



FINANCIAL *Planning Strategies*

A Financial Planning Update

From the desk of ...

Rogers & Troyan Advisory Group, LLC

11841 Mason Montgomery Road
Suite A
Cincinnati, OH 45249
Tel: (513) 469-7824
Fax: (513) 469-5072
Toll Free: (888) 858-7824



Brian L. Rogers

E-mail: blrogers@rogersandtroyan.com



Ronald F. Troyan

E-mail: rtroyan@rogersandtroyan.com

www.rogersandtroyan.com

Brian L. Rogers and Ronald F. Troyan are Registered Representatives of Woodbury Financial Services, Inc. Securities and Investment Advisory Services offered through Woodbury Financial Services, Inc. PO Box 64284, St. Paul, MN 55164 800-800-2000 Member NASD, SIPC and Registered Investment Advisor. Rogers & Troyan Advisory Group, LLC is not a subsidiary or affiliate of Woodbury Financial Services, Inc.

A New Ball Game for Early Retirees

An early retirement is on everyone's "wish list." A relaxing lifestyle in a warmer climate, or the pursuit of a hobby or personal interest typically characterizes the vision of a comfortable retirement. Today, however, it's a new ball game. Unfortunately, retiring *later*, not sooner, than anticipated is becoming a fact of life. On the other hand, there are some issues you can address in advance that may help you defy the increasing norm.

The key is to take a *proactive* role when planning your retirement,

especially if you wish to retire early. Today, it is not uncommon for some retirees to require between 60% and 80% of their pre-retirement income in order to meet expense and income needs consistent with their desired standard of living. Naturally, the *sooner* you begin planning, the better your chances for early retirement. However, it is equally important to note that most people who have managed to retire early have recognized the changing concept of retirement.

(continued on page four)

Understanding the Consumer Price Index

The highs and lows of the economy affect people and markets in a variety of ways. While some sectors may be thriving, others may be sluggish. One economic indicator used to gauge the state of the American economy is the **Consumer Price Index (CPI)**, which measures the rate of inflation in the U.S.

Inflation, which is defined as a rise in the average price level of all goods and services, can have a significant impact on the American economy and your financial affairs. Understanding the CPI, and the ways it measures inflation, can provide a strong foundation

for understanding not only market and economic swings, but also the ways in which fiscal and monetary policies affect America's finances, and your own. Let's take a look at the information used by the U.S. Bureau of Labor Statistics (BLS) to compile CPI data.

Determining the Market Basket

Each month, the BLS surveys prices for a "market basket" of goods and services in order to create an economic "snapshot" of the average consumer's spending, which is quantified as the CPI. Actual expenditures are classified

(continued on page two)



Understanding the Consumer Price Index

(continued from page one)

into more than 200 categories and eight major groups:

- **Food and Beverages:** common groceries, alcoholic beverages, and full-service meals
- **Housing:** rent, furniture, and utilities
- **Apparel:** clothing, shoes, and jewelry
- **Transportation:** vehicle lease and purchase costs, gasoline, auto insurance, and airfare
- **Medical Care:** doctor's visits, hospital care, and prescriptions
- **Recreation:** cable television, pets, events, and sporting equipment
- **Education and Communication:** school tuition, postage, telephone service, and computer equipment
- **Other Goods and Services:** tobacco, haircuts, personal services, and funeral expenses.

Because the CPI assesses expenditures in these fixed categories, it is a valuable tool for comparing the current prices of goods and services to prices last month or last year.

Interpreting the CPI

As a measure of inflation, the CPI has three main functions. First, the CPI serves as an indication of the health of the economy and the effectiveness of government policy. To a certain extent, some inflation indicates a healthy economy; however, too much inflation, or no inflation at all, can indicate economic trouble. In fact, one of the primary U.S. economic policy goals is to

maintain an inflation rate ranging from 1% to 3% each year.

