

# Financial Insights From The Richards Group



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Strategies for Building Your Financial Security

## Market Recap for 4th Quarter 2011

After losing more than 10% of their value in the third quarter, U.S. stocks surged in the year's final three months, pushing blue chips into positive territory for 2011 and leaving the S&P 500 where it began. The Nasdaq's quarterly gain, however, wasn't enough to pull the tech-heavy index out of the red for the year. Each index began the quarter with year-to-date losses of at least 5%, but stocks surged in October, helped by encouraging reports on the U.S. economy and signs of progress regarding the European debt crisis. Halloween's profit-taking ended the month on a

down note, but the Nasdaq and S&P 500 both finished the month up more than 10%, and the Dow nearly posted double-digit returns as well. Momentum shifted in November, however, as investor anxiety over the European debt crisis and domestic budget uncertainties restrained optimism arising from more signs that the U.S. economy may be improving. As it was throughout the year, volatility remained the theme in December, as news of falling U.S. home prices and slowing global economies offset positive sentiment that grew during the quarter on news of improved employment, retail sales, business confidence, and consumer confidence.

Through 12/30/11*	1-Year	3-Year	5-Year	Closing Value
S&P 500	0.0%	11.7%	-2.4%	1,257.60
Dow Jones Industrials	5.5%	11.7%	-0.4%	12,217.56
Nasdaq Composites	-1.8%	18.2%	1.5%	2,605.15

Source: Standard & Poor's. The S&P 500, Dow Jones Industrials, and Nasdaq Composite are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results. \*Price only. Does not include dividends.

## Financial Planning Tasks for 2012

We all make New Year's resolutions with the best intentions, often after we've had too much



champagne. "I'm going to join a health club, get back in shape, stick to a healthier diet, and lose ten pounds." Sound familiar? Those are great resolutions, but you should also add the following to your 2012 goals. It's a short list and is very doable.

**Review your financial saving goals.** Consider your specific circumstanc-

es, define your saving goals, and budget for them. Review the status of your liabilities and debt: Is it time to accelerate your repayment schedule? Is your emergency fund properly funded? Are there changes to be made to your contributions to retirement plans? Make decisions in January and take definitive steps to make (cont. p 4)

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## Tips for Maximizing Your Child's Financial Aid Eligibility

As you develop a strategy to increase your financial aid eligibility, you should ask yourself whether using a specific investment strategy is consistent with your ethical values as well as your long-term financial goals. As you think about financial strategies to increase aid eligibility, remember that federal, state, and institutional aid is not unlimited and there is only so much money to assist all potential aid applicants. Also, as you consider these tips, honesty is always the best policy.

Your goal is to lower the Expected Family Contribution (EFC), which is calculated from the Free Application for Federal Student Aid (FAFSA). The EFC is an amount, determined by a need analysis formula specified by federal law, which indicates how much a student and parent(s) can reasonably be expected to pay for postsecondary expenses. The EFC is used in determining eligibility for federal and institutional need-based aid. The lower the EFC, the greater the possibility of student aid, which may include grants, federal student loans, and employment.

**Timetable:** In order to maximize your planning strategies, you should implement them at least two years before the student enrolls in college. This timetable may influence the results of the federal need analysis formula for the initial FAFSA data (freshman year of college).

**Base-Year Income:** You should attempt to reduce your adjusted gross income and net worth for the "base year," which is the calendar year prior to requesting aid (e.g., calendar year 2010 for aid in academic year 2011).

**Treatment of Assets:** Generally, parental assets (not including equity in a primary residence for Federal Methodology) are assessed up to 5.6% and student assets 20% for dependent students and independent students with and without dependents other than a spouse. The key with assets is ownership. Check with your tax advisor to determine ownership of a particular asset.

**Non-countable Assets:** As you continue to plan for asset reallocation, certain assets are not used in the federal need analysis formula. These assets are retirement plan assets, your personal residence, life insurance, annuities, and personal property (e.g., cars, boats, etc.). Also, consumer debt is not considered in the formula. For example, if the family has \$50,000 in cash and \$50,000 in consumer debt, the family net worth for aid purposes is still \$50,000. Consequently, asset planning favors maximizing non-countable assets and increasing investment or business debt instead of consumer debt.

**Capital Gains Earnings:** You should attempt to minimize capital gains during the base year because capital gains are treated as income.

**Student Assets:** If there are assets and money in the student's name, use those funds first because it will reduce the amount of future student assets reported on the FAFSA.

**529 Plans:** Invest in a 529 college savings plan owned by the parent because it has a smaller impact on the federal need analysis formula; one owned by a grandparent is even better because it is not used in the federal need analysis formula.

**Retirement Plans:** Don't use retirement funds to pay for college expenses. They are not counted in the federal need analysis formula. If possible, use liquid assets such as cash in savings accounts first. This will reduce the amount of assets reported on the FAFSA. If you need money from your retirement fund, it is wiser to borrow from the retirement fund, if possible, and avoid any penalty from withdrawing money from the fund.



