Randhir S.Judge F.L.I.A.,LUTCF

Judge For Yourself Inc.
Randhir Judge, F.L.I.A., LUTCF
368 Fairview Way
Milpitas, CA 95035
888.229.9080 8114
info@jfyfinancial.com
www.jfyfinancial.com

Dear Friends,

Greetings! The tax filing deadline is just 9 days away! As you wrap up your taxes, we provide you with some last minute tax saving tips. If you still need assistance with funding IRAs to reduce taxes or other financial matters, please do not hesitate to contact our offices.

Sincerely,

Randhir S. Judge

In this issue:

Allianz

Writing Off Worthless Securities on Your Taxes

It's a classic good news/bad news situation. If you're holding a stock that has become worthless, the bad news is obvious: you've lost your investment. The good (or at least better) news? You may qualify to deduct the investment as a loss on your tax return.

Worthless stock or bonds are those that are completely--the key word here being *completely*--without value. A company's filing for bankruptcy does not necessarily mean that the stock is worthless; the stock may still trade and retain at least some of its value.

The mechanics

If you own stock in a company that liquidates, you may receive at the end of the year a Form 1099-DIV, which lists the liquidating distribution made during that year. For tax purposes, you should treat this distribution as if you had sold the stock, using the distribution date on the form as the date of sale. You would subtract your cost basis from the amount of the distribution.

If you don't receive a 1099--and it's highly likely you won't--you may still be able to take a deduction for worthless stock, but the process becomes more challenging. You'll need to be able to present proof that the stock became worthless during the year in which you're deducting the loss. Examples of documents that might be considered proof include a letter from the company stating that it has shut down and there are no assets to pay shareholders, or a letter from a broker stating that the stock no longer has value. For tax purposes, worthless stock is treated as though you sold the shares on the last day of the year in which they become worthless.

Abandoning a stock

You may also be able to claim a stock as worthless if you abandoned it after March 12, 2008. To do so, you must relinquish all rights to it and receive nothing in return; however, you should consult a tax professional to ensure that the transaction is not considered a sale, exchange, contribution to capital, dividend, or gift, which could change the tax implications.

Don't ignore timing

In general, you must claim a loss on a worthless stock in the year in which it becomes worthless. (However, if you do neglect to claim the loss in the appropriate year, you can do so later by filing an amended tax return within 7 years.) IRS Publication 550 includes more information about recognizing capital gains and losses.

What if a stock is worth almost nothing?

If a stock is no longer traded but is not formally defunct, there's another (though more complicated) possibility for milking tax value from an investing mistake. You could sell the shares in an arm's length transaction (to a willing, unrelated buyer for fair value). Be sure that ownership of the shares transfers to the new owner.

You also could check with your brokerage firm to see whether it purchases virtually worthless shares from customers for a nominal amount to supply them with a trade confirmation for tax purposes.

Writing off worthless securities is far more complex than this brief discussion might suggest. Consult a tax professional to ensure you don't make any missteps.

IRAs and 401(k) Plans: Four Strategies in a Declining Market

No doubt, 2008 was one of the worst years in the history of the stock market, and one of the worst for retirement savings. Here are four things you can do now to help make the best of a bad situation.

1. Review your retirement plan

Review your overall retirement plan with your financial professional. What, if any, adjustments can you make to help you reach your retirement goals? If you were planning to retire in a certain year, determine if that's still realistic, and calculate how much longer your assets might last if you work a few years longer. Can you reach your goals by using a smaller withdrawal rate assumption, or by increasing your IRA or 401(k) savings? Does your asset allocation still make sense? And if you don't have a plan for your retirement, now is a good time to think about establishing one.

2. Convert your traditional IRA, or transfer 401(k) plan securities, to a Roth IRA

Due to declining values, the tax cost of converting to a Roth IRA has dropped dramatically for many investors. Consider whether converting to a Roth IRA makes good financial sense for you. The taxable portion of your traditional IRA will be subject to ordinary income tax in the year of conversion, but qualified distributions from your Roth IRA will be entirely free from federal taxes.

For 2009, you're able to convert only if your modified adjusted gross income is $100,000 or less (this dollar limit applies whether your tax filing status is single or married filing jointly). If you're married filing separately, you can't convert at all in 2009. But if these rules preclude you from converting, there's always next year--literally. These limitations are repealed in 2010, so anyone will be able to convert a traditional IRA to a Roth, regardless of income level or marital status.

Similarly, if you've decided a Roth IRA makes sense for you, and you're entitled to a distribution from your 401(k) plan, keep in mind that you can roll over (that is, essentially convert) your non-Roth assets to a Roth IRA (hardship withdrawals, certain periodic payments, and required minimum distributions (RMDs) can't be rolled over). This may be especially attractive if you're entitled to an in-kind distribution of employer stock whose values are seriously depressed--you'll pay tax on this reduced value and any additional appreciation may be tax free. (The same income and marital status limitations that apply to traditional IRA conversions also apply to rollovers from 401(k) plans to Roth IRAs in 2009.)