If there are constant fluctuations in the CPI, Congress and the Federal Reserve Board (the Fed) will take measures to control the amount of inflation and stimulate economic growth. As a result, business executives, labor leaders, and private citizens may change their spending and saving patterns. For example, the Fed may attempt to curb rising inflation by raising short-term interest rates; this increase in the cost of borrowing money is likely to slow personal and business spending. Conversely, if the economy is not growing, the Fed may attempt to stimulate growth by lowering short-term interest rates. Lowering the cost of borrowing may trigger increased spending among businesses and individuals.

As a second function, the CPI helps determine the "real" value of a dollar over time by removing the effects of inflation. As prices increase, the purchasing power of a dollar decreases. Thus, more dollars are needed to purchase the same amount of goods and services. Comparing inflation-free wages and prices allows economists to determine the actual earning and spending patterns of the American consumer, including what percentages of money are being saved or spent in certain areas.

Lastly, the CPI is used as a means of adjusting salaries and government

benefits to account for price changes. For example, as a result of collective bargaining agreements, the wages of over 2 million workers increase according to the amount of change in the CPI. The CPI is also used to determine the benefits of almost 80 million people covered under government programs, including Social Security beneficiaries, military and Federal Civil Service retirees and survivors, and food stamp recipients. In addition, changes in the CPI can be seen in the price of school lunches, as well as in rents, royalties, alimony payments, and child support payments as determined by private firms and individuals. Finally, the CPI has been used to adjust the Federal income tax structure to prevent increases in taxes caused solely by inflation.

For More Information

Inflation can have a serious impact on the American economy as it affects both government policy and the spending and saving patterns of businesses and individuals. Understanding and following changes in the CPI can help you understand how the value of the dollar changes and estimate how inflation may affect your future plans. The U.S. Department of Labor (DOL) publishes current information on the CPI each month through the BLS. For more information, visit www.bls.gov/cpi. 💰

Leave a Legacy

For millions of Americans, "charity begins at home." Many have decided to make a difference by donating money to local religious, educational, social, or cultural organizations. In addition to the immense satisfaction that comes from giving to others, charitable giving can provide tax benefits for the donor and his or her heirs when done as part of an overall estate plan.

Gifts of life insurance have unique advantages, such as the following:

- The proceeds are generally received income and estate tax free by the charity.
- Under certain circumstances, the proceeds may pass to the charity outside the will, avoiding probate proceedings.
- In combination with a wealth replacement trust, assets may be kept intact for the donor's family, as described below.

Gifts of life insurance can be made in essentially two ways. Under the first, the *insured* is the owner of the policy, and the charity is the beneficiary. This arrangement is used when an insured/donor desires to retain control over the insurance policy. Under this arrangement, premiums are *not income tax deductible* to the donor. Additionally, since the insured owns the policy at death, the death benefit will be included in his or her estate for tax purposes, but it will be 100% deductible, since it is payable to a charity.

Under the second, the *charity* is owner *and* beneficiary. Unlike the situation where the insured retains ownership, the premiums are considered a charitable gift and may be income tax deductible to the donor within Internal Revenue Service (IRS) guidelines.

If the donor gives an *existing* policy to charity, the fair market value of the policy (generally, its full cash value) is allowable as an income tax deduction. The tax consequences of future premium payments for the gifted policy would be the same as described above, where the charity is both owner and beneficiary.

If the prospective charitable donor is seeking a way to increase income, reduce estate and income taxes, avoid taxes on gains, and make a significant charitable contribution without reducing his or her family's inheritance, a **charitable remainder trust (CRT)** and a wealth replacement trust may be appropriate. A CRT can allow an individual to make a gift to a charity while retaining a current income interest in the gifted asset during his or her lifetime.

