Smude & Associates Planning Points

News and Information To Keep You Informed -December 2011

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In This Issue

Quote of the Month

"We will open the book. Its pages are blank. We are going to put words on them ourselves. The book is called Opportunity and its first chapter is New Year's Day."

-Edith Lovejoy

7 Financial Resolutions You Should Make-and Keep -This New Year

It is that time of year again. Time to evaluate the past, and contemplate the future. To look at where you have been, and plan where you are going. It is the time for New Year's resolutions. Financial goals are a core part of most peoples' New Years resolution goals, but vague goals such as "save more" or "spend less" rarely make it out of January. So we've outlined a list of specific things everyone should do to keep their retirement portfolio in good health in the New Year. Stick to it, and you should be well on your way.

1. **Review your risk tolerance.** We often talk about risk tolerance levels in terms of age appropriateness, a technique that lends itself to many investors assessing once their risk tolerance, adjusting their portfolio, but then, leaving it unchecked for years. The truth is, risk tolerance is a very individual concern. Age is a great place to start, but a real evaluation of your tolerance for risk will take into account your age, your exact financial position, your goals, and current economic conditions. Since these can change, it is smart to review risk tolerance at least once each year.
2. **Adjust your asset allocation.** You should be doing this two to four times a year. Mark it in your date book and follow through. The market changes and some investment vehicles perform better (or worse) than others. This effects your allocations in a hurry. Make it a habit each quarter to adjust your investments so that your current allocation fits within your risk tolerance and goals.
3. **Update your beneficiaries.** You should update your beneficiaries whenever you experience a major life event such as: marriage, divorce, birth of a child, or loss of a spouse or dependent. It is a good idea to check your beneficiary designations once a year, make any changes in writing, and maintain a copy for your records.
4. **Make a new budget.** Sit down with your receipts and bills and see how much money you actually spent each month last year. Use it as a guide to plan for the expenses you'll face in the year ahead. Take the time to see if your plan fits your current lifestyle. If not, plan out those adjustments in your budget so you don't run up credit cards due to a lack of planning.
5. **Order your free credit reports.** Whether you are applying for a loan, hunting for a job, or merely purchasing auto insurance, your credit report affects your life. The law states that every American is entitled to a free copy of his or her credit report from each of the three major reporting agencies once a year. Request yours at AnnualCreditReport.com, and make sure it is right.
6. **Get a medical exam.** You want to catch and treat any medical problems that you may have early because it is cheaper in the end. Plus, thanks to the Affordable Care Act, if you happen to be on Medicare, you get one free wellness exam per year. If not, the act now requires most health care insurers to cover preventive care without charging you a co-payment, co-insurance, or deductible. Find the list of eligible preventive services at Healthcare.gov.

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Q&A
Should you have any questions concerning anything in this month's installment or to learn about upcoming events please contact our office.

401(k) Loans: The Good and Bad of Borrowing from Yourself

It is estimated that one in four investors who have a 401(k) plan that allows them to borrow money from it do so. Borrowing from your own retirement account has some advantages over more traditional loans, but it carries some distinct disadvantages as well — some you may not have even considered. Let's take a look here at some of the good — and the bad — of 401(k) loans. Our discussion is in no way exhaustive, and you should keep in mind that each plan has its own rules, schedules, and rates. We recommend you speak to your human resources department and/or give us a call if you are considering a 401(k) loan and have questions.

The Good
If your plan has a loan program, you can commit to making the maximum contribution, without worrying that you might need those funds down the road. Money that you put in will be available for loan "just in case" you need it later. Should you need it later, you can take a loan instead of a distribution from the account. Distributions when you are less than 59 ½ years old carry an early withdrawal penalty of 10 percent as well as incurring income taxes. This can shrink your retirement savings quickly. However, if you take a loan instead, and pay it back later, you have weathered the storm without depleting your retirement savings. In a declining or weak market, your rate of repayment may even outpace the rate of return you were receiving on your investment.

401(k) loans usually have less paperwork to fill out than a traditional loan, and get the money to you quicker. Plus, there are typically no restrictions on how you use the proceeds. These loans also come with a relatively low interest rate, making them, in many cases, cheaper than credit cards or other unsecured loans. There are no credit underwriting standards either — if you have the money in the account and your plan allows loans, the money is yours to borrow.

The Bad
Most 401(k) loans are subject to some kind of fee. Many plans charge a loan origination fee, and some charge an annual service fee as well. In addition, while the paperwork is less than a traditional loan, spousal approval is often required. Further, unless you are repaying at a rate that is greater than the rate of return you would have received on the monies taken as loan, your retirement is taking a hit. Monies not in your account are not earning a return, and are not compounding.

Many people also find it difficult to repay the loan and continue making their regular 401(k) contributions at the same time. This can have a major impact on the size of your nest egg when it comes time to retire. Finally, the greatest risk with 401(k) loans occurs when they go unpaid. The loan is converted to a withdrawal and the money subject to income taxes and penalties associated with it. This happens most often when someone who has a 401(k) takes a loan and is then laid off or changes jobs. Most plan sponsors give only 60 to 90 days after termination to pay the loan in full. Otherwise, it becomes a withdrawal and is treated as such. This can have a big negative impact. If you're feeling crunched for cash, make sure to look carefully at all of your options so you don't end up with unintended consequences.

Citation:
http:// www.marketwatch.com/ story/ that-401k-loan-may-cost-more-than-you-realize-2011-10-06