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in this issue:

Cash or Credit: The "Value" of Increased Buying Power

Imagine you are at an auction, and an exquisite antique lamp is about to come on the block. When you viewed the auction items earlier, you placed a value of $100 on the lamp. It is late in the auction, you have planned your bidding carefully, and you have exactly $100 in cash left in your wallet.

Price Equals Value

When the bidding reaches $90, you and one other bidder are still in the game. So, what is the likely outcome? If the bidding goes to $100, you will either get the lamp or drop out of the bidding. In this case, the amount of cash you have left equals the value you assigned to the lamp and effectively limits the amount you can pay. Assuming you are alone and cannot borrow some money from a friend, what you are *willing* and *able* to pay is controlled by how much money you have in your pocket. In this situation, we might say that "price equals value."

Expanding Value

Let's now modify the scenario slightly, and see how the outcome might change. Instead of it being late in the auction, this is one of the early items to go on the block, and it will be the first item on which you will bid. You have $500 in your wallet, the total amount you have allotted for the entire auction. The bidding has reached $90. What should you do? What are you likely to do?

Since you originally placed a value of $100 on the lamp, you should be prepared to drop out if a $100 bid does not secure the lamp. However, unlike the first scenario, in which you only had $100 left, you have a full wallet. Depending on how much you want the lamp, it is possible that you would exceed your initial limit and continue bidding, particularly if you thought that a bid slightly over $100 might be successful. What's the big deal about going over a little? After all, you may not even be successful on some other items of interest.

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Choosing the Right IRA for You

If the variety of **Individual Retirement Accounts (IRAs)** causes you to wonder which type of IRA, or which combination of IRAs, would best meet your needs and goals, you're certainly not alone. Let's take a moment to explore the IRA options.

Traditional IRAs. Contributions to traditional IRAs may be tax deductible and are limited to $5,000 in 2010 ($6,000 for those age 50 and older). However, the deductibility of contributions is generally dependent upon one, or all, of the following factors: whether or not you (the IRA owner) are participating in an employer-sponsored retirement plan, your tax-filing status, and your **adjusted gross income (AGI)**—taxable gross income less any possible deductions.

If you withdraw money from a traditional IRA before age 59½, you may be subject to a 10% Federal income tax penalty (plus ordinary income tax due), unless an exception applies. Qualifying exceptions include first-time home purchases, disability expenditures, medical expenses exceeding 7.5% of your AGI, and qualified higher education expenses. At age 70½, contributions cease, and required minimum distributions (RMDs) must begin by April 1st of the year following attainment of age 70½.

Roth IRAs. Similar to the traditional IRA, contributions to a Roth IRA are limited to $5,000 per year in 2010 ($6,000 for those aged 50 and older). (*Note:* The limit applies to the total of all IRAs that a person may hold in a given tax year.) However, contributions to a Roth IRA are *not* tax deductible. Contributions phase out for single filers with AGIs between $105,000 and $120,000 and for joint filers with AGIs between $167,000 and $177,000 in 2010.

Contributions to a Roth IRA may be made for life (i.e., need not stop at age 70½), and no withdrawals are required until one year following the death of the participant. In addition, qualified distributions, including earnings, are tax free if you've held your account for at least five years and are older than age 59½. Withdrawals made prior to age 59½ may be subject to a 10% Federal income tax penalty, unless certain qualified exceptions apply.

SIMPLE IRAs. Many small businesses have found the popular **401(k) plan** costly to administer. A more affordable alternative may be the Savings Incentive Match Plan for Employees (SIMPLE). Under a SIMPLE, an eligible employee can defer up to the lesser of 100% compensation or $11,500 in 2010. This amount increases to $14,000 for those age 50 and older.

A SIMPLE IRA must provide immediate **vesting**, and an employer can either match employee annual contributions on a percentage basis, up to 3% of compensation, or provide a nonelective contribution for all employees of 2% of compensation. There are no annual tax filing requirements and no need for antidiscrimination tests. In addition, both owners and employees can save more than they could with the traditional or Roth IRA.

SEP IRA. The Simplified Employee Pension (SEP) was created for small businesses to provide a retirement plan without burdensome administrative costs or government paperwork. Only employers can contribute to a SEP, and contributions are limited to 25% of compensation (earned income for self-employed) of up to $245,000 or a maximum of $49,000 in 2010. As a result, a SEP IRA may allow higher levels of contributions than any other IRA plan. It is important to note that the limit for owners' contributions for **sole proprietorships** and **partnerships** is calculated differently. For more information, contact your tax and legal professionals.

Annual IRA contributions for tax year 2010 can be made up until the filing deadline in April 2011. In a world clamoring for tax simplification, you may find that retirement planning is complex. Therefore, an IRA can be attractive for its versatility and ease of implementation. Many options are available for individuals and small businesses to establish retirement plans, so you may discover it's now easier to find the "right" IRA to best meet your needs and goals.

