# Complete Financial Planning

*August 2010*

# Market Minutia

*Robert Wright*

## ➢ Social Security Runs Short

“The recession's hit to payroll tax receipts has worsened the short-term outlook of the Social Security trust fund -- but the long-term prognosis is unchanged from a year ago, according to the Social Security trustees' report released today. (Read the Social Security Board of Trustees report at **http://www.ssa.gov/pressoffice/pr/trustee10-pr.htm**)

Payroll tax receipts will fail to cover benefit payments in 2010 and 2011, so those benefits will have to be paid out of the trust fund. Then, taxes will cover payouts from 2012 through 2014, but starting in 2015, the program will run deficits every year.

But the long-term outlook is unchanged from last year: The trust fund will be exhausted in 2037. At that point, the program will be able to pay only 78% of promised benefits.

So, what's going to happen to your benefits? It seems highly likely the federal government is going to have to cut benefits, one way or another, and hopefully sooner rather than later so the change can be put in place slowly, without dramatic upheaval. The longer the politicians delay, the worse the picture gets, and the more likely it is they'll have to institute more-draconian cuts, or apply them to people closer to retirement.

That doesn't mean you won't get your Social Security benefits. It does mean that people in their mid-50s or younger likely won't get the same size checks as their parents are getting now -- and that's especially likely for people with higher-than-average incomes. That is, if and when the government trims benefits, it's likely that lower-income people will be a lot less affected than other workers.

What will benefit cuts look like? Who knows? It could be a change in the benefit formula or a change in the "normal" retirement age.

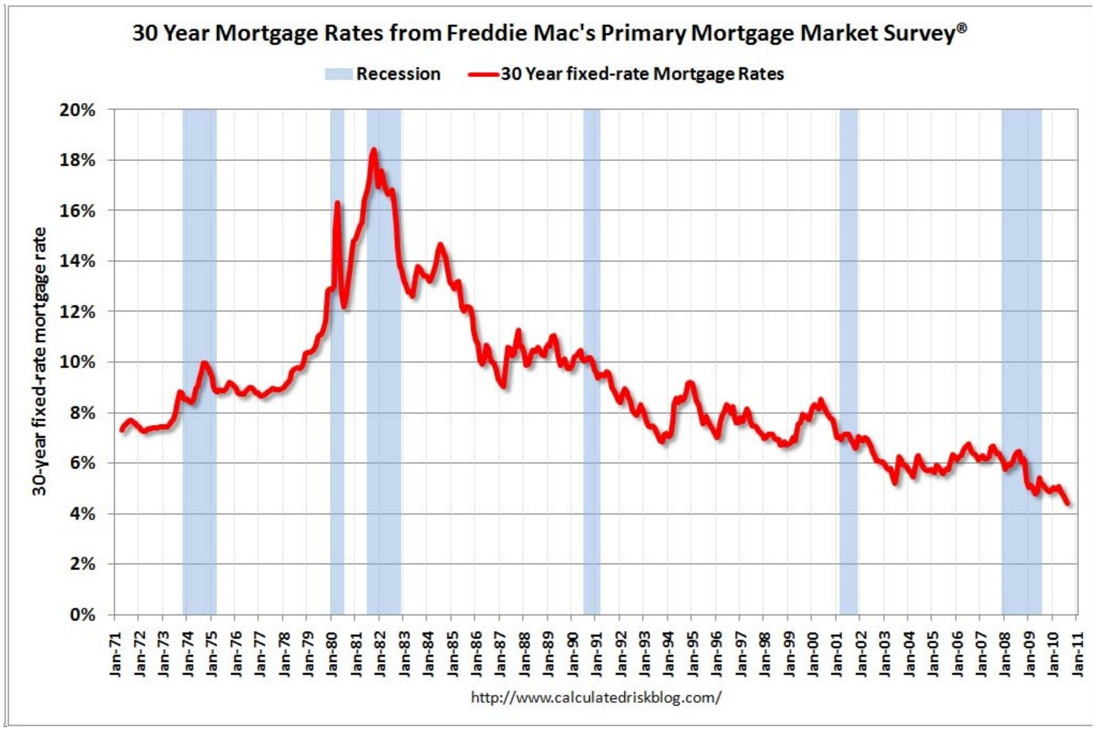
Yet another reminder that there's no time like the present to consider ramping up your savings rate, just a notch ... or five.”

*Source: Market Watch 8/5/2010*

## ➢ Mortgage Rates Lowest Since Freddie Mac Started Keeping Track in 1971.

Fixed-rate mortgage rates continued their fall to record lows the week of 8/12/2010.

