



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

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Dear Friends,

As the old adage goes, "the cost of ignorance is often more expensive than the price of knowledge." Often, people view financial planning as complex and confusing, causing them to substantially lose out on financially rewarding opportunities. As a result, they end up taking unnecessary risks. This issue has articles to guide you on how to make your money work for you.

We are happy to announce that we have now added Property & Casualty to our service offerings. Please contact our offices to see how we can help you with your insurance needs.

Sincerely,
Randhir S. Judge

In this issue:

Why Work with a Financial Professional?

Where to Stash Your Emergency Cash

Annuity Maximization: A Strategy to Leave More to Your Heirs

Ask the Experts

Why Work with a Financial Professional?



If you're like most people, you probably bring your automobile to a professional mechanic for routine maintenance. You see a doctor when you have concerns about your health, and for regular

exams. When the need for legal counsel arises, you consult an attorney. All of us rely on the expertise of others. It's no different when it comes to personal finances--most people could benefit from working with a financial professional. Here are some good reasons to do so:

You don't know what you don't know

No one can be an expert on every subject. Managing your finances on a day-to-day basis is one thing; implementing a comprehensive investment plan to fund your retirement while setting aside funds for your child's education is something else. That doesn't mean that you're not capable of doing it, only that you shouldn't underestimate the expertise needed to put together an effective plan. If you're going to go it alone, you'll need to educate yourself, and that brings us to the next point ...

You have good intentions, but never set aside the time

There's an entire industry built around providing individuals with the tools they need to do their own financial planning. Books, magazines, websites, calculators, worksheets, and videos all empower individuals to take a more active role in their financial future, whether they're working alone or with a financial professional. Not one of these tools, however, will help unless you set aside both the time to learn to use the tool, and the time to apply the tool to your own situation. Working with a financial professional forces you to stop procrastinating, and shifts the time commitment from you to the professional.

Doing it all yourself isn't efficient

There's a long list of things that we could do ourselves but choose to pay someone else to do for us instead. For example, you could paint your house, but you may be happy to pay someone else to do it. Why? It's more efficient. You can spend the time working on other things and, if you choose the right professional, it will probably be done faster and better than if you did it yourself. The same goes for working with a financial professional.

You're not objective

It's hard to look at your own situation objectively. Having someone else with experience analyze your financial condition can be extremely helpful. And, in cases where you and your spouse aren't on the same financial page, a financial professional can listen to all concerns, identify underlying issues, and help you find common ground.

Keeping up with change is a full-time job

In the last two years, there have been at least five major pieces of tax legislation signed into law. Even seasoned financial professionals have had a difficult time keeping up with the changes. Not understanding how these changes might affect your financial plan could be dangerous, but understanding the changes takes time and effort.

You see the trees, but not the forest

A good financial professional can help you see the big picture. He or she can show you how your financial goals are related--for example, how you might save for both your child's college education, as well as your own retirement. He or she can work with you to prioritize your goals, implement specific strategies, and choose suitable products or services. A financial professional can also stay on top of your plan to make sure it remains on track, recommending changes when conditions, or your circumstances, dictate.



Where to Stash Your Emergency Cash

Multiple choices

Many experts suggest having 3 to 6 months' income in your emergency fund. When planning how much to have and where to keep it, consider all your potential emergency resources, such as a health savings account, insurance, an emergency-only credit card, or a home equity line of credit. You may also be able to combine options--for example, an interest-bearing checking account that replaces a credit card for minor emergencies, plus a higher-yielding account for the rest of your emergency cash.



If you're contemplating putting your cash into a mutual fund, be sure to obtain and read its prospectus (available from the fund) so you can carefully consider its investment objectives, risks, charges, and expenses before investing.

A financial cushion can improve your ability to survive bad times, but right now that cash may be earning a relatively low interest rate. However, try to think of it as you might insurance: your emergency fund is designed to be there when you need it. Here are some possibilities that balance safety with liquidity:

Interest-bearing checking accounts

Deposit accounts are federally insured up to \$100,000, so they're as secure as it gets. Bank deposit balances are insured by the Federal Deposit Insurance Corporation (FDIC); credit union balances are insured by the National Credit Union Administration. Lower costs often permit higher yields on online accounts, and minimum balances for online accounts also are typically low. However, depending on the institution, your access with an online-only account may be somewhat less convenient than you're used to; for example, the number of deposits or check-writing privileges may be limited. An ATM/debit card linked to a checking account is convenient, but if the temptation to use it for a "retail emergency" proves too great, it could end up pulling the stuffing right out of your financial cushion.

