



Who is Hiding Under the Bed?

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Important Financial Dates

May 15

- 941 deposits due
- All Non-Profit Entity tax returns due

June 15

- 941 deposits due
- Federal 2nd qtr. Estimated taxes due

July 31

- 2nd qtr. payroll tax returns due
- File Retirement Plan Information returns (5500) or extensions

August 15

- 941 deposits due

September 15

- 941 deposits due
- Federal 3rd qtr. estimated taxes due
- All Corporate extension must be filed

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There have been recent news reports that the White House is haunted with all kinds of eerie and unexplainable sounds emanating from all corners. Most of the midnight wailing has been coming from Capitol Hill where both parties are rehearsing a game of chicken over the 2011 budget. Just three weeks ago the Democrats blinked and gave up a paltry \$40 billion to the Tea Party. That was when the wailing suddenly turned to crying on Friday night so that the government didn't have to shut down. Then last Monday there was a sudden loud bang as the S&P rating agency aimed a shot across the bow of the USS Congress threatening to reduce the AAA credit rating down several notches to "negative" from stable. The gurgling, sucking sound from the corridors every night is the depreciating dollar that is down 13% this year against the ramshackle Euro because of the \$1.7 trillion deficit this administration is spending. In the background there are ghostly melodies, like an organ in horror movies, but really it is the government printing presses which are music to the Fed and current administration. A scary clown doll lurks under the White House bed and it looks a lot like "Chucky" Reid or Pelosi.

These haunted happenings have just been a prelude to the upcoming battle over raising the \$14.3 trillion debt ceiling. The Republicans are opposing an increase unless Congress first agrees to significant budget cuts. Their message is that the Democrats are addicted to big, wasteful government programs. The Democrat's retort is that the GOP wants to cut entitlements and social programs pushing the government towards a general default on its debt obligations in the process. This will be a cliff hanger.

As the exorbitant spending has continued, the Dollar as a reserve currency has been depreciating against most world currencies. Oil has continued a nonstop climb to where gas is almost \$4.00/gal, on its way to \$5.00/gal. Gold, silver, and most other hard commodities continue to set new highs, and inflation is showing up in food, clothing, fuel and most other goods and services. This is all a direct result of the government printing presses and resulting falling dollar.

If the government doesn't significantly cut its spending, the US will hit its debt ceiling of \$14.3 trillion around the end of Q2. The government could shut down, interest rates will increase significantly and inflation will be everywhere if this occurs. Did you ever try to put toothpaste back in the tube? Obama might be afraid to look under the White House bed, but he will end up boxed in a corner with high employment and a faltering economy. The haunted White House will ensure a one term president. President Obama – "Are you listening?" Chucky takes another victim down.

Rx for Government Finances

Part 1

Back in 2006, we attended the Schwab Impact Conference in Washington, DC in which Alan Greenspan was the keynote speaker. In response to one question, he responded that it was possible to solve the Social Security Entitlement funding issue in less than five minutes. I absolutely agree with him.

Unless you have been living under a rock for the last few years, every US citizen should be aware of the \$100 trillion unfunded entitlements of Social Security, Medicare, and Medicaid. Nobody in Congress wants to touch these issues for fear of not getting re-elected. Their answer is to keep kicking the can down the road. Well, time is running out and we must address the entitlement problem or else the US will end up in the abyss. As mentioned above, Congress is afraid of these future promises because of all the special interest groups and intense lobbying. These tactics have not solved the problems.

This is the first of three articles to present a simple, straight forward solution to address the US government spending and funding problem. Because past and current tactics do not work, we are going to go to a new simple solution of entitlements, taxes, and monetary structures.

This is a comprehensive plan that can be implemented this year. The funding of the three major entitlements of Social Security, Medicare, and Medicaid are relatively easy as follows:

Entitlements

1. Raise the Medicare payroll tax from 1.45% to 3.0% for all employees and employers.
2. Social Security
 - a. Raise the FICA tax from 6.2% to 7.0% for all employees and employers.
 - b. Remove the wage ceiling for FICA like we have already done for Medicare.
 - c. Raise the early retirement age from 62 to 65 over the next ten years.
 - d. Raise the full retirement age from 67 to 70 over the next ten years.
3. Medicaid
 - a. Double the “look back” period from 5 to 10 years immediately.
 - b. Raise the “look back” period from 10 to 15 years over the next ten years.
 - c. Provide a tax credit for LTC insurance up to \$5.0k annually.

If you do not want to wait for the next two monthly articles, you can read the total plan on the questfsi.com website now. Your constructive feedback is welcome.

From 401(k) to IRA. Is this a rollover or a transfer?

Question:

I recently took a distribution from my 401(k) account and the amount was rolled over to my traditional IRA. I now want to take a distribution from the IRA and rollover the amount within 60-days. This would be my first distribution from this IRA. However, I am receiving conflicting information about two things. I am being told that the distribution from my 401(k) account to my IRA is a rollover and I am also being told it is a transfer. I am also being told that since I rolled over the contribution to my traditional IRA within the last month, I cannot do a distribution and rollover of that IRA money until next year because of a once-per year rule for rollovers. What is the correct answer?

