

# Golden Strategies<sup>®</sup>

*A Practical Financial Guide to Your Retirement*



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## You Might Appreciate the Savings

**When Americans were asked how much of an individual's income was a fair tax burden, the average response was 15%. In reality, combined federal, state, and local taxes consume about 32% of the average taxpayer's income.<sup>1</sup>**

There are precious few ways to reduce your income taxes, so it's critical not to overlook any possible tax-cutting opportunities. One strategy that you might be unaware of essentially amounts to a once-in-a-lifetime opportunity. It's not appropriate for everyone. But if you own highly appreciated company stock in your employer-sponsored retirement plan, you might be eligible.

### Can't Tax It Till You Sell It

Generally, when you retire or change jobs, any assets you withdraw from an employer-sponsored retirement plan are taxed as ordinary income (at rates reaching 35%) and may be subject to a 10% federal income tax penalty if taken prior to age 59½. This rule also applies to withdrawals of company stock, but until you sell the stock, only the cost basis — not the current market value — is taxable as income.

Here's how it works. After you separate from your employer, you arrange for a direct

*(continued on page 2)*

### Do You Pay Too Much in Taxes?

Americans were asked how they feel about the amount of taxes they pay.



Source: Tax Foundation, 2006

## WORKING WITH YOU TO HELP ASSURE YOUR FINANCIAL SECURITY

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## You Might Appreciate the Savings

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transfer of the assets in your employer plan to an IRA and take a lump-sum distribution of the company stock, which you transfer to a taxable brokerage account. The assets rolled into the IRA remain tax deferred, but the distribution of the stock is subject to ordinary income tax on your basis in the stock, not on its current market value.

When you (or your heirs) eventually sell the stock, the difference between your basis (or their stepped-up basis) and the selling price, including any additional appreciation from the original distribution date, will be treated as a long-term capital gain, which is currently taxed at a maximum 15% rate if the asset was held for more than 12 months.<sup>2</sup>

If you had simply rolled the company stock into the IRA with the rest of your employer plan assets, any future sale of the stock would have been taxed as ordinary income because all distributions from a traditional IRA are taxed in the same way.

This strategy is not something you want to try without obtaining advice from a qualified tax advisor. We can help you determine whether you are a good candidate.

1) Tax Foundation, 2006

2) The lower tax rate on long-term capital gains is scheduled to expire on December 31, 2010, unless Congress extends the tax-law provision.

## Invest for Your Prosperity

If you retired at age 65, would your retirement assets last at least 18.5 years? This is how long the average 65-year-old can expect to live, which means that many people in this age group could live much longer and will need their assets to last two or more decades.<sup>1</sup>

If you are concerned about the ability of your investments to generate an adequate retirement income that will last throughout your lifetime, you might want to consider investing some of your assets in mutual funds.

Mutual funds pool money from shareholders and invest in assets that may include stocks, bonds, and money market instruments to seek the fund's stated objective. Some mutual funds are designed specifically to generate income.

The makeup of an income fund is generally high-quality corporate bonds, lower-grade bonds, dividend-paying stocks, or a combination of the three. Growth and income funds often invest in companies that seek earnings growth while also offering dividends. These funds generally involve greater risk but also offer the potential for income.

Of course, mutual fund shares fluctuate with market conditions and may be worth more or less than their original cost when redeemed.

*Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

Many people are using mutual funds to supplement their cash flow. Call today to discuss how mutual funds can help generate an income stream for you.

1) Investment Company Institute, 2006



Source: Investment Company Institute, 2006 (includes multiple responses)



## These Benefits Are Guaranteed

**Sales of variable annuities hit a record high in the second quarter of 2006, with over \$40 billion in new sales.<sup>1</sup>**

The popularity of this financial vehicle could be due in part to the “living benefits” offered with most variable annuities. More than 85% of variable annuity contracts sold today offer one or more living benefit guarantees.<sup>2</sup>

For an additional fee, these living benefit guarantees can help protect variable annuity owners against downside risk from poor market performance.

**Guaranteed minimum withdrawal benefit.** The contract owner can withdraw a fixed percentage (usually 5% to 7%) of the premiums paid until 100% of the premiums paid have been withdrawn. This guarantee applies even if the underlying investments lose money.

**Guaranteed minimum income benefit.** If poor market performance drives down the value of the underlying investments, this benefit ensures that when the contract owner collects retirement income, the payments would be based on a minimum payout base.

**Guaranteed minimum accumulation benefit.** This benefit guarantees that the contract value will not fall

below a minimum amount after a specified term. The minimum is usually equal to the premiums paid.

