income stream for life*.

If your pension plan offers the lump-sum option, however, there is a solution to creating a steady income stream. You can take the lump-sum distribution and set up an IRA rollover, but you can also place a *portion* of the lump sum into a **fixed annuity**. By putting some of your money into an IRA, the taxes on this portion would be deferred until you start taking distributions. Furthermore, by purchasing the fixed annuity, you continue to defer taxes on these funds as well, while securing retirement income with a guaranteed lifetime income payout option. However, there are surrender charges, fees, and expenses associated with a fixed annuity, and they provide no additional tax advantages when used to fund a qualified plan.

You could purchase the fixed annuity either by directing your employer to transfer funds directly from your pension account to the insurance company providing the contract or rolling all the money into the IRA first and later transferring cash to the insurer. (*Note*: Annuity payments are guaranteed by the issuing company and are based on that particular company's continued ability to pay claims.)

While you will always benefit from maintaining a savings plan consistent with your changing goals, a consultation with your financial professional can be an important next step to help ensure peace of mind for your long-term financial future. *MM*

Work-Related Educational Expenses: Are They Deductible?

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a program of study that will qualify you for a new trade or business. Educational expenses that enable you to qualify for a promotion may be allowed. Generally, if an individual changes *duties*, it is not a *career* change, as long as the individual remains in the same line of work.

Work-related educational expenses that can be deducted include those for tuition, books, supplies, lab fees, and similar items; certain transportation and travel; and other educational services, such as the cost of research and typing when part of an educational program. You cannot deduct personal or capital expenses, such as the dollar value of vacation time or annual leave taken to attend classes. This is a personal expense. Also, you cannot claim any expenses that qualify for reimbursement from your employer, even if you do not receive the reimbursement.

Enhancing your job skills is worthwhile, regardless of whether you can get a tax break. However, if your work-related educational expenses *do* qualify, be sure to keep accurate records of all deductions to substantiate the expenses claimed. *MM*

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3. Track your spending. Record your expenditures for a month, especially for small optional items. You may be surprised to discover how easily purchases costing only a few dollars can add up. At the end of the month, review your expenditures and adjust your spending plan accordingly. Once you see *where* your money is going, you may want to make different choices about your spending.

4. Live within your means. Many people feel they never have quite enough to live on, yet they probably know people who manage successfully on less. Spending is relative. If you live within your means, you will never overspend.

5. Shop for value. Look for opportunities to get more value from each dollar. Join a warehouse or shopping club and buy in bulk. Purchase clothing, furniture, and household goods when they are on sale. Consider buying used cars and appliances. Big-ticket items like these often depreciate substantially in the first one or two years.

6. Minimize debt. Keep your debt level low. By reducing debt, you also minimize interest and finance charges. When you are tempted to charge a purchase, remember that you are committing to pay for it from income you have not yet earned.

7. Eat in. Restaurant dining can be expensive, since you are paying for service as well as food. Tips and meal taxes add 20% or more to the bill. Liquor and desserts (which you might not eat at home) can boost the tab even higher.

8. Reduce housing costs. Housing is a major fixed expense. Consider reducing this cost by buying or renting a smaller place, or one with fewer amenities. If you rent and plan on staying in an area for more than a few years, consider buying. Owning a home is often more expensive than renting at first, but the costs are usually lower in the long run. Remember, a house is an investment that generally appreciates over time.

9. Trim transportation costs. Transportation is another large expense for most families. Many households now own more than one vehicle. The more cars you own, the higher the costs for insurance, repairs, fuel, and parking. Use public transportation or carpool, if possible. The savings in vehicle-related expenses may offset any inconvenience.

10. Create a cash reserve. A cash reserve can help you stick to your spending plan and help keep you out of debt when emergencies, such as a major car repair or short-term disability, arise.

Cutting back on excess spending does not have to be difficult, nor does it mean that you must continually deny yourself life's simple pleasures. You will find that when you live within your means, and pay yourself first, your debts will decrease as your savings grow. A personalized spending plan can help provide that "extra" income and stretch your hard-earned cash. *MM*

A Parting Thought...

Liquidity is the ability to quickly and easily convert assets into cash without incurring a significant loss. Funds in a checking account are considered liquid assets, while real estate is considered relatively illiquid. If your estate must sell illiquid assets to meet immediate cash needs, it may be forced to do so at a significant loss.

Anticipating certain costs and planning for them can help ease the estate settlement process. Consider preparing for final medical expenses, funeral costs, bills, outstanding debt, income taxes, appraisal fees, Federal and state estate taxes, and attorney fees. An estate planning team can help you develop appropriate strategies for your situation.