Answer:

Confusion between what is a rollover and what is a transfer is a common occurrence. And, the related official *guidance and tax laws sometimes lend to the confusion as they sometimes use the word ‘trustee-to-trustee-transfer’* when referring to direct-rollovers, and other reportable transactions where the assets are moved directly between two financial institutions or two retirement accounts. Financial institutions typically use the term rollover, when referring to distributions (reportable on IRS Form 1099-R) that are credited to eligible retirement accounts as rollover contributions, and they usually use the term ‘transfer’ when referring to non-reportable movement of assets between retirement accounts.

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From 401(k) to IRA. Is this a rollover or a transfer? cont.

The person who told you about the once-per 12-month rule was likely referring to the rule that applies to distributions and rollover contributions that occur between traditional and SEP IRAs, between SIMPLE IRAs, between Roth IRAs, and from SIMPLE IRAs to traditional IRAs or SEP IRAs. Under this rule, an individual who rolls-over a distribution from an IRA may generally not rollover another distribution from that IRA during the next 12 months. The 12-month period begins on the day the IRA owner receives the distribution. *[IRC Sec.408(d)(3)(B)]*. *Additional information about limitations on rollovers between IRAs is available in IRS Publication 590, available at www.irs.gov.* Movement of assets from your qualified plan to your IRA is always a distribution from the qualified plan and a rollover contribution to the IRA. This rollover can be a direct rollover, or an indirect rollover which is subject to the 60-day rule. A rollover from your 401(k), any other qualified plan account, 403(b) account or 457(b) plan to your IRA is not subject to the once per 12-month (1-year) rule, and it does not affect the once per 12-month rule for rollover contributions between your IRAs. As such, if you take a distribution from your IRA now, the amount is eligible to be rolled over within 60-days.

How Personal Budgets Work

By Dave Roos

Creating a budget can be stressful, but failing to create a budget is likely to be even more so.- See debt pictures. Everyone knows that if you eat too much, it can lead to a heart attack. The same is true for your spending habits. If you consistently spend more than you earn, it could lead to a financial heart attack: out-of-control debt, foreclosure, bankruptcy and a lifetime of lousy credit reports. A personal budget is like a diet plan for your finances. The purpose of a personal budget is twofold. It'll help you:

1. Figure out exactly how much money you earn.
2. Figure out exactly how you are spending that money

A good personal budget requires an honest financial assessment. For many people, creating a personal budget is the first time they take a hard look at the way they spend money. It can be a little shocking ("I spend \$115 a month on coffee?"), but also very satisfying ("I can save \$100 a *month by brewing my own!*"). The overarching goal of a personal budget is to **minimize expenses and maximize savings**. By cutting down on unnecessary spending and increasing your monthly savings, you can put that extra money toward important long-term financial goals like:

- Lowering credit card debt
- Paying off loans
- Saving for a child's college education
- Investing in a retirement account like a 401(k)
- Saving for a large purchase (home, car, boat, vacation, et cetera)

Exactly how much money should you save each month? As much as you can afford. If you can design a personal budget that leaves you with an extra \$20 at the end of the month, that's a good start. As you earn more money and trim more expenses, you'll watch that amount grow and grow. Perhaps the most important ingredient of a successful personal budget is commitment. Budgets require the active participation of the entire family. If mom and dad are buying generic groceries while their teenage son is using the credit card to buy \$200 sneakers, then the budget will never work. Everyone needs to be on the same page and working toward the same goals. The first step in creating a successful personal budget is to carefully log your earnings and expenses.

Personal Income and Expenses

While you can certainly create a successful personal budget with nothing but a pencil and paper, many people find it very helpful to use financial software. Whether you use software or go "old school," the first step for creating a personal budget is to calculate your average monthly income. To keep things simple and honest, only include fixed earnings like paychecks from your job, alimony payments, legal settlements, royalties or dividends from investments

that you don't plan to reinvest [source: Yahoo! Finance]. Don't bank on uncertain income like raises, bonuses or a particularly fruitful trip to Las Vegas. Tracking your income is the easy part of creating a budget. It's much harder to pinpoint your spending. This is why personal finance software is so helpful. Programs like Quicken or Microsoft Money can access your online banking records and download all recent transactions for detailed analysis. With a complete list of all of your bank deposits, outgoing checks and transfers in front of you, you can begin the important task of categorizing all of your income and expenses. With a few clicks of the mouse, you can label a \$2,500 deposit as a paycheck, a \$500 transfer as a credit card payment and a \$1,500 check as a rental deposit. In addition to specific categories like rent or groceries, personal finance experts recommend that you organize all of your expenses under two broad labels:

- Fixed expenses
- Discretionary spending

Fixed expenses are those expenses that stay the same every month. Not everyone has the same fixed expenses, but here are a few of the most common examples:

- Mortgage or rent payments
- Loans (student loans, car loans, home equity loans)
- Insurance (car insurance, health insurance, life insurance)
- Daycare
- Tuition
- Utilities

Discretionary spending is a broad category that includes every expense that changes each month. Not all discretionary spending is unnecessary. Take a look at the following examples:

- Groceries
- Eating at restaurants
- Clothing
- Entertainment
- Travel
- Hobbies
- Gifts

In addition to using personal finance software, it might also be helpful to carry a small notebook with you to track your cash expenses. This can be especially helpful if you find yourself taking money out of the ATM more than once a week [source: CNN Money]. Every time you use cash to buy a newspaper, pay a toll or buy lunch, make a note of it. Now that you've created a detailed worksheet of your income and expenses, you're ready to analyze the data and start drafting a better budget.

