



YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Steady As you Grow Your Financial Partners

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In This Issue

RMDs Back on the Table in 2010

After a one-year reprieve during 2009, required minimum distributions (RMDs) from qualified retirement accounts are once again mandatory for the 2010 tax year. As this rule impacts legions of retirees, it's important to take a quick review of RMDs at this time.

How to Improve Your Credit Score

Your credit score is a number that lenders use to gauge how likely you are to repay debts on time. If you are about to apply for a credit card or loan, it's important to know what your score is and how lenders use it.

Tips for Maximizing Your Child's Eligibility for Financial Aid

Your goal in getting financial aid is to lower the Expected Family Contribution (EFC), which is calculated from the Free Application for Federal Student Aid (FAFSA). This article offers tips on how to lower your EFC.

A Closer Look at Inflation-Indexed Bonds

Examining the potential benefits of inflation-indexed bonds.

Standard & Poor's Economic Report: The Economy at Mid-Year

The latest market and economic commentary from David Wyss, Standard & Poor's Chief Economist.

RMDs Back on the Table in 2010

The amount of the distribution is determined by dividing the account balance at the end of the prior year by the account holder's life expectancy.

Retirees who are planning their finances need to be aware of an important change for 2010: After a one-year reprieve during 2009, required minimum distributions (RMDs) from qualified retirement accounts are once again mandatory for the 2010 tax year. As this rule impacts legions of retirees, it's important to take a quick review of RMDs at this time.

RMDs: A Quick Review

Retirees aged 70 1/2 and older are required to take RMDs every year from traditional retirement accounts such as 401(k)s, 403(b)s, and IRAs. (Note that RMDs are not required from Roth accounts.) The amount of the distribution is determined by dividing the account balance at the end of the prior year (in this case, as of December 31, 2009) by the account holder's life expectancy. Tables detailing life expectancy are available in IRS Publication 590. Failure to withdraw the required amount results in a penalty equal to 50% of the required withdrawal.

An individual normally is required to take the initial RMD by April 1 of the year after the individual turns age 70 1/2. But this requirement was suspended for 2009 only by legislation that former President Bush signed into law in December 2008. The Worker, Retiree, and Employer Recovery Act of 2008 suspended the requirement to take RMDs for the 2009 tax year. The law was enacted to prevent retirees from being forced into taking withdrawals from retirement accounts that had declined in value as a result of the former bear market in stocks. Taking withdrawals from an account that has declined can lock in losses that are difficult to make up in subsequent years.

Back on Track for 2010

According to the provisions of the Act, individuals who turned 70 1/2 in 2009 could delay their first distribution until December 31, 2010. Note that an RMD for the 2010 tax year is still required. Following the initial RMD, annual withdrawals typically must be completed by December 31 of the tax year.

Note that retirees are not the only ones who take RMDs from qualified retirement accounts. Nonspousal beneficiaries frequently take distributions from accounts that they have inherited. (A different set of rules applies to spouses.) Nonspousal beneficiaries who inherited retirement accounts and were taking distributions over a five-year period were able to suspend their distributions for 2009 only and resume withdrawals for 2010. Because of the one-year hiatus, these beneficiaries are able to extend withdrawals over a six-year period rather than a five-year period.

As an alternative to the five-year rule, nonspousal beneficiaries may be able to elect distributions based on either their life expectancy or the life expectancy of their spouse. If you are a nonspousal beneficiary of a qualified retirement account, you may want to consult a tax professional to determine how rules regarding these accounts could impact you.

Tax Issues

RMDs are taxed as ordinary income regardless of whether the distribution is taken by the account holder or a beneficiary after the account holder's death. Many retirees use their RMDs for living expenses in addition to income from Social Security and other sources.

RMDs are a complicated subject. If you are age 70 1/2 or older and maintain a traditional IRA, 401(k), or 403(b) plan -- or if you are a nonspousal beneficiary who has inherited one of these plans -- ask your financial advisor how the rules affecting RMDs apply to you.



How to Improve Your Credit Score

Your credit score is a number that lenders use to gauge how likely you are to repay debts on time. It is derived from information compiled in a credit report. The information includes your payment history (whether you have missed or been late with any payments for bills or loans), the amount you owe creditors compared with the amount of credit that is available to you, and the extent of your credit history (how long various accounts have been open).

Know Your Number

Before launching a campaign to raise your credit score, know what you are shooting for. Get a current copy of your credit report and review it for accuracy. All U.S. consumers are entitled to free annual credit reports from the major credit reporting agencies, which are Experian, Equifax, and TransUnion. You can request all three reports at www.AnnualCreditReport.com.

Unlike credit reports, your credit score is not free. You can purchase your score from one of the above-mentioned agencies or from www.myFICO.com. A typical credit score will range between 300 and 850 points. Although all lenders make decisions based on the particulars of the lending situation, generally speaking, the higher your score, the lower the perceived risk to the lender, and the more attractive the interest rate you will be offered.

Room for Improvement

A few tips for raising or maintaining a higher credit score include:

- **Paying your accounts on time and keeping your balances low.** Lenders are looking for a proven track record of making timely payments. Payment history determines about 35% of your credit score.
- **Being conservative in the amount of available credit you use at any given time.** About 30% of your score is determined by what the industry refers to as your "utilization ratio," which is the amount you owe in relation to the amount of credit available to you. If that percentage is more than 50%, your score will be lower.
- **Holding on to older, unused accounts.** The longer an account has been open and managed successfully, the higher your score will be.
- **Maintaining a diversified credit mix.** If you hold an auto loan, a home mortgage, and credit cards that are well managed, you will generally have a higher credit score than someone whose credit consists mainly of finance companies.

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Tips for Maximizing Your Child's Eligibility for Financial Aid

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.