3. Undo a 2008 conversion in 2009

What if you already converted your traditional IRA to a Roth in 2008, and your IRA balance has taken a significant hit since then? The tax cost of converting was probably much greater than if you had waited until 2009 to convert. Well, don't fret--you can undo a 2008 conversion up until the due date for filing your 2008 tax return, including extensions. Technically called a "recharacterization," this procedure allows you to treat the conversion as if it never occurred.

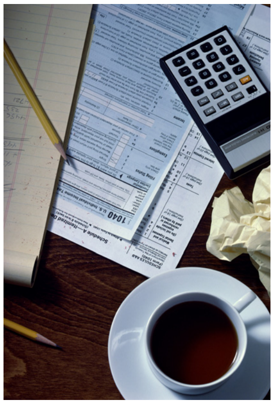
To undo your 2008 conversion, you need to carefully follow these steps:

- Inform your IRA providers (the one holding the Roth IRA and the one providing the traditional IRA, if different) that you intend to recharacterize your Roth IRA to a traditional IRA. You must provide this notice on or before the date the assets are transferred back to the traditional IRA.
- Make sure the transfer is completed by the due date for filing your federal income tax return for 2008, including extensions. For most taxpayers, that can be as late as October 15, 2009. (If you've already filed a timely 2008 tax return, you can still recharacterize by making the transfer and filing an amended return by October 15, 2009. Be sure to write: "Filed pursuant to Section 301.9100-2" on your Form 1040-X.)
- Report the recharacterization to the IRS (see Form 8606 for more information).

You can even reconvert your traditional IRA back to a Roth in 2009 (if you meet the eligibility requirements) beginning on the 31st day following the recharacterization.

4. Continue to contribute

Despite the recent downturn, for many people IRAs and employer retirement plans remain important vehicles for retirement savings. Make sure you're taking full advantage of any company matching contributions you're entitled to. And if you're age 50 or older, keep in mind that you may also be able to make catch-up contributions (up to $1,000 for IRAs and $5,500 for 401(k) plans in 2009).



Roth conversions

Individuals who would like to contribute or convert to a Roth IRA in 2009 but don't qualify because of income limitations might benefit from making nondeductible contributions to a traditional IRA today, and converting the funds to a Roth IRA in 2010, when the income limits no longer apply. Additionally, for Roth conversions in 2010 only, any resulting taxable income will be deferred until 2011 and 2012 (with 50% taxed in each year).

Longevity Insurance

Are you concerned about outliving your retirement savings? You can try to predict how much income you'll need for a specific number of years, but what happens if you live longer than you expected? That possibility is referred to as longevity risk. One way to deal with longevity risk is to shift some of it to an insurance company through the purchase of longevity insurance.

What is longevity insurance?

While life insurance helps to protect you from the financial risks of dying too soon, longevity insurance offers some financial protection against the risk of outliving your retirement savings. Longevity insurance is actually a deferred annuity that provides fixed income payments for the rest of your life, beginning at an advanced age, such as 85. The policy is usually purchased with a single payment many years before its expected payout date.

The primary advantage of longevity insurance over a typical annuity is that the investment required is usually much smaller. Say you want a guaranteed monthly income of $2,500 beginning at age 85. If you wait until you reach that age, you might have to invest about $185,000 in an immediate annuity to receive guaranteed monthly payments of $2,500. Or, you can buy a longevity policy at age 65 for about $30,000 that will provide the same guaranteed monthly income at age 85. (This example is for illustration only and does not reflect a specific product or investment return. Annuity guarantees are subject to the claims-paying ability of the issuer.)

Why consider longevity insurance?

It's hard to estimate how long you'll need your retirement savings to last, because it's almost impossible to predict how long you'll live. The chances are that you'll either spend too much and deplete your retirement savings too soon, or you'll spend too little and potentially deprive yourself of a better retirement lifestyle. Longevity insurance allows you the flexibility of planning and investing for a fixed retirement time period, because you have the fixed income of the insurance available if your retirement lasts longer than you estimated.

Drawbacks

There are some disadvantages to the basic longevity insurance policies:

- If you die before the payment period begins, you may lose your investment: there typically is no death benefit.
- They do not provide for inflation or cost-of-living adjustments.
- There's typically a long (20 years or more) deferral period.
- Payments don't begin until a predetermined age or after a set number of years.
- The payment is fixed at inception. You'll get the same payment regardless of how stock or bond markets perform over the deferral period.

