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## BRIAN SAUSER'S FINANCIAL NEWS

# DIGEST




### MONEYLINE

## Thinking Of A Second Home? It's A Buyer's Market

**D**emand is low; supply is high. The National Association of Realtors recently reported a 9 months' supply of homes. That's how long it would take to sell all the homes on the market at the current pace of sales. With so much selection, you'll find more properties in more places, and many that offer extras like panoramic views, water frontage, or mother-in-law's quarters. You can also expect less competition from other buyers, and you are less likely to waste time with sellers who set unrealistic prices (though they are still out there).

Bank-owned properties are plentiful. In the first half of 2011, lenders owned about 870,000 homes but listed only about one-fifth of them for sale, concentrat-

ed in such high-foreclosure states as Arizona, California, Florida, Michigan, Nevada and Ohio. Even with the slowdown in foreclosures, new supply exceeds sales.

If you are contemplating a second home or vacation property, be sure you consider all the economics. It's more than just the purchase price. There may be association dues, taxes, insurance and maintenance. Still, while these concerns may detract from the pure investment component, a second home can offer a quality-of-life component in some instances that a pure investment cannot. 



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*Travel insurance can cover prepaid hotel costs,* says travel expert Nancy Dunnan. Some hotel rates are deeply discounted but nonrefundable. They are offered by Expedia, Travelocity, Orbitz, and hotel Web sites. Without travel insurance, you might have to forfeit your advance payment if you cancel. Travel insurance allows you to cancel for such reasons as illness, injury, bad weather, canceled flights and sometimes for work-related reasons.

*Beware: Some dealers are keeping electric car tax credits* instead of passing them along to consumers. The dealers buy the high-mileage-per-gallon cars from other dealers and sell the cars as used—with 100 miles or less on the odometer—then claim the government's \$7,500 tax credit, so the buyer is ineligible for the credit. *Also:* Some dealers are pricing the Volt more than \$20,000 above General Motors's suggested price of \$41,000 according to *Bottom Line Personal*. GM says its dealers are franchises that set their own prices, and regulators say it is not illegal for them to sell the cars as used and keep the credits. *Best:* If you buy a "used" Chevy Volt, make sure the price you pay reflects the fact that you won't receive the tax credit.



## Retirement Investors Who Plan Are Better Equipped For Volatility

By Mark Miller, Tribune Media Services

**T**he stock market's recent volatility has put new focus on a key question older investors have been asking themselves since the 2008 crash: What is the correct retirement portfolio equity exposure for investors close to retirement, or who already are retired?

The percentage of U.S. households willing to take "above-average or substantial risk" to meet their financial goals has plunged, according to survey data from the Investment Company Institute this year. The decline has been sharp across all age groups, but is especially dramatic among older baby boomers.

The instinct to protect assets from market risk is understandable. Still, it's just as important to protect yourself from longevity risk. A retirement date is the starting point for a period that might last 30 years or more, and the equities market is often a part of the mix to produce the growth necessary to meet your long-term needs. "Your framework for thinking about this should be long-term," says Stuart Ritter, a financial

planner at T. Rowe Price. "You need to balance two risks—short-term volatility against long-term risk that inflation will erode your assets."

Expert opinion on this is all over the map. So, what's the correct equity allocation for older investors? My answer: As little as possible while maintaining high confidence that you can meet your retirement goals. Trouble is, the only way to maintain that confidence is by taking a step too many

of us avoid: creating a serious retirement planning approach.

In most cases, I advocate doing this with help. Good planning starts with a credible estimate of spending needs. This should be balanced against income you can count on from Social Security, pensions or perhaps the future purchase of an income annuity. Finally, you back into an equity allocation for your portfolio that provides enough growth to fill in the gaps but exposes you to as little risk as possible.

Good planning can help not only with the spending and income needs, but also by running "what-if" scenarios that take into account varying market performance and outcomes over time. The result should be an approach that gives you high confidence of reaching your goals.

Investors who've done this are far less likely to react emotionally to market volatility. "Our clients who just made the jump into retirement are somewhat uneasy and disappointed, but no one is running for the hills yet," says Chip Workman, a registered investment adviser based in Cincinnati, Ohio.

Workman says most of his clients near retirement have a percentage of their portfolios in equities. "We always try to focus on their specific tolerance for risk and their goals, and find the magic area in between how much risk they can tolerate to meet their goals," he says. "We also try to get them to re-focus on the idea that it's not about decisions you make today at retirement, but what might be a 30-year retirement. We get them to reflect on everything that has happened in the world and the markets over their lifetimes, and see that they're likely to experience changes again." ↗

*"Wealth is the product of one's capacity to think."*

— Ayn Rand

# Options For Saving For College?

By Anya Kamenetz, Tribune Media Services

**M**y husband and I are expecting our first child in December, so we're thinking about how to save for college. Tuition at public colleges is up 5.6 percent a year above inflation for the last decade, according to the College Board this year; if that trend continues, sending our bundle of joy to out-of-state U is going to cost upwards of \$157,000, plus



room and board, starting in 2018.

