

Money Matters

Volume 2, Issue 9

Advising, educating and inspiring you to a better life

September 2004

Finite, Not Infinite

I'll get to it tomorrow. We have plenty of time. I don't have to worry about that for 20, 30 or 40 years. I can't think about that now, I'm too busy. These are the comments I hear from people today regarding getting their financial lives in order. Make no mistake, time is not infinite nor is your income. In your youth, your most valuable asset is your income, period. The bulk of the population, especially well educated busy professionals, feel they'll get to it later. Later comes amazingly fast. If you could continue to earn your income forever and nothing ever went wrong that strategy would work fine but there is one problem.....life happens. Nothing in this world is guaranteed or linear. The plans we have for our futures change often. When mapping your finances you need to be sure you've got a plan in place that will protect you from any unforeseen and unwanted obstacles (lawsuit, accident, disability, death, health problems, etc.) and allow you to reach your destinations regardless. Many people in the world have financial

Continued on page 2, Finite

Safety Leads to Penalty

This is a true story and the names have been changed to protect the parties involved. A man retires from his employer in the mid 90's and decides to "roll" his 401(k) to a retirement plan with NFS, LLC (a company owned by Fidelity that we use as custodian for some of our accounts.) At the time the amount rolled out of the 401(k) and into the IRA it was worth \$217,848. All is well with this transaction. Since this account was held in a securities environment and the account fluctuated - primarily down, the owner decides to take advantage of high fixed rates and guarantees that banks are offering (this obviously didn't transpire recently.) When he takes the money out of the NFS, LLC IRA he completes the necessary paperwork and writes "withdrawal" on the document. So far so good, the account owner is thinking that he'll be rolling into another IRA within 60 days there is nothing to worry about as far as income taxes are concerned.

Now off to the bank with his check for \$200,689 to lock in those attractive guaranteed interest rates. Note the loss in account value - rolled \$217,848 in and took \$200,689 out - a loss of just over \$17,000 - the reason for the move to protect the money. Once the bank representative notes that the amount is over \$100,000 a suggestion is made to open two

Continued on page 3, Protection Penalty

INSIDE THIS ISSUE

- 2** Mortgage your pension? IRS inflation or lack of!
- 3** Noteworthy News, Coming Events
- 4** Gold in the Garage,
- 5** Inspirational quotes, New Location!

products, a commodity today, but few have a proven system that will change outcomes - regardless of what cards you are dealt in life. We are all busy and as my children age I have a hard time believing how busy it really is. From the livery service we run on a daily basis to transport the rugrats from point to point to the daily pickup of the house. I don't remember signing up for this hectic schedule but there's no escaping it without drastic changes. Prioritizing this important area of your life is something that should not be put off, not even for another day. Each year millions of people are forced to retire due to physical limitations. Each year millions of people die, have accidents and become disabled. Each year more and more of our aging population needs care - in a home environment or in a skilled care facility. Each day the courts have thicker and deeper dockets - more lawsuits. There are many ways to turn your financial lives upside down. Nobody wakes up in the morning and plans on something going terribly wrong but it happens. Realize that nothing is guaranteed and your income and time are finite so be sure to take the necessary time to plan your future - it's where you'll spend the rest of your life.



Mortgage Your Pension

It's not something we recommend nor is it something the Government tells you about. You didn't know about it? Yes indeed there is a mortgage on your pension plan. This "mortgage" is the amount you'll need to pay in income taxes before you can spend the money in the pension. With the demise of the traditional defined benefit pension plan the new cash balance plan now rules the retirement horizon. How will you ultimately pay off this mortgage? There are two distinct groups of people that have two mortgages to pay. The first are people who aren't good savers and

accumulators. They will not accumulate substantial savings and when that savings is used it will likely be taxed (mortgaged) relatively lightly. Then there is a separate group of people who are good savers - some have low incomes and some have very high incomes. These people accumulate substantial assets in retirement type accounts - through deposits, rollovers and buyouts of prior defined contribution plans. These people will not likely be in a lower tax bracket during their golden years and will ultimately pay a very high mortgage rate on their assets. If you are lucky enough to do very well for yourself and trigger the estate tax, you'll end up with a first and a second mortgage - income & estate taxes. The good news is with proper planning you can minimize the impact of these hazards and keep the lion's share of your assets for you, your family and those you love, not the IRS. What do you get when you put the & IRS together? theIRS....That's no joke.



Inflation According to IRS

There are various per mile tax deductions available based on the purpose of your driving. Here are the most recent amounts allowed for deductions in recent history expressed in cents.