Advantages

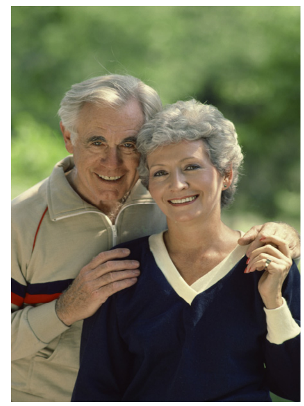
Some issuers have tried to address some of the disadvantages of the typical longevity insurance policy by offering options. But these features come with a cost that generally reduces the monthly payment. Optional features may include:

- A death benefit, annual payment increase, and an installment refund.
- A choice of single-life or joint-life income payments.
- The right to change the age at which income payments begin.
- The opportunity to take additional withdrawals after regular payments begin.

Factors to consider

- Estimate how long your retirement savings will last.
- Consider your family's historical life expectancy.
- Objectively evaluate your health and lifestyle--is it conducive to a long life?
- Consider your risk tolerance. Longevity insurance offers the security of knowing there's an income available later in life.

Longevity insurance isn't for everyone. But if you're concerned about outliving your retirement savings, consider whether longevity insurance fits into your overall retirement income strategy.



How long might you live?

The average life expectancy at age 65 (for both sexes) is 18.7 years. (Source: National Vital Statistics Reports, Volume 56, Number 16, June 2008)

Since these statistics are an average, 50% will not live to their life expectancy, while 50% will live beyond it. That means there's a chance you'll live well beyond age 85.

Judge For Yourself Inc.
Randhir Judge, F.L.I.A., LUTCF
368 Fairview Way
Milpitas, CA 95035
888.229.9080 8114
info@jfyfinancial.com
www.jfyfinancial.com

Ask the Experts

Is it possible to accidentally disinherit my heirs?

Yes. One of the most tragic estate planning mistakes is unintentionally disinheriting an heir. Here are some of the most common ways this unfortunate situation can occur.

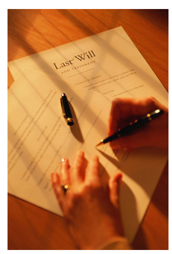
One of the biggest causes of accidental disinheritance is the simplest: failure to make a will. In this case, property passes according to the intestacy laws of the state in which you're "domiciled."

Making an ineffective or faulty will can also result in misdirected allocations. For example, you may fail to provide for children born after you make your will (this is what happened to Anna Nicole Smith and Heath Ledger). The lesson here is to forgo the do-it-yourself kit and hire an experienced estate planning attorney to draft and execute your will, and review it every year or two.

Failing to update your will can result in allocations that are made according to an old will. This can lead to unwanted allocations (for example, the disinheritance of children when Mom or Dad remarries and everything passes to the new spouse). Make it a rule to review and update your will periodically, especially after major life events such as marriage, a birth or adoption, divorce, or death. Also, update beneficiary designations (for life insurance policies, retirement accounts, payable on death accounts, etc.) annually. And, remember that beneficiary designations trump provisions made in your will.

A fourth cause of accidental disinheritance is what's known as ademption. This is the failure of a specific bequest made in a will because the property no longer exists in the decedent's estate for some reason. For example, you might leave your car to your son in your will, and then sell or gift it to someone else before you die. A similar situation can occur when a life insurance policy is allowed to lapse (so check that your elderly parents don't forget to make their premium payments).

How do I purposefully disinherit an heir?



While you can easily disinherit a nonheir by not mentioning him or her in your will, the rules are more complicated when it comes to your heirs. Merely not mentioning the name of a child or spouse in your will might not disinherit him or her, and doing so can even open the door for a will contest. In a will contest, the heir who is left out could argue that he or she was mistakenly overlooked. The outcome of a will contest depends in part upon your state's law regarding an omitted (referred to as "pretermitted") spouse or child.

To be sure that your intent to disinherit an heir is unequivocal, you should consider including a disinheritance clause in your will. Such a clause can discourage the disinherited heir from contesting your will. This clause would indicate the exact name of the heir you wish to disinherit, and explicitly state that the reason he or she is not included is because you wish to disinherit him or her.

Be aware that in most states, you cannot disinherit your spouse completely. If you live in a community property state, your spouse automatically owns one-half of the community property, which generally includes property that either of you acquired during your marriage. In all states, spouses are protected from disinheritance because they're allowed to claim a statutory share (also known as "electing against the will"). A statutory share can run anywhere from one-quarter to one-half of an estate, regardless of the terms of your will.

Also be aware that, while you have the right to disinherit a child, that right is restricted by laws that grant certain inheritance rights to minors, and protect children of any age from accidental disinheritance.

You should consider an experienced estate planning attorney if you're considering disinheriting an heir.