1. **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).
2. **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).
3. **Treatment of Assets:** Generally, parental assets (not including equity in 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.
4. **Noncountable Assets:** As you continue to plan for asset re-allocation, 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 noncountable assets and increasing investment or business debt instead of consumer debt.
5. **Capital Gains Earnings:** You should attempt to minimize capital gains during the base-year because capital gains are treated as income.
6. **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.
7. **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.
8. **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.

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A Closer Look at Inflation-Indexed Bonds

Government bonds are a mainstay of many savers and long-term investors because they carry the full faith and credit of the U.S. government.¹ However, government bonds can pay low returns relative to other investments, and risk being outpaced by inflation.

In an attempt to remedy this situation and encourage more people to increase their savings, the Treasury Department issues inflation-indexed bonds in 5-, 10-, and 20-year maturities with a return linked to the inflation rate. These issues are available for purchase in \$1,000 increments through financial advisors, banks, and Treasury Direct (www.treasurydirect.gov).

Benefits of inflation-indexed bonds include:

- Rate of return is guaranteed to exceed the rate of inflation.
- Principal is indexed to the Consumer Price Index (CPI).
- Semiannual interest payments are based on the interest rate applied to the inflation-adjusted value of the principal.
- Guaranteed return of the principal even if the rate of inflation drops, so that the indexed value is below the value of the bond when it was issued.

Best Purchased in Periods of High Inflation

Are these bonds a good bet for the average small investor? The answer depends on how you intend to use these bonds and your outlook on inflation.

If you purchased a \$1,000 bond and the CPI rose 3%, the principal value would rise a corresponding 3% to \$1,030. Assuming the interest rate on the bond was 3%, you would receive interest payments of \$30.90 twice a year. If, a year later, the CPI had risen by 4%, the principal of your indexed note would then be adjusted from \$1,030 to \$1,071.20, and your interest payment would be 4% or \$42.85, paid twice a year.

How do these bonds compare with the ordinary variety? Assuming the inflation rate is 3%, and the yield of an unindexed \$1,000, 10-year Treasury note is 6.3%, the real yield of this note would be 3.3% (6.3% minus the inflation rate). After a year that ordinary bond would be worth \$1,063; but you'd lose \$30 of that gain to the effect of inflation, leaving you with a note that's worth \$1,030. Clearly, it makes sense to purchase these bonds only if you expect a major uptick in inflation.

Although the interest that inflation-indexed bonds pay is exempt from state and local taxes, federal income taxes apply. You are required to pay taxes on the interest and any increase in principal on an annual basis.

¹Bonds are subject to market and interest rate risk if sold prior to maturity.

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Standard & Poor's Economic Report: The Economy at Mid-Year

By David Wyss, Chief Economist, Standard & Poor's

JULY 2010 -- Like all of the other recent economic recoveries, this one is a "jobless recovery." Nevertheless, consumers are still spending money, but they remain cautious about borrowing; and businesses are spending more on capital equipment. Construction remains weak, with residential beginning to stabilize, while nonresidential, with the exception of stimulus-related construction, continues to drop.

The main uncertainties about the economy are the international environment and the government. While the massive stimulus package aided growth this year, tax hikes and spending cuts look likely in 2011, both because of the end of the current stimulus package and because of the expiration of the 2001 tax cuts. While these changes are necessary to control the deficit, they will likely slow the economy.

Europe poses a more significant challenge. The direct impact of the crisis on U.S. exports is a minor problem, while the weaker euro is a larger problem because U.S. goods are less competitive than they were a few months ago. Nevertheless, the trade-weighted dollar is not much different than it was a year ago (up 1%). The real fear is that the Greek debt issue escalates into a major financial panic.

We believe the financial turmoil in Europe will likely keep the Federal Reserve on hold for a few more months. Although Kansas City Federal Reserve Bank president Thomas Hoenig called for a summer rate hike based on the evidence of growth in the United States, most members of the Federal Open Market Committee remain nervous about the state of the financial markets.

Headwinds

Much of the growth so far in 2010 stemmed from the federal stimulus program. Since we expect this program to be reduced in coming quarters, we lowered our estimate of future stimulus. Recent U.S. election results and the issues surrounding Europe also reduced Congress's ability to pass a stimulus program for fiscal 2011. We also expect the Bush tax cuts to expire, with the exception of some of the lower-income cuts, which will be a drag on the economy in 2011.

The budget gap will gradually diminish, but mainly because of the improvement in tax collections as the economy rebounds. The stimulus package accounted for less than 20% of the \$1.4 trillion deficit in fiscal 2009. It will account for about 30% of the similar fiscal 2010 deficit but will diminish in size in fiscal 2011 and beyond. Deficits will remain high by historical standards, but by 2013, the deficit should be half its 2009 record.

The problems in Europe are slowing economic growth there. The Northern European countries, especially Germany, are getting some offset from the weaker euro, which is making their exports more competitive, and from lower interest rates as money flows into the safest havens. However, the southern tier (and now Eastern Europe as well) is suffering from the opposite interest rate problem as lender fears increase. On balance, the European growth prospects are slightly diminished, assuming that the crisis does not become a general financial panic.

The bigger problem for the United States will likely be the weaker euro, which is making U.S. exports less competitive overseas. This has more impact on lowering U.S. export growth than does the weaker European outlook, though 19% of U.S. exports go to the European Union (about the same percentage that go to Canada). The resulting weaker exports and higher imports were the main reason we reduced our forecast for GDP growth in 2011 and 2012.

The high unemployment rate and continued financial turmoil in Europe will likely keep the Federal Reserve on hold until near year-end. The timing of the first Fed rate hike will depend both on the economic data and on the health of the world financial system, but it seems unlikely to us before the November election.

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