Use	2004	2002	2000	1998
Business	.375	.365	.325	.325
Charitable	.14	.14	.14	.14
Medical	.14	.13	.10	.10
Moving	.14	.13	.10	.10

The only conclusion I have is that the government pays for all auto related costs for employees and lawmakers. The price of fuel has just about doubled in the above referenced time frame and the deduction available for mileage has increased negligibly. It's high time for safe fuel cells to stop the abuses of the oil industry.

Noteworthy News !!!



Great news, we've got a winner from last months quiz. Brent Berling worked very diligently to find the correct answers to a multi-part question. He actually called the treasury to get the answer, which they didn't have on hand and needed to call him back. Here is it: The treasury prints 37 million (37,000,000,000) notes per day (wow.) The annual face value is \$8,000,000,732,800 – that's 8 billion & change. All of those bills would wrap around the earth, at the equator, 24 times. Good work.

Congratulations to Steve Turner on the purchase of his new home in Thomaston.

Congratulations to Kendrick Hinton on his new position with Merck.

Our condolences to Rick & Carolyn Esherick on the passing of Rick's mother.

Our prayers go out to everyone - family, friends, loved ones, living in and owning property in Florida and the southeast. People go there to enjoy the weather not to get pummeled by it.

Coming Events

The classes we teach are going to begin shortly at many locations across the state. As they are announced we'll put them in so you or your loved ones can attend. Here is a list of what we know right now, call the office to register:

Planning & Paying For College, October 19th & 26th from 6:00 – 8:30 pm at Wolcott High School.

Learn the game of college aid and make yourself look like a pauper, maximizing the chances for financial aid. Take this course if you have a bun in the oven or a high school senior.

Successful Investing Without a Harvard Degree, October 5th & 12th from 6:00 – 8:30 pm at Wolcott High School.

Learn how to avoid emotional decisions that always lead to failure with investments. Learn how to read the financial literature and understand fees, expenses and risks associated with various investments.

accounts, so each one will have FDIC insurance - one for him and one for his wife. Not a bad idea in theory as long as both accounts are opened as IRA's in the original IRA account owners name, not anyone else (spouse, dog, mistress, child, alter ego, etc. don't count.)

Believing everything is well and his IRA has been rolled over - to a safe environment - he goes about his business. He receives the 1099 from NFS, LLC the following February. The 1099 indicated a withdrawal of \$205,298 from the IRA, taxable income of \$5,298 and taxable income as \$200,000. Tax on that amount, only \$63,949. Ouch. (Everything would have been fine if the money had indeed gone into IRA's in the owner's name – but the money went into non-IRA accounts. Subsequently, in tax court, the IRA owner argues he asked to and thought he did set up IRA accounts. The IRS didn't "buy" it and he paid dearly - \$63,949). Bottom line is when it comes to finances be sure you're dealing with professionals who know what their doing. In the financial industry, many providers of "advice" and product have no education or specialized training - a travesty. This is a very simple process that happens everyday and can lead to tragedy should the details be overlooked. This was not a process that leads to better, measurable outcomes - one certainly not worth following. 😊

Coming Events

Planning For College & Retirement, October 21st & 28th at Thomaston High School.

Learn how to balance the savings between college and retirement. Most people have these two issues as major life goals – learn how to accomplish them both.

Successful Investing Without a Harvard Degree, October 7th & 14th at Thomaston High School. Same class as is being offered in Wolcott.



I.Q. vs. Knowledge vs. Wisdom

Money Quiz

The markets clearly don't like change. Your challenge this month is to find out how much the S&P 500 index rose or fell for the year immediately after election years since 1948 if the incumbent party won? What happened if they lost?

Email, fax, call or mail your answers to the office. The first correct answer will win a free dinner or a free massage, your choice.

Gold in the Garage

Automobiles are basic transportation and certainly not an investment. If you are lucky enough to still own one of these old collectible cars, you have seen some recent gains. (in appraising the cars we are assuming restored condition and desirable original options) The key to this process is knowing which car to buy, garage and never use. Most of the cars that are out there depreciate immediately and rapidly. These cars certainly had some depreciation in the beginning but have now become collector's cars today and have significant value with substantial appreciation happening recently.

1972 Plymouth Roadrunner	\$31,310
1966 Ford Mustang Convertible	\$47,150
1968 Pontiac GTO Judge	\$48,060
1970 Oldsmobile 442	\$23,726
1957 Chevy Bel Air	\$36,080
1953 Chevy Corvette	\$54,800
1970 Hemi Challenger	\$61,000

There is an amazing phenomenon in America today, brilliant people retiring broke or near broke. My definition of broke for this group is going from an annual income of say \$500,000 during the working years to a retirement income of \$125,000. (some of you may be saying, my heart bleeds, but when you become accustomed to the lifestyle, it's hard to change) I see this phenomenon in occupations where people are busy, highly educated and very intelligent – physicians, attorneys, executives, scientists, etc. Here are several groups of people who operate at a high levels of brain power in their professions – but fail to notice their weaknesses. So much time is spent refining the skills necessary to be an expert in the chosen field, when taken out of that realm – they tend to be below average in other areas of life – and cannot see this. It's a blind spot that unless addressed, can lead to disastrous results. A high I.Q. doesn't do you any good if you don't know much about a subject. When it comes to finances don't fool yourself. Its more about human behavior, habits, inertia and resistance than I.Q. Many people come to this country with a suitcase, work hard, hire experts and build empires. Many born here educate themselves, help the public, earn large incomes, retire broke or with a very small percentage of what they are used to having.

