Top Issues to Address for Your Personal Finances

Some key issues you might want to consider in you're planning this year. Our new reality is transition and uncertainty; so planning ahead is hard. Here are a few areas to think on.

*Huge amount of **uncertainty in the future of our tax laws**. Congress is dysfunctional on this issue given it being an election year. The President has outlined proposals that have little chance of becoming law in the present environment. At the end of 2012, the so-called Bush tax cuts will expire, or might they be extended?

Many have heard and used the "harvesting tax losses" strategy in their portfolio, but perhaps consider harvesting tax gains. WHAT, have more to claim on our income taxes. Crazy, but reflecting on the current capital gains rate is 15% or lower for 2012, and they likely could go higher. It may be better to harvest gains now and defer the losses to the failure years when the tax rates are higher. This may be the last year to take advantage of low capital gains rate.

Perhaps accelerating income into 2012 to take advantage of the current lower rates may also make sense. What income do you have that could be brought into 2012 from future years? Many prepay tax on vehicles or real estate, so the write off is bunched into larger itemized deduction. Skipping that pre-payment would reduce the itemized deduction for 2012. Income from stock options, cash in those options in 2012 to pay the income tax this year.

*We've seen a lot of portfolio volatility since 2000. Creating concerns about **assets being sufficient to meet needs for the rest of our lives**, once retired or already in retirement. Can an individual plan to take annual withdrawals from the investments and be assured they'll last a lifetime?

Knowing and planning for a safe withdrawal rate using specific types of assets to accomplish transition from being an accumulator to being in the distribution phase of life is critical. It's also important to make the distribution planning with taxes in mind. Most of us have taxable, tax-free, tax-deferred accounts. What amount taken from what account is a significant detail to preserve wealth in retirement. You worked HARD to save those dollars, you don't want to give them to the IRS needlessly, and a little bit of planning can make a difference.

*Many people are aware about the **increased federal estate tax exclusion** which currently stands at $5,120,000 after being adjusted for inflation in 2012. This area, like income taxes, may be changed after this year. Since estate tax is unified with the gift tax (we don't know how long they will stay unified), taking advantage of the ability to make gifts without tax is worth considering.

*Retirement planning and Social Security. With the federal budget deficit at current levels, it's hard to believe we will not see some changes to entitlement programs such as Social Security and Medicare. It is not known when or how they will occur but it seems a good possibility that some sort of means testing will be used, similar to what was done with Medicare premiums. Higher income individuals pay more.

It is a good idea in retirement planning to use a more conservative level of Social Security, and underestimate rather than overestimate what it may pay in the future.

***Decline in interest rates** over t6he past 15 years has been good for borrowers, but made it challenging for those who are living off of interest bearing investments, such as CD's and bonds. There is no easy answer to this dilemma. One can get longer-term bonds; but when interest rates go up, and eventually they will, the longer-term bonds suffer greatly. International bonds, emerging market debt, and high yield bonds may also boost up interest, but again with additional risk. Dividend paying stocks are another way to get higher yield, but it involves investing in a riskier asset class with a fluctuating market value.

These are challenging times; there are many risks that need to be considered. By planning with a conservative "eye", there is a better opportunity to be sure one didn't under plan, and when things improve, one won't be worse off, because plans incorporated lower expectations. An additional key is to check regularly assumptions made so that change/adaptations can be made. Flexibility is paramount when conditions are so often changing,

Sharla Rountree, CFP ®
Personal Benefit Services Group
870 Kipling St , #A
Lakewood, CO 80215
303-238-5123
www.personalbenefitservices.com