"Annual revisions cut the cumulative GDP growth in half over the past three years ending in the first quarter of 2010 from 1.4% to 0.6%. This reduces inflationary pressures and allows longer-term rates room to ease," said Frank Nothaft, vice president and chief economist of Freddie Mac, in a news release. The 30-year fixed-rate mortgage averaged 4.44% for the week ending Aug. 12, according to Freddie Mac's weekly survey of conforming mortgage rates. It averaged 4.54% last week and 5.22% a year ago. **It's now at its lowest since Freddie Mac started tracking the rate in 1971 (See chart below).**




*Source: Market Watch; 8/5/2010; http://www.calculatedriskblog.com/, 8/12/2010*

## ➢ August 12, 1981

As I write this, today, it is August 12, 2010. Today is the 29th anniversary of the day IBM introduced its first personal computer. I saw my first IBM PC when I was a junior at Michigan Tech (1983) and went on to use the IBM PC in grad school.

The PC had a maximum memory capacity of 256K, though IBM sold it with 16K or 64K. A laptop computer today with 4 GB of memory has 15,625 times more memory than the original IBM PC. The PC's processor, the Intel 8080, ran at 4.77 MHz. A laptop today running at 2.3GHz runs 489 times faster than the original IBM PC. The PC sold for $1,565. The laptop can be bought today for $400.

*Source: wolframalpha*

IRA Corner

## Roth IRA Recharacterizations

**The Roth IRA recharacterization is one of the few do-overs you get with the IRS.**

The recharacterization allows you to undo (to completely reverse) a Roth conversion as if it had never happened. You will owe no tax on the conversion after you recharacterize the conversion. Any tax you paid on the conversion is refunded after the recharacterization.

Your time to recharacterize is limited. You have until October 15 of the year after the calendar year of the conversion to recharacterize. If you have already filed your tax return, you have until October 15 to amend the return to reflect the fact that you have recharacterized all or part of the Roth conversion.

The recharacterization must be done as a custodian-to-custodian transfer and the funds must go back to a traditional IRA (TIRA), even if the conversion was from a company plan. 60-day rollovers back to a traditional IRA account are not allowed.

Partial recharacterizations are permitted. You do not have to recharacterize the entire amount you converted to the Roth IRA.

2010 Roth conversions are eligible for the special 2-year tax deal. 50% of the amount converted in 2010 goes on your 2011 tax return and 50% of the amount converted in 2010 goes on your 2012 tax return. If any funds converted in 2010 are recharacterized, the earliest those funds can be reconverted to a Roth IRA would be January 1, 2011 - after the deadline for using the 2-year deal expires. Alternatively, you can choose to report the entire amount converted in 2010 on your 2010 tax returns.

The amount you recharacterize is generally not the same as what is actually transferred back to your TIRA account. The amount transferred back to the TIRA includes gains and losses from the investment in which the Roth was placed [mutual fund, CD, stock, bond, etc]. The amount recharacterized is what offsets (reduces) the conversion income.

Only money that was converted to a Roth IRA and remained in the Roth IRA can be recharacterized. If you use a portion of your TIRA to pay the taxes on your Roth IRA conversion (either directly from your TIRA or from the Roth IRA after converting), the amount withdrawn to pay the taxes will not be able to be recharacterized.

## ➢ October 15, 2010 Deadline for recharacterizing 2009 Roth Conversions

If you converted a TIRA or pension plan account to a Roth IRA in 2009, you have until October 15, 2010 to recharacterize the Roth IRA back to a TIRA.

There are two reasons you may consider recharacterizing.

1. Your Roth IRA has dropped in value since you converted. You can recharacterize the Roth IRA to a TIRA and then **reconvert** the recharacterized TIRA to a Roth and pay less income taxes (on the 2nd conversion) than you would have if you didn't recharacterize.

2. You were ineligible to make a Roth conversion in 2009. To be eligible to convert a TIRA or qualified plan to a Roth IRA in 2009, your MAGI had to be less than $100,000. If your MAGI exceeded $100,000 in 2009, you were not eligible to convert to a Roth in 2009. Some people may receive unexpected income after they made their 2009 conversion that increased their MAGI beyond the $100,000 limit - thereby making them ineligible for the Roth conversion. Additionally, if you were married but filed separately in 2009, you were not eligible to convert to a Roth in 2009.

## September 2010 Action Plan

1. Review any Roth conversions you made in 2009 to determine if a Recharacterization makes sense for you.

2. Because everyone is eligible to make a Roth conversion in 2010, evaluate whether a 2010 Roth conversion makes since for you.

*Source: Ed Slott 8/2010*

## ➢ You Cannot Borrow From Your IRA

- Unlike most company plans (401k, 403b), you cannot borrow money from or lend money to your IRA.
- Any withdrawal from your IRA must be rolled over in 60 days. There are few exceptions to this rule.

