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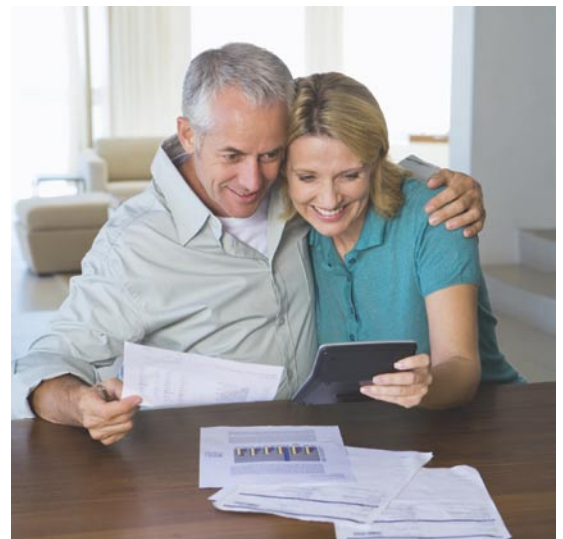
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2010 Update for Retirement Savings

The Internal Revenue Service (IRS) has announced that qualified retirement plan limits will remain unchanged or increase only slightly in 2010. By law, the dollar amounts for a variety of tax provisions must be revised by the IRS each year to keep pace with inflation, and more than three dozen tax benefits are indexed to inflation. However, recent inflation factors have been minimal: The U.S. Bureau of Labor Statistics' August estimate of the Consumer Price Index (CPI), the statistic used by the IRS in calculating tax inflation indexing, was 0.19% in 2009, down sharply from 4.26% in 2008. Therefore, adjustments for 2010 will be minimal, and some provisions will remain unchanged.

The 2010 annual benefit limits for both defined contribution plans (\$49,000) and defined benefit plans (\$195,000) are unchanged from the 2009 limits. The maximum amount an employee under age 50 is permitted to contribute to a 401(k), 403(b), SAR-SEP, or 457(b) plan in 2010 holds steady at the 2009 limit of \$16,500, while the maximum catch-up contribution for those over age 50 remains at \$5,500. The limits for elective deferrals are also unchanged for SIMPLEs (\$11,500, with a catch-up contribution of \$2,500 for those over age 50) and IRAs (\$5,000, with a catch-up contribution of \$1,000 for those over age 50). In addition, the annual compensation limit for defined contribution plans remains at \$245,000, and the limitation that defines a highly compensated employee remains at \$110,000 in 2010.

However, income limits for contributions to IRAs have increased for some taxpayers. For active participants in an employer-sponsored retirement



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Revisiting Elder Care Issues

It is no longer unusual for people to live 15 or more years beyond normal retirement age (Centers for Disease Control and Prevention, 2009). Consequently, when seniors reach their eighties and nineties, plans that were satisfactory at age 65 often require a second look. Areas of concern to older seniors and individuals with aging parents or loved ones include asset management, health care, and living arrangements.

Managing Assets

Many older seniors may lose the cognitive ability to manage their assets. A variety of arrangements are possible to transfer that responsibility to others. Among them are the following:

- **Revocable and Irrevocable Trusts.** Seniors who wish to *retain control* over their property, while delegating the daily management to others, may wish to consider a **revocable trust**. This arrangement allows the senior to monitor the management of his or her assets, yet offers the flexibility to change the trust as needs and circumstances warrant. As added protection, a revocable trust may remain unfunded, as long as the senior is legally competent. Alternatively, an individual who is willing to *relinquish* ownership of assets altogether could establish an **irrevocable trust**.
- **Durable Power of Attorney.** This mechanism allows seniors to designate a trusted relative or friend to make legal and financial decisions for them in the event of disability or cognitive impairment. The powers granted may be limited or broad in scope, and

they may vary from state to state. Some financial institutions are reluctant to recognize durable powers of attorney, so it is worthwhile to thoroughly explore this option beforehand.

- **Informal Arrangements.** Some seniors transfer property *informally* to their heirs—in many cases free of gift taxes—in exchange for being taken care of for the rest of their lives. This arrangement, however, should be approached with caution. Even well-meaning adult children may unintentionally deplete assets through poor management, divorce, or creditor claims. Once the assets are gone, the senior could become dependent on the goodwill and financial assistance of relatives.

Health Care

With health care costs rising and people living longer than ever before, seniors of advanced age need to anticipate the possibility of high medical costs. The Federal government provides *some* health care benefits through the **Medicare** and **Medicaid** programs, but seniors need to understand the coverage those programs provide and what costs they will need to pay themselves.

Medicare Part A covers inpatient services at hospitals and other health care facilities. It is provided automatically, at no cost, for seniors age 65 and older who are eligible for Social Security, and at a substantial cost for those who enroll independently. **Medicare Part B** provides additional health care coverage that is *optional* and must be paid for separately.

Eligibility for **Medicaid**, which covers long-term nursing home care,

depends on financial need. Seniors may require professional assistance in managing their income and resources in order to meet Medicaid's strict eligibility requirements.

Living Arrangements

Older seniors, who are able to care for themselves and have the means to do so, may wish to remain in their own homes. Community services may be available to help prolong their independence.

However, elders who are unable to live independently have several alternatives. **Assisted living/residential care facilities** provide a protected environment with an atmosphere of independent living. Generally, daily meals are provided in a communal dining room, and minimal assistance with activities of daily living, such as washing, dressing, or taking medication, is available. **Continuing care communities** offer a combination of independent living and health care support. If family members work, **senior daycare centers**—either publicly or privately funded—can provide opportunities and activities to alleviate monotony and promote social and cognitive stimulation. In some cases, hiring in-home help may be an appropriate solution.