The good news is that parents and grandparents have a lot of options to save for college. The three most important concerns for most families are picking a decent investment vehicle, finding the best tax advantages, and avoiding being penalized for saving when it comes time to apply for financial aid.

Here's a rundown of the options as I see them.

## 529 College Savings Plans.

Under Internal Revenue Code section 529, all 50 states and the District of Columbia sponsor tax-advantaged investment accounts for higher education expenses. Much like a Roth IRA, your contributions to a 529 are subject to federal tax, but the earnings in the account are not; nor are you taxed on the money when you take it out, as long as you spend it on qualified education expenses such as tuition at an accredited university. If you live in one of the 34 states (or D.C.)

that offer state tax advantages for 529s, you may wish to consider your own state's plan; if not, choose whichever state's plan is appropriate for your needs.

## Coverdell Education Savings Accounts.

A Coverdell ESA has the same federal tax benefits as a 529, but it has an annual contribution less than \$2,000 and a household income limit of \$190,000, and there are no state tax benefits. Some families may appreciate that Coverdell contributions can be used for elementary, middle and high school tuition, as well as for college or grad school.

## Prepaid Tuition Plans.

Another kind of 529 plan is a prepaid tuition plan. In 17 states, you can invest an amount equivalent to one semester of tuition in your state university system today, and the state guarantees that your investment will be worth one semester's tuition 18 years from now. It's a simple investment that provides peace of mind, as public university tuition has been rising about 6 percent a year. Prepaid tuition is also a hedge of sorts against economic downturns: Tuition tends to rise even more in years when the market is sinking. The obvious disadvantage to a prepaid tuition plan is that it locks your child into attending her state university. Some states honor other states' prepaid tuition plans, but you may have to pay the difference between an in-state and out-of-state student. There's also a risk that plan costs will rise, or that the state will not be able to honor its obligations. ↗



*529 plans are dropping states from their names.*

The college savings plans remain state-sponsored, but they are looking outside their home states for investors and are trying to avoid being closely identified with a single state. *What to do:* Be sure you know which plans your state sponsors—investors often get tax breaks by investing in 529 plans from their home states. If you do decide to invest outside your home state, evaluate plans on features and performance—it makes little difference which state sponsors them. Just beware you could miss out on the tax benefits.

*Seniors expect to help their kids financially.*

Half of those age 55 or older expect to give family members financial assistance—and 70% of those think they will have to aid their adult children says a 2011 survey by the research firm Crestwood Associate. This reverses previous patterns in which older adults expected their children to take care of them in later years. *Also:* Multigenerational living arrangements are becoming more common. *What to do:* Think through your retirement goals in light of the possibility of having to help other family members or having them live with you.

*"Never spend your money before you have it."*

— Thomas Jefferson

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## The First Step To a Secure Retirement—Do A Reality Check

By Mary Beth Franklin, Kiplinger's

The question on many peoples' minds is, Will I have enough money to retire? More than half of those who participate in an employer-based retirement plan say that they have never taken the time to estimate how much they need to save for retirement. If you don't have a savings target in mind, it's tough to determine whether you are on track, says financial planner Philip Lubinski, head of the Strategic Distribution Institute in Denver. Lubinski uses a simple worksheet to help people figure out their target number and whether they're saving enough to reach it by the time they want to retire.

"Some may be assuming they are off-track, when in fact, they aren't—or not as much as they think," says Lubinski. The answer to the burning question of "Will I have enough?" is determined by several factors, including when you plan to retire, how much income you need from your savings, how many years you'll need that income, and the rate of return you can expect to achieve on your investments.

If you discover a shortfall between the amount you need to save and the amount your current account balance and continued savings will be worth by your target retirement date, then you'll have to make some tough choices. You could save more, work longer, chase higher returns, or plan to throttle back on your retirement lifestyle—something most people hope to avoid.

"Americans are recalibrating their retirement dreams," says Carrie Schwab-Pomerantz, president of the Charles Schwab Foundation, which promotes financial literacy. J. Graydon Coghlan, a financial planner in San Diego, has observed a similar rethinking of retirement goals among his clients. "Instead of buying a second home, I see a lot of people fixing up their existing home to make it their retirement dream house," says Coghlan. ↗