High-yield savings accounts

Savings accounts typically offer higher interest rates than checking accounts. Again, some of the best rates may be available online. However, make sure you find out whether the yield quoted is an introductory rate and what minimum balance is required to get it. Also, some high-yield savings accounts require that a certain number of purchases be made using a linked credit or debit card--hardly appropriate for an emergencies-only fund.

Money market savings accounts

A money market savings account (MMA) may offer higher interest than a checking or even a regular savings account, but also may have some restrictions on access; for example, it may limit the number of transfers, withdrawals, or checks, and may require a higher minimum initial deposit or balance. (On the other hand, such constraints may force you to think twice before accessing that money without good cause.) MMAs generally invest in short-term commercial loans, CDs, and government securities.

Money market mutual funds

Money market mutual funds may offer higher

rates than checking or savings accounts. Even though they may invest in similar types of securities as money market savings accounts, don't confuse the two. An investment in a money market mutual fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the fund. If you're in a high tax bracket, consider municipal money market funds, which offer the federal tax advantages of muni bonds. A fund that concentrates on munis from your state also may offer state tax benefits.

Laddered cash equivalents

Certificates of deposit (CDs) or short-term Treasury bills provide less liquidity, but a laddering approach could improve your access while still limiting to some extent your ability to raid your fund without a good reason. For example, you might buy six CDs; the first CD matures in one month, the second in two months, the third in three months and so on up to six months. When the first CD matures, you could buy another six-month CD; you'd do the same with each succeeding CD at maturity. That would make some cash available once a month, and laddering lets you adapt to changing interest rates. A similar strategy could be used with short-term T-bills, available in maturities of 4, 13, 26, and 52 weeks. However, be aware that if you need to sell or cash in a CD early, you may have to pay a substantial penalty that could wipe out any incremental yield. In the case of a brokered CD sold before maturity, you also might suffer a loss. Also, interest rates could affect the value of a T-bill sold before it matures.

Short-term bond funds

Sometimes used as an alternative to a money market fund, short-term bond funds have typically offered higher yields with relatively modest increased risk (though they also are not FDIC-insured). However, recent credit market conditions have underscored their hazards. Short-term bond funds may be more stable than long-term funds, but some investors have been surprised at losses resulting from their fund's exposure during the past year's credit turmoil to investments considered relatively safe.

Whatever you use for your cash stash, have a plan for replenishing it after the emergency has passed.

Annuity Maximization: A Strategy to Leave More to Your Heirs

What if you're living comfortably in retirement and find that you don't need a deferred annuity you bought years ago? Instead, you want to leave it to your heirs at your death. What you may not know is that transferring your deferred annuity at death may subject it to both estate and income taxes. A strategy that can minimize the impact of these taxes is called annuity maximization using permanent life insurance.



Some background

When you die, the portion of the annuity death benefit received by your beneficiaries (either in a lump sum or as periodic payments) that exceeds your investment in the annuity is includible as taxable income to your beneficiaries.

In addition, the full accumulation value of your deferred annuity is includible in your gross estate at your death. If your estate is large enough to owe federal and/or state estate taxes, your deferred annuity will be subject to those taxes as well.

The combination of estate and income taxes can erode a significant portion of your annuity's value. The result is that your beneficiaries may receive an annuity worth much less than you anticipate.

How annuity maximization works

Here's the basic way this strategy works: you exchange your deferred annuity for a single premium immediate annuity (SPIA) that provides an income stream to you for the rest of your life. You then obtain permanent life insurance with you as the insured, and use the SPIA distributions to pay the insurance premiums. At your death, the SPIA payments stop and the insurance proceeds are paid to your beneficiaries.

Alternatively, if you prefer to retain the deferred annuity instead of converting it to an SPIA, you may be able to take penalty-free withdrawals from your deferred annuity, which also can be used to pay the insurance premiums. However, annuities vary as to penalty-free withdrawal availability, so for complete

details, be sure to check with the annuity issuer, or review your annuity contract or prospectus.

Caution: *Annuity distributions before age 59½ may be subject to a 10% federal tax penalty. Annuity guarantees are based on the claims-paying ability of the annuity issuer.*

The annuity maximization strategy may pose some income tax issues for you. SPIA payments and annuity withdrawals may be taxable to you. A portion of each SPIA payment you receive is subject to income taxes and a portion is considered a nontaxable return of premium. Conversely, withdrawals from your deferred annuity (for annuities issued after 1982) are taxed as income first, meaning the entire withdrawal is includible as income until all of the annuity's earnings are withdrawn, after which withdrawals of principal are not includible as income.