Periodically Review Plans

Aging seniors and/or family caregivers are advised to periodically review existing financial, health care, and living arrangements. In the transition to the later stages of life, changing needs and concerns often require revisiting prior plans and updating or revising them accordingly. ■

Should Retirement Be Hard Work?

ah, retirement! Finally, time to relax, free from financial worry. Many people think of retirement as a time to travel or pursue special interests—a welcome break from the 40-hour workweek. But without careful retirement planning, you may actually need to work harder and longer than you imagined during your so-called retirement years. In fact, it may be safe to say that, when it comes to retirement, the best-laid plans begin well before age 65.

Know Your Resources

How many times have you said, “I’ll do that when I retire,” expecting to have plenty of free time to pursue other interests when you no longer have to report to work every day? But, have you considered the costs of these interests? A general rule of thumb is that you may need 60%–80% of your pre-retirement income to maintain your lifestyle during retirement. Careful planning now can help maintain your desired lifestyle during

retirement, and provide the resources to pursue your dreams.

For many, Social Security, employer-sponsored retirement plans, and personal savings are the primary sources of retirement income. Although Social Security may contribute a certain percentage, the Social Security Administration (SSA, 2009) estimates that, on average, benefits provide only 40% of income for the elderly. For many, an employer-sponsored retirement plan can also provide substantial income. However, both of these sources may need to be supplemented with personal savings to help provide enough income to maintain your lifestyle and/or to help provide the extras you desire in your retirement years.

Put Time on Your Side

Early retirement planning puts time on your side. It is never too early to begin saving and never too late to start. In fact, one advantage

of early retirement planning is that you have a longer period of time before retirement, which allows a great opportunity to increase your savings through potential growth.

An equally important consideration for retirement planning is the reality of inflation, which can quickly devour even substantial savings. For example, a modest 4% inflation rate, maintained over 15 years, will reduce the purchasing power of \$250,000 to \$138,816. Starting early may allow your savings to outpace inflation.

Although it can be difficult to imagine a time when you will not have to be at the office or worksite each morning, the day may arrive sooner than you think. Therefore, begin preparing for retirement *now*—even if it seems premature. With time on your side, the best-laid plans may help ensure a secure financial future for you and your family. ■

2010 update for retirement savings

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plan, the income limit for a maximum IRA contribution increases from \$55,000 to \$56,000 in 2010. For joint filers, when both spouses are active participants or only the participant spouse contributes, the income limit remains unchanged at \$89,000. However, if one spouse of a joint return is not an active participant, the income limit increases from \$166,000 to \$167,000 in 2010. While the income limit for a maximum Roth IRA contribution

remains at \$105,000 for single filers, the limit increases from \$166,000 to \$167,000 for joint filers in 2010.

In addition to these retirement plan limits, many Social Security limits remain unchanged for 2010. The Social Security Administration has announced that monthly Social Security and Supplemental Security Income (SSI) benefits will not increase in 2010, as a result of minimal inflation. The Social Security Wage Base, the upper threshold on

which an employee’s Social Security tax may be imposed, remains unchanged at \$106,800. The earnings limits for those who are under full retirement age and receiving Social Security benefits will hold steady at the 2009 limits of \$14,160 for years under full retirement age and \$37,680 for the year in which full retirement age is attained.

For more information about retirement plan limits, consult your tax professional. ■

White House Announces Retirement Savings Initiatives

On September 5, 2009, President Barack Obama announced new initiatives designed to make it easier for Americans to save for retirement. These new programs, which went into effect immediately, were intended to complement the president's major legislative proposals for increasing participation in IRAs and matching retirement savings.

Expanded Automatic Features

The first initiative expands opportunities for automatic enrollment in 401(k) and other retirement savings plans. To help streamline the process for plan sponsors wishing to adopt automatic enrollment, the IRS will be issuing pre-approved automatic enrollment language that allows employers to add automatic enrollment features to their plans without the need for case-by-case approval. In addition, the Treasury and the IRS will release a ruling clarifying how 401(k) plan sponsors can automatically increase employee contributions over time, and they will issue guidance to help employers automatically enroll employees in SIMPLE IRA plans.

New Savings Bond Option

The second initiative seeks to make it easier for Americans who

receive a Federal tax refund to save all or a portion of it. While taxpayers can already instruct the IRS to directly deposit their refunds and designate a portion to an IRA or other savings vehicle, starting in early 2010, the IRS and the Treasury will allow taxpayers to use their refunds



to purchase U.S. savings bonds simply by checking a box on their tax return. The savings bonds will then be mailed directly to the taxpayer.

Unused Leave Conversions

The third initiative allows workers to convert their unused vacation or other similar paid leave into retirement savings. The Treasury and the IRS will issue two rulings to explain how employers can allow their employees to contribute payments received for unused leave to their 401(k) accounts upon termination of employment. As an alternative, employers will be given the option of making their own contributions of these amounts to their employees' 401(k) or other retirement accounts.

Increased Education

The final initiative seeks to help workers and their employers better understand the available options for tax-favored retirement saving through clear, easy-to-understand language. In particular, education will focus on the advantages of rolling over retirement savings from one tax-advantaged account to another when leaving a job.

Commenting on the initiatives, President Barack Obama said, "If you work hard your whole life, you ought to have every opportunity to retire with dignity and financial security. And as a nation we ought to do all we can to ensure that folks have sensible, affordable options to save for retirement." ■

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