A variable annuity is a long-term financial vehicle designed for retirement purposes. It is a contractual agreement in which one or more payments are made to an insurance company, which agrees to pay an income or a lump-sum amount at a later date. There are contract limitations, fees, and charges associated with variable annuities, which can include mortality and expense risk charges, sales and surrender charges, administrative fees, and charges for optional benefits. Withdrawals reduce annuity contract benefits and values. Variable annuities are not guaranteed by the FDIC or any other government agency; they are not deposits of (or other obligations of) or guaranteed or endorsed by any bank or savings association.

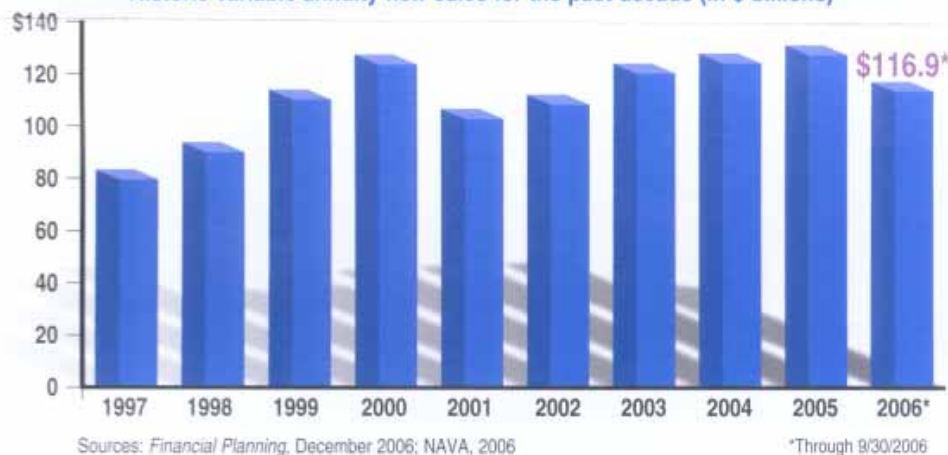
Withdrawals of annuity earnings are taxed as ordinary income and may be subject to surrender charges plus a 10% federal income tax penalty if made prior to age 59½. Any guarantees are contingent on the claims-paying ability of the issuing company. Because variable annuity subaccounts fluctuate with changes in market conditions, the principal may be worth more or less than the original amount invested when the annuity is surrendered.

1) *Financial Planning*, December 2006

2) National Association for Variable Annuities (NAVA), 2005

### Variable Annuity Sales on the Rise

Historic variable annuity new sales for the past decade (in \$ billions)



*Variable annuities are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*





## FINANCIAL FUNDAMENTALS

# What Do You Know About Inflation?

**Inflation can be annoying to most investors. It attacks the value of their portfolios, causing the real return to shrink. Although most people regard inflation about as warmly as they do the bogeyman, how much do you really know about it? Take this short quiz and find out.**



### 1. When inflation increases, ...

- A) the dollar gains against the euro, but loses against the yen.
- B) the general level of prices for goods and services decreases.
- C) the purchasing power of the dollar decreases.
- D) tech stocks double in value.

### 2. One way the Federal Reserve attempts to combat a high inflation rate is by:

- A) raising interest rates.
- B) lowering interest rates.
- C) raising the CPI.
- D) lowering the CPI.

### 3. Inflation is measured by:

- A) the Consumer Price Index.
- B) the S&P 500.
- C) commercial banks.
- D) polling a random sample of economists.

### 4. A healthy economy usually experiences:

- A) no inflation.
- B) moderate inflation.
- C) high inflation.
- D) deflation.

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### Answers:

**1. (C) The purchasing power of the dollar decreases.** When inflation occurs, it costs more for the same goods and services. For example, with annual inflation of 4%, an item that cost \$1 last year would cost \$1.04 now.

**2. (A) Raising interest rates** is one way to slow down the economy, helping to curb inflation.

**3. (A) The Consumer Price Index (CPI)** measures price changes in consumer goods and services. The Federal Reserve uses the CPI, among other indicators, to determine interest rates.

**4. (B) Moderate inflation.** High inflation hurts consumers and those on a fixed income. No inflation can be a sign of a stagnant economy. Moderate inflation (around 2% to 3%) can be a sign of a growing economy.

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*Would you like help with positioning your portfolio? Call today to discuss investment opportunities that address your needs.*

*For help with your financial decisions,*

*Tom Lovell*