## ➢ Another Installment of "These are the good old days."

My friend, Dr. Mark Perry, professor of economics and finance in the School of Management at the Flint campus of the University of Michigan, has a recurring feature in his blog where he presents data showing that we are living in the "good old days" and that life in the past wasn't as pleasant as our romanticized view of history might make us believe. In this vein, I present the following from Dr. Steven E. Landsburg, professor of economics at the University of Rochester.

"From the dawn of humanity, up until the end of the late 18th century, just a couple hundred years ago, pretty much everybody who ever lived, lived right at the subsistence level - meaning, the modern equivalent of $400 to $600 per year."

"There were times and places where it was a little better than that, even some exceptional fortunate times and places where people might have earned twice as much, and there were always of course tiny nobilities - kings, queens, dukes, princes - who lived far better, but they were numerically insignificant. So that if you had been born at any time prior to the late 18th century, the odds are astronomical that you would have lived on the modern equivalent of $400, $600 maybe $1,00 per year, just like your parents, just like your grandparents, just like your children, just like your grandchildren."

"Not only are we richer than ever before, we're also working a lot less. A hundred years ago, the average work week was over 60 hours; today it's under 35. A hundred years ago, 6% of manufacturing workers took vacations; today, they all do. A hundred years ago, men routinely entered the full-time labor force in their early teens; today, labor force participation by early teenagers is practically unheard of. A hundred years ago, 26% of 65 year old men were retired; today, it's over 80%. A hundred years ago, the average house keeper spent over 12 hours a day on cooking, cleaning, laundry and sewing; today it's under 2 hours. Just in the last 30 years, the average American has gained 6 hours a week of leisure time; that's the equivalent of 7 extra vacation weeks a year. So we're earning more, we're working less, and on top of that, we have better quality goods to buy. If you have any doubt about how fast the world is getting better, find yourself a ten year old electronics catalog, look through it, and ask yourself if there is anything in there you'd be willing to buy."

"Henry the 8th ruled all of England, but I bet he would have traded half of it for modern plumbing, a lifetime supply of penicillin and access to the internet."

To view the entire 42 minute video, go to: **http://www.thebigquestions.com/articles/**

*Source: Dr. Steven Landsburg, speaking at the Federal Reserve Bank of Atlanta, 06/16/2010*

## ➢ Basic FDIC Insurance Coverage Updated

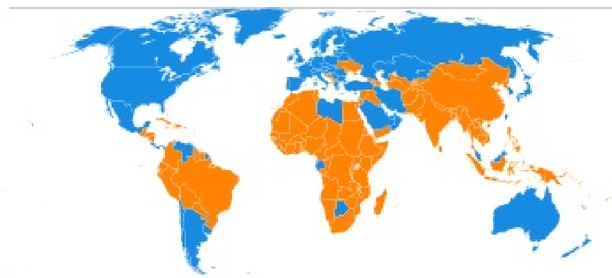
The recently passed financial reform legislation permanently increased the FDIC insurance amount to $250,000.

We have a two page article about this at our web site on the page titled: “Complete Financial Newsroom”.

**http://www.completefinancial.com/section16.cfm**

## ➢ Chinese Economy

On a nominal basis, the Chinese economy surpassed Japan as the worlds second largest economy.



World map showing countries above and below the world GDP (PPP) per capita, currently $10,500. Source: CIA World Factbook.
**blue** above world GDP (PPP) per capita
**tan** below world GDP (PPP) per capita

“However, **on a per-capita basis**, China (at $6,576) has a long way to go before it achieves superpower status, considering it ranks #102 according to the CIA, #99 according to the IMF, and #92 according to the World Bank. In fact, on a per-capita basis in 2009, China ranked behind Namibia, Jamaica, Belize, Thailand, El Salvador, and Albania. And the last time the U.S. had per-capita GDP of $6,567 was back in 1932.” The U.S. had a per-capita GDP of $46,381 in 2009 according to the IMF. Since Deng Xiaoping initiated free-market reforms in 1978, the Chinese economy is now approximately 90-times bigger.

*Source: Transamerica Snapshot of the Week; August 16-August 20,2010; Mark Perry’s Blog Carpe Diem 8/16/2010;wikipedia*

## ➢ Commercial Real Estate Improving

U.S. commercial real estate prices posted their first quarterly gain in more than two years last quarter, data showed on Monday, 08/23/2010.

“After shedding about a third of their value between the first quarters of 2008 and 2010, average U.S. commercial property prices rose by 2.2 percent in the three months to end-June, as measured by the Investment Property Databank US Quarterly Property Index.”

*Source: CNBC 08/23/2010; **http://www.cnbc.com/id/38815566***