Drafting a Personal Budget

The first step toward drafting a successful personal budget is to compare your current monthly earnings and expenses. Simply add up your earnings and expenses separately and see which amount is bigger. If you earn more than you spend each month, then you're on the right track. But if you spend more than you earn, get ready to make some serious adjustments. The goal of a good budget is to come up with a spending plan that allows you to save 10 percent of your earnings each month [source: CNN Money]. For most people, that means making some spending cuts. But where do you start? Finance software like Quicken and Microsoft Money can do some of the analysis for you. They can look at your monthly spending habits and compare them to other people in your same demographic. If you're spending too much on rent or too much on restaurants, the software will let you know. But even if you don't use finance software, a good rule of thumb is to cut back first on discretionary spending. This is one situation where you should definitely sweat the small stuff. Start with that notebook where you logged all of your cash purchases. Look for recurring cash purchases and figure out how many of them are really necessary. Here are some common cash culprits:

- Coffee drinks
- Tobacco products
- Alcohol
- Magazines
- Restaurant Meals
- Taxis
- Gasoline

This might be just the opportunity you're looking for to quit smoking, start taking public transportation and learn how to cook. That's not to say that you have to start living an entirely Spartan lifestyle, but look for ways to cut down on unnecessary cash spending.

Personal Spending Goals

As you find ways to trim your cash spending, start deducting those amounts from your current spending totals. The idea is to draft realistic spending goals that will allow you to save more each month. Try to keep everything in its appropriate category (entertainment, transportation, et cetera), so it will be easier to keep things organized when you draft your new budget. Next, move on to your other discretionary spending. Perhaps you're spending too much each month on new clothes, concert tickets and organic produce from the upscale grocery store. Make some reasonable estimates on how much less you could spend each month by only buying clothes during sales, only attending concerts from your favorite artists and shopping at the farmer's market. Use those estimates to draft your new budget. Taxes are another place to make spending cuts. If you're self-employed, look for ways to increase your itemized deductions (without getting too creative, of course). If mortgage rates have dropped more than two percentage points in your area, consider refinancing your mortgage [source: CNN Money]. It could be worth the fee. If you look at every entry on your current list of expenses, you can usually find a way to cut back, even if it's just a little. For instance, lower your heating bill by keeping your home a few degrees cooler during the winter. Switch from the unlimited cell phone plan to 500 minutes a month. Only play golf on the public course. Take your new, lower spending estimates and write them down in each category. If you're using finance software, use those estimates as your monthly spending goals. Congratulations, you now have a personal budget! Now that you've drafted a budget with new spending goals, it's time to put your plan into action.

Testing Your Budget

Testing your budget requires diligence. You need to keep detailed records of your earnings and expenses to see if the budget is working. Once again, finance software can make this a lot easier. As you spend money throughout the day, make sure to keep your receipts. At the end of the day, sit down at the computer and enter all of your expenses into the appropriate categories. The finance software will automatically gauge whether or not you're on track for meeting your monthly spending goals. The most important thing to know about personal budgets is that they're not written in stone. Budgets are designed to be flexible, especially during those first two or three months. Perhaps there are expenses or earnings that you forgot to include in your original assessment. You might not have accounted for seasonal or annual expenses like property taxes, car registration or tax preparation fees [source: Nolo.com]. Make adjustments as needed until you find a budget recipe that allows you put away a reasonable amount of money each month. The goal is at least 10 percent, but that doesn't have to happen immediately. It's also important to recognize that budget priorities shift as you get older. Experts recommend that you review your budget every few months to make sure that spending goals still make sense [source: Yahoo! Finance]. Remember to consider inflation when you review your budget. Inflation grows at an average rate of 3 percent a year [source: CNN Money]. To stay ahead of inflation, you need to make sure that your income grows at a faster rate. Even if you get a 5 percent raise, don't think of it as an excuse to spend 5 percent more this year. At best, you can spend 2 percent more, but the truly smart thing to do would be to use that extra 2 percent to pay off debt and increase your savings.

Another tip: If you carry credit card debt or other high interest debts, pay off those debts first before increasing your savings. It doesn't make sense to invest in a low-interest savings account if your debt is growing exponentially.

If you want help with your personal budget, there are many non-profit and government budget counseling services and financial education centers. Beware of debt-consolidation or debt-reduction services that charge a fee.

If you have any questions or would like a complementary review of your portfolio, call Quest Financial Services at (888) 323-3456 for an appointment.