Why annuity maximization works

Instead of getting the deferred annuity at your death, your beneficiaries receive the life insurance proceeds, income tax free. And you can effectively remove the value of the deferred annuity from your estate by converting it to a SPIA. Since the SPIA payments cease at your death, the SPIA is not included as an asset of your estate.

In addition, the life insurance can escape estate taxes if the policy is not part of your estate at death. To achieve this goal, you can't own the policy; it must be owned by another (e.g., your child or an irrevocable life insurance trust). You then make gifts to the policy owner equal to the annual insurance premium. However, gifts may be subject to both federal and state gift taxes, so you should consult your tax professional before making such gifts.

The bottom line

If you own an annuity that you want to transfer to your heirs at your death, a significant portion of its value may be lost to estate and income taxes. Annuity maximization is a strategy that lets you replace part or all of a taxable asset (your deferred annuity) with an asset (permanent life insurance) that may be subject to neither income nor estate taxes at your death. This approach may effectively allow you to increase the amount you pass on to your beneficiaries.

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Ask the Experts



Can I roll over funds from my 401(k) to a Roth IRA?

Yes, beginning in 2008, you can make a rollover from a 401(k) plan (or other qualified employer plan, 403(b) plan, or governmental

457(b) plan) to a Roth IRA, as long as you meet certain requirements.

First, you must be entitled to a distribution from your plan. Generally, you can access your account when you terminate your employment. But, in some cases, you may also be able to make in-service withdrawals of your or your employer's contributions (for example, at age 59½). The terms of your plan control, so talk with your plan administrator or review your plan's summary plan description (SPD).

Second, your distribution must be an "eligible rollover distribution." In general, this is any distribution you receive from the plan that isn't a hardship withdrawal, certain periodic payments, or a required minimum distribution.

Third, you must meet income guidelines. You can roll over funds from a 401(k) plan to a Roth IRA 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 make a rollover at all. (These limitations will be repealed in 2010.)

You must include in gross income any amount that would have been taxed if the distribution had been paid to you, and not rolled over. But that's the price you have to pay to be able to receive tax-free qualified distributions from your Roth IRA in the future.

In most cases you should elect a direct rollover, where your 401(k) plan transfers the funds directly to your IRA. If instead the plan pays you, you'll have 60 days to complete the rollover, but your 401(k) plan will be required to withhold 20% of the taxable portion of your distribution.

Note: If you have funds in a Roth 401(k) or Roth 403(b) account, different rules apply. If you receive an eligible rollover distribution, you can generally make a tax-free rollover (direct or 60-day) of those funds to a Roth IRA without restriction.

I inherited my spouse's traditional IRA. Now what?

When you inherit your spouse's traditional IRA, you have a number of options.

Option 1: You can roll the proceeds of the inherited IRA over to your own traditional IRA. This can be a new IRA, or one you already own.

Option 2: You can treat the inherited IRA as your own by designating yourself as the owner of the IRA. If you're the sole beneficiary, you'll also be deemed to have elected to treat the inherited IRA as your own if you make any contributions to the IRA, or if you fail to take required minimum distributions (RMDs) as the IRA beneficiary.

With both options 1 and 2, because you own the IRA, you'll name the beneficiary who'll receive the funds after your death. You'll need to start taking RMDs by April 1 of the year following the year you turn 70½. Because you own the IRA, distributions prior to age 59½ will be subject to income tax plus a 10% early distribution penalty, unless an exception applies.

Option 3: You can remain the beneficiary of the inherited IRA. Because you're the beneficiary and not the IRA owner, any distributions you receive from the IRA will be subject to income tax, but will be exempt from the 10% early distribution penalty. This might be a good choice if you'll need to access the IRA funds before you turn 59½. In general, you won't need to start taking RMDs until the end of the year your spouse would have turned 70½ (or, if later, the end of the year following the year your spouse died).

Option 4: You can roll the taxable portion of the distribution over to an employer retirement plan (for example, a 401(k), 403(b), or governmental 457(b) plan) that accepts rollovers.

Option 5: You can withdraw the funds. You'll have to include the taxable portion of the distribution in gross income (the 10% penalty won't apply).