How to File an Insurance Claim

Insurance is like a security alarm system. You may sleep better knowing you have it, but you hope it'll never be activated. If you do need insurance, however, it's helpful to know what to do.

For a claim under any insurance policy, the first step is to notify your insurance agent that you have experienced a loss. Your agent will tell you what to do next and send along the necessary claim forms to be filled out.

The second step is to fill out those forms and submit them as quickly as possible. In the case of a **life insurance** claim, you may have to submit the policy document itself, along with the claim form and a certified copy of the death certificate. Insurance companies generally act promptly to pay claims, but they cannot act until the paperwork is complete. Doing your share can help expedite the process.

Although your agent can help you with the details, it may be helpful if you've kept policies and any related information handy. For example, life insurance policies generally should not be kept in a safe-deposit box. In most states, boxes are temporarily sealed upon the death of the owner. Although an executor can gain access to the box to locate a will and insurance policies, the need to do so could slow receipt of the funds just when they

are needed most. Also, if you have **homeowners** or **renters insurance**, keep an updated inventory of your possessions, along with any documentation relating to their worth. This will help you substantiate the value of your belongings in the event of a covered loss.

When dealing with certain types of insurance, such as **health** or **automobile insurance**, be aware that some companies pay claims directly, and others reimburse you after you have paid the bill. Payment procedures are determined by the in-house policy of your insurance company, standard industry practice, or individual policies of providers in the field.

Some policies also require a **deductible** amount that may result in your receiving a bill following a covered loss. Once that amount is paid, there may be a **co-payment** feature under which the insurance company pays a designated percentage of all covered claims, and you are responsible for paying the balance up to a specified amount. See your individual policies for the specific deductible or co-payment amounts that apply to your coverage.

Insurance coverage can help mitigate financial loss in difficult circumstances. Take the time now to fully understand your insurance policies and the steps needed in order to file a claim.

What Causes Inflation?

Inflation, defined as the increase in the average price level of *all* goods and services, is often caused by changes in supply and demand on a broad scale. For example, suppose business is booming, unemployment is low, and the average worker's wages are increasing. As a result, consumers have more disposable income available and may, therefore, be able to purchase more goods and services. Average prices tend to rise due to the increase in *demand* for all goods and services.

On the other hand, suppose the economy is suffering. As unemployment rises and wages remain stagnant, consumers may be unable to purchase additional goods and services. In response, manufacturers may slow production and raise prices in order to cut losses. In this case, average prices tend to rise due to a decrease in the *supply* of all goods and services. This can be a vicious circle.

In addition to creating higher costs for goods and services, inflation creates depreciation in currency values. As prices increase, the purchasing power of your income—dollar for dollar—decreases; in other words, more dollars are needed to purchase the same amount of goods and services. As time goes on, your personal savings and investments will have to work harder to keep up with or exceed inflation. Therefore, it's always important to take inflation into consideration as you save and make purchasing decisions.

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Although it’s probably not a “big deal” in this case, you have expanded your definition of value. What was originally a $100 value has been expanded to, perhaps, a $110 value. Notice how easy it is to lose your sense of value and allow something that you want to become something that you feel you need.

The “Value” of Increased Buying Power

Okay, now let’s change the scene once more. This time, in addition to cash, the auction house will accept payment by credit card. What can happen to your sense of value when your buying power has increased?

It appears that people may be less quality conscious in their buying behavior, may not negotiate as skillfully, and may pay more when buying by credit card than when making an identical purchase with cash. If the bidding were to surpass $100, you may be willing to pay far more than your original assessment of what the lamp was worth.

This scenario demonstrates how our spending behavior, along with our ability to be a savvy consumer, can change according to what’s in our wallet. “Hard money” (i.e., actual dollars in your wallet or checking account) tends to be perceived as *finite*. When we run out of dollars, we’ve exhausted our buying power until we obtain more cash or receive our next paycheck.

On the other hand, “plastic money” (i.e., credit cards) can alter our perception of value, tempting us to pay more than an object is worth and more than we can reasonably afford. We may even believe our purchasing power is *infinite*. In the moment, we can lose our sense of what constitutes a good deal and become less savvy about our shopping. Ultimately, we may end up paying too much, while losing our ability to differentiate between “need” and “want.”

Buying on credit can be convenient, especially when you are

temporarily short of cash. But, buying on credit regularly can create undesirable consequences. If you do not pay off your balance monthly, your purchases may end up costing you more when interest and finance charges are added. Also, as the amount of your total debt increases, your monthly budget tightens. Since growing debt payments require larger monthly payments, you may have less money available for other spending and saving. Ultimately, a large amount of debt may hinder you from obtaining the financing you need for more necessary purchases, like a new home or car.

One way to guard against credit card abuse is to ask yourself two questions when making a credit card purchase: First, would you purchase the item if you were paying cash? Second, would you pay the same price if paying with cash?

By staying focused on value, you can better distinguish between items you would like to get and absolutely must-have purchases. This distinction can help you avoid the major pitfalls of buying on credit: overpaying on individual items and spending beyond your means.

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