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Did You Know...?

News you can use for your financial well-being

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Thank You, Sir, May I Have Another Please?

Your tax checks probably just cleared the bank, and you've resolved not to pay so much in taxes this year as you did for 2007. Yet from the state to Federal level, huge budget deficits need to be closed, and one of the solutions is (drum roll please) higher tax rates. Given that the government will be looking for more ways to worm in on your earnings, what can you do to lower your tax bill?

One angle, often mentioned but rarely this timely of an opportunity, is tax-free municipal bonds. Interest on these bonds is free from state and Federal taxes (not tax-deferred, tax-free, as in you never pay taxes on the interest) if you buy bonds issued in your state of residence.

Right now, California tax-free bonds yield between 2-4% depending on the maturity. Relative to Treasury securities and CDs, muni bond yields are the highest they've been in many years. For example, a AAA-rated 10-year bond is around 3.5% state and Federal tax free. If your income is greater than \$65,000, this would be equivalent to making over 5% on a fully-taxable CD. It's also more than a 10-year Treasury note is paying right now.

If you have taxable savings (CDs, money market funds, Treasury bills/bonds), and you're tired of paying so much in taxes, call me and we can compare a tax-free strategy with your taxable investments and see how it will benefit you.

Pension Plans Making a Comeback for Small Business Owners

By Ray Shojinaga of Flynn, Shojinaga & Associates, Inc.

In 2006, the Pension Protection Act (PPA) increased the maximum contribution an Employer could make to their defined benefit plan. This newfound flexibility in minimum and maximum funding requirements for defined benefit plans makes these plans more attractive to small business owners than ever before. Pension plans provide larger retirement benefits and tax-deductible contributions than other retirement plans. The new regulations allow employers to maximize their funding of the plan during financially successful years which minimizes the funding requirements in leaner years.

In 2007, updated IRS guidance was issued for cash balance plans (a special type of defined benefit plan). The cash balance plan, when combined with a 401(k) plan, is proving to be a very effective and efficient way for small to medium sized business owners to maximize their retirement savings.

Over the past year, we have helped numerous small business owners design and establish a defined benefit or cash balance program to meet their retirement savings and tax planning goals.

Roth IRA Conversions

Starting in 2008, retirement plan participants can rollover their pre-tax accounts to a Roth IRA. Previously, this conversion process was more cumbersome. Roth conversions are not subject to the 10% early distribution penalty. For 2008, only individuals with adjusted gross income (AGI) of \$100,000 or less can perform a Roth Conversion. Starting in 2010, everyone will be able to take advantage of the Roth Conversion rules.

Special Notes for Employers Sponsoring Retirement Plans

The Department of Labor (DOL) has been sending noncompliance letters to Plan Sponsors if the Form 5500 filing indicates that the employer has failed to transmit employee 401(k) deferrals and loan payments to the trust in a timely manner. This DOL action underlines the importance of depositing employee contributions into the 401(k) trust as soon as possible.

The DOL has recently proposed a 7 business day safe harbor for small plans (plans with less than 100 participants). If participant contributions are deposited within 7 days following the date the amount was withheld from the employee's paycheck, then the deposit will be considered "timely".

If you have any questions on this information, or have other retirement plan questions that you need answers to, please feel free to send an email to me at ray@fsanet.com.

Ray Shojinaga is President of Flynn, Shojinaga & Associates, Inc. FSA serves as employee benefits specialists and management consultants to a wide variety of organizations.

Success Stories

Somewhere Between Tums and Champagne

After a tough start to 2008, the market has rallied almost 10% in the past six weeks, regaining about half of the decline from the all-time highs in October 2007. True to my comments last month, the Bear Stearns collapse in early March has marked the bottom of the market decline. However, as the title to this piece suggests, while we can put the Tums away, it isn't quite time to break out the champagne.

The 10% rally over the past few weeks is very counter-intuitive for most investors: "why is the market doing well when everything I read and see about the economy is so bad?" The answer is actually quite simple: the stock market always looks forward, while what you're reading in the paper or seeing on the news relates to what happened last week/month/quarter, etc. We're in a period now where the markets feel like the worst is behind us, and expectations are for the economy to improve later this year.

This is important to recognize as an investor because while your stomach will welcome the prospect of rising values of your accounts, your emotions will be working against you, reminding you of the recent volatility, and cautioning you against making financial moves that take advantage of opportunities created during unsettled times.

Here's an example: if you save money systematically (i.e. monthly in your 401(k) account, a college savings account, etc), have you increased your monthly savings recently to take advantage of this decline? Or have you ceased contributions because "it's losing value", only to resume contributions "when I feel good about it again" (i.e. when the market is back up at new highs)?

The US stock market is still 10% lower than it was 6-7 months ago. Tax-free bonds are so undervalued that bond guru Bill Gross calls it a "once-in-a-generation" opportunity. Fast-growing foreign markets like China (-30% YTD) and Europe (-10%) are down significantly from their highs. Opportunity abounds, but it isn't easy to take advantage of if you let your emotions rule your decision-making. This is where having a plan really benefits you: while many investors are guessing and investing on emotion, you have a path mapped out that shouldn't be altered by today's headlines. Let's work together to make sure you reach your goals and take full advantage of opportunities along the way.

Timely Tidbits:

The Case/Shiller S&P Home Price Index for the San Francisco region shows a 20% decline from its peak in May 2006 to the recent February 2008 reading. You can access this info at <http://www.globalindices.standardandpoors.com/sandp/index.jsp>. While sentiment remains negative in the housing market, some signs of bottoming are appearing. A good source of housing market info can be found at <http://www.reuters.com/news/globalcoverage/housingmarket>.

Higher loan limits for conforming mortgages have gone into effect (for 2008 only at this time). In the Bay Area, the limit increased from \$417,000 to roughly \$729,000. If you haven't looked into refinancing to take advantage of low interest rates, now is the time to talk to your lender and see if you can reduce your rate. 30-year fixed rates are around 6%.

Quote of the month: "In a time of universal deceit, telling the truth is a revolutionary act." George Orwell, *English essayist, novelist, & satirist (1903 - 1950)*

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