*Excerpted from Financial Aid for the Utterly Confused by Anthony J. Bellia. Copyright (c) 2007 by The McGraw-Hill Companies.*

## Stay or Roll Over? What To Do With Your Old Retirement Accounts

How many retirement accounts do you have? If you've changed jobs a few times over the years, you could have several accounts housed in different employers' plans.

While it is certainly acceptable to leave money in an old plan, in some instances it may be a better idea to consolidate your assets. (If your account value is less than \$5,000, your old employer can cash you out of the plan, making it imperative to have a backup destination for those assets.) Having your retirement portfolio in one place can make it easier to track performance, ensure proper asset allocation, and make changes.<sup>1</sup>

Initiating a rollover isn't difficult. If you are planning to roll over your assets into an IRA, you simply need to contact the financial institution that will house your account. They will either have you fill out a form or have a representative help you through the process.

If you are planning to roll over your assets into your current employer's plan, check your current plan rules to confirm that rollovers are permissible (the vast majority of workplace retirement plans accommodate rollovers).

Check with your new plan's provider to see if they offer a rollover service. If not, contact the provider of your old plan(s) (you can find this information on your statements) to start the process. Be sure to ask if there are any fees or surrender charges for moving the assets. If so, consider if the cost is worth the benefit of consolidating your money. There may also be fees for leaving your money in the old employer's plan.

### Comparison Shop

Before you initiate a rollover, be sure to compare the investment options of your old and new plans -- and/or any IRA option you are considering -- and their associated fees.

**Diversification:** Were you able to properly diversify your assets

in your old plan?<sup>1</sup> If your investment choices were limited, you may want to move your money.

**Fees:** Are the investment fees in your old plan higher or lower than in your new plan? If you were paying more for the investments in your old plan, it could help save you money to move your assets.

### Distributions: A Last Resort

Be sure to understand the difference between a rollover and a distribution. A rollover allows you to transfer your money from one qualified retirement account to another without incurring any tax consequences. A "qualified" account can be either your new employer's plan or a rollover IRA.

A distribution is essentially a withdrawal from your account. If you request a distribution, the account administrator is required by law to withhold 20% of your account balance to pay federal taxes. State taxes, if applicable, are also due. If you are under age 59½, you could be subject to an additional 10% federal early withdrawal penalty. You can roll over assets from a distribution within 60 days of receipt and reclaim those tax withholdings. If you wait longer than 60 days, a rollover is not permissible. Be sure to watch for instructions from your old plan to learn if the check will be mailed to your address or directly to the new provider. Some plans will give you the choice; if you opt to have the check mailed directly to the new plan, you can simplify the procedure.

Feel free to contact Sara at The Richards Group to discuss rollover opportunities to your employer plan or IRA: (802) 254-6016 or [sara.kermenski@therichardsgrp.com](mailto:sara.kermenski@therichardsgrp.com).

<sup>1</sup>Asset allocation and diversification do not ensure a profit or protect against a loss in a declining market.



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## Financial Planning Tasks for 2012 (cont. from p 1)

your saving goals happen.

**Check your withholding allocations.** Start by considering your income level for the coming year: Will it be higher or lower? If you overfund your withholding, the government gets a “tax-free loan” with your money. If you underpay, you’ll have to be certain to have the tax dollars available next April 15. Speak with your tax professional to help estimate how much to withhold. You might also investigate some online calculators to help.

**Take a look at your withdrawal rate on your investment portfolio.** Is the income covering your survival expenses? Survival expenses are mandatory expenses that must be met without exception, regardless of market conditions. Typically, these expenses include your grocery bill, mortgage, taxes, utilities, health insurance, and clothing. Calculate your current withdrawal rate. If it’s greater than 4 percent, you may be at risk of consuming your principal and running out of money. Given the volatility of the investment marketplace and the low yields associated with fixed income, it is vital that you have a firm understanding of your current investment withdrawal rate.

**Maximize your retirement contributions.** As our nation struggles with how to control its overspending, many feel that benefits associated with Social Security and Medicare will be reduced for future generations. Make sure you are maximizing your retirement plan contributions for 2012. The impact of your contributions over time can become significant in future years. The IRS recently raised the 2012 contribution limits to \$17,000 per year (\$22,500 if you’re 50 or older) for employees who participate in 401(k), 403(b), most 457 plans, and the federal government’s Thrift Savings Plan. An added plus for many employees is that numerous companies will match a percentage of your contribution, so check with your employer’s benefits manager for details. Finally, don’t forget about your IRA. You can always make a contribution to your IRA not to exceed \$5,000 per year (\$6,000 if you’re 50 or older). Check with your tax professional to see if you are eligible for a deduction on the contribution.

Enjoy making your New Year’s resolutions, and try to keep them all. For assistance with your financial goals, be sure to contact us for help.

*US News, The Smarter Investor; Dec 23, 2011.*



*Happy  
New Year*

From  
The Richards  
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