As a general rule, it may be best to fund a CRT with an asset that, if sold outside the trust, would produce substantial long-term capital gains tax. After the trust is executed, the donor may transfer this appreciated, low or non-income-producing asset to the CRT. The CRT can then sell the asset and provide the donor an income

for life, for a term of years, or for joint lives. Upon the death of the donor or the donor's named non-charitable income beneficiary, or at the end of the stated trust term, the remaining trust assets will pass to the charity. Here are some of the benefits of using this strategy:

- Upon creation of the trust, the donor may get a current income tax deduction based on the present value of the future amount passing to the charity.
- No tax on the gain is paid by the trust when it sells the asset, since the trust is exempt from such tax.
- The donor may get increased income, since the trust may invest in assets paying a higher rate of return than the contributed asset was producing, and the trust may have more to invest, since it doesn't pay tax on the gain. The character of the income generated within the trust will determine the taxation of amounts distributed to the donor or other income beneficiary.
- Estate taxes are reduced, since the asset placed in the trust has been removed from the estate.

After the donor's death, the remaining assets in the trust pass to the charity. The assets do not pass to the donor's heirs. However, the tax savings produced by the charitable donation and the income generated

(continued on page four)



A New Ball Game for Early Retirees

(continued from page one)

Various factors are redefining how Americans approach retirement. Due to financial necessity, or sometimes an overabundance of leisure time, some retirees are beginning to return to the workplace. For example, many retired executives are starting their own part-time consulting businesses. Part-time work during retirement may be worth consideration as a part of your overall financial plan, especially if you plan to retire early.

Another interesting factor that is redefining retirement is that life expectancies continue to increase over time. For some, spending one-third of their lives in retirement is a possibility. Relying on qualified retirement plans and Social Security will be increasingly difficult because these retirement programs were not designed to

provide perpetual income. Adding to the dilemma of increased longevity, qualified retirement plans have gradually shifted the savings responsibility from employers to employees. Thus, your retirement assets, as well as personal savings, are in your hands, and they will have to work longer and harder to help fulfill your objectives, regardless of whether you retire early or not.

An often overlooked aspect of retirement planning is money management once retirement has begun. To ensure that you have adequate retirement assets, your money may have to continue working for you throughout your retirement years. In addition, inflation—along with the amount of withdrawals from your qualified plans and other assets—will have a direct impact on the

longevity of your retirement assets.

It is also important to note that early retirement may incur certain tax penalties on early withdrawals from retirement plans. All options need to be investigated. Before taking action, consult your professional tax, legal, and financial advisors to determine the overall impact on your long-term financial goals.

For many people, financial planning and part-time work have become essential components of a comfortable retirement. By maximizing your personal savings, you will increase your chances of reaching your retirement goals. Remaining active and focused on your retirement objectives is particularly important if you are contemplating, or are forced into, early retirement. 💰

Leave a Legacy



(continued from page three)

by the trust can be used to pay premiums on a life insurance policy owned by an **irrevocable life insurance trust (ILIT)**—sometimes known as a “wealth replacement” trust. The life insurance policy in this

trust replaces the value of the assets that pass to the charity in the CRT. Since the life insurance is purchased and owned by the irrevocable trust, the proceeds are free of income tax, as well as estate tax.

There are a variety of charitable giving tools and techniques that can provide generous donors with certain tax benefits. For specific guidance, consult your qualified tax and legal professionals. 💰

Current tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on the particular set of facts and circumstances. The information contained in this newsletter is not intended as tax, legal, or financial advice, and it may not be relied on for the purpose of avoiding any Federal tax penalties. You are encouraged to seek such advice from your professional advisors. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Written and published by Liberty Publishing, Inc. Copyright © 2010 Liberty Publishing, Inc.

Copyright 2010 Liberty Publishing, Inc., Beverly, MA. The opinions and recommendations expressed herein are solely those of Liberty Publishing, Inc., and in no way represent advice, opinions, or recommendations of the Financial Planning Association, its affiliates or members. CFP™ and CERTIFIED FINANCIAL PLANNER™  are federally registered service marks of the Certified Financial Planner  Board of Standards (CFP Board). This summary does not constitute legal and/or tax advice and should only be relied upon when coordinated with a qualified legal and/or tax advisor. February, 2010.