Inertia hurts experts deeply. Since they are so intellectual and successful in their chosen specialties, the feeling is that success will transcend boundaries and that finances are so simple, they'll get to it. The issue needs to be addressed when you can affect the outcome, not a few years prior to the goal, whether it's college, retirement, business succession, etc. If as you read this you are saying to yourself "this is me" or "this is my brother, father, cousin, neighbor," its time to get serious and address this issue.

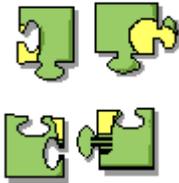
Is your current flight plan heading for a crash landing? Call the office and we'll give you a fiscal fitness checkup to be sure you're on the right path – for you or anyone you love or care for.

New Location Coming

In the next few months we'll be opening a new office located in Torrington. We recently closed on the building at 199 Main Street in front of the Saint Francis School next to the Old Post Office Square. If you're in the area you'll see a lot of changes happening to the property. Many overgrown trees have been removed and the bicentennial tree has been pruned. A special plaque will be placed in front of the tree to commemorate the bicentennial. The inside is currently receiving a fresh coat of paint. We'll have a very different type of location in Torrington. Rather than the modern office building you are used to here in Farmington, the Torrington location will be in a historic building that is almost 200 years old. You can "feel" the old world charm as you enter the building. The building speaks to you from the stained glass windows to the thick, ornate woodwork around the doors, stairways and windows. In the era of the building, things were actually made out of real wood. There is no particleboard in this structure and the beams are rough sawn, true dimensional lumber - some are actual rough cut trees. The only thing that will seem out of place in the building is our technology. We'll be operating with the technology you are used to, in a building whose creators couldn't have imagined. I look forward to seeing many of you there soon.

Inspirational Quotes

- You can send a message around the world in one seventh of a second, yet it may take years to force a simple idea through a quarter inch human skull, Charles F. Kettering
- An idea can turn to dust or magic, depending on the talent that rubs against it, William Bernbach
- Search all of your parks in all of your cities, you'll find no statues of committees, David Ogilvy
- I'm a self made man but if I had to do it all over again, I'd call someone else, Roland Young



If anyone you care about would benefit from receiving this newsletter, tell us who they are and they will be included on our mailing list. I'm sure they'll appreciate you thinking about them and having their best interests at heart.

Name _____

Address _____

City _____ State _____ Zip Code _____

Name _____

Address _____

City _____ State _____ Zip Code _____

Michael E. Chadwick, CLU, ChFC, CFP
Co – Host of “You’re Money Advocates”
A Live Financial Radio Call In Show
Tuesday Evenings 6:00 – 7:00 pm - AM 1320 WATR (203) 757 1320

Farmington Business Center
197 Scott Swamp Road
Farmington, CT 06032
(860) 677 2600 Toll Free (800) 438 3162 ext 118
Facsimile (860) 678 1835
Kari Bradshaw ext 161
mchadwick@mwfinancial.com

Please think of us whenever you or someone you care for needs the following:

- Family Protection Strategies
- Life Insurance*
- Investments & Investment Advice*
- Business Protection & Succession
- Retirement Plans*
- College Funding *
- Tax Savings Strategies
- College Financial Aid Strategies
- Required Minimum Distributions
- Debt & Cash Flow Management
- Financial Advice*
- Estate Planning
- Distribution of Assets – IRA, 401(k), etc.
- Retirement Income–Guaranteed or non*
- Disability Income Insurance*
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
- Long Term Care Insurance* & Issues
- Key employee retention strategies
- 401(k) & Retirement Plan Rollovers*

* Michael E. Chadwick is a registered representative and financial advisor of Park Avenue Securities (PAS) 197 Scott Swamp Road, Farmington, CT 06032. (860) 677 2600 Securities products and services are offered through PAS. PAS is an indirect, wholly owned subsidiary of The Guardian Life Insurance Company of America (Guardian). Michael E. Chadwick is a field representative of Guardian. MW Financial Group, Ltd. is not an affiliate or subsidiary of Guardian or PAS

Mike Chadwick’s Money Matters
197 Scott Swamp Road
Farmington, CT 06032