Money Matters

Volume 1, Issue 1 | By: Michael E. Chadwick, CLU, ChFC, CFP | July 2003

Welcome to the monthly money matters newsletter

Educating, advising and inspiring you to a better life

This newsletter will be published and sent to you each and every month to keep you informed on money matters. You will also receive information that is not financial but will improve your quality of life. This is an open forum for all clients and I encourage your participation as often as possible. If you have people you care for who are friends, associates or relatives they are welcome to be part of the family. Contact the office to be sure they get a copy of the newsletter each month. You are welcome to ask questions, answer the quizzes and keep the office informed about important changes in your world.

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Keeping the memories alive

Children seem to grow up so fast it is mind-boggling. Many people try to capture the memories by taking photos and video of the kids at special events. It is typical of people to videotape a child's complete

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INSIDE THIS ISSUE

What they don't teach us in school

Two things we are never taught in school are how to raise our children and how to handle our money. This is amazing considering how important both of these issues are. I can remember learning history, math, art, social studies, gym, typing, etc. I can never remember learning how to deal with finances or successfully raise a family. People learn by example, not by instruction. If a child is taught to do one thing and witnesses her parent do something else, she is likely to follow the example and not the words. This is partially what causes our countries lack of financial knowledge. Another factor is that the marketing departments of corporations today are very, very good at what they do. So good in fact they are able to motivate people to do things that are actually bad for their families in the long term but help the corporation's earnings today. We live in a society of instant gratification and lack discipline. I hope that our educational system will soon incorporate something to teach the next generation how to be money savvy and avoid some of the poor habits you and I have learned and had to "unlearn." If any of you educators out there have an interest in bringing this to your school, call the office and we can discuss it further.

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People are funny about money

There are two ways of making decisions; logical and emotional. People are emotional beings. Especially in America, we live so very well that many of the things we do on a daily basis are wants and not needs. When it comes to money people are especially funny because

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Memories (from page 1)

birthday party or special event. It is often painful to view those same tapes. There is a great idea that Betsy & I do to keep the memories alive, concise and fun to watch. We call it the "Three Minute Tapes." Each month on a given day of the month we will videotape Hannah & Sammy for three minutes. Each child has a separate tape and the taping is of anything they happen to be doing, not special events. Try to make the time in between tapings as close to a month as possible. What it does is captures the growth of the child in a very short clip in time showing the progress of their skills as time unfolds. If you have a sixty-minute tape and do three minutes each month, when you view the tape you can see your child grow twenty months in one hour. We have Sammy's tapes from the day she was born and Hannah's tapes from the time she was just over one year old. This is a great idea you should consider and be sure to share it with everyone who is close to you.

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Tax law changes in plain English

Just a few weeks ago President Bush signed into law the largest tax cut in history. This is an attempt to "jump start" our sluggish economy as well as a re-election move. Lets hope it works and does not put our country too far into debt. Although taxes will be lower in the coming years, realize that income taxes are at a historically low level. The income tax was created in 1913 and the average tax rate in this country since inception was over 64%. With the new tax cuts in effect today, the maximum income tax rate is 35%. Add Connecticut's 5% and that puts high earners in the 40% tax bracket.

Tax rates are likely to increase substantially as time unfolds so be sure not to over use tax-deductible plans. They only make sense if you are in a lower tax bracket when you make withdrawals than when you made contributions. The new tax law changes are all designed to sunset. That means they will end at a specified future date unless congress acts to extend them or make them permanent. Here is a quick synopsis of the tax law changes:

Capital gains taxes have been reduced. If you were paying 20% on capital gains tax you'll now only pay 15%. If you were paying 10% now you'll pay 5%. This law sunsets in 2008.

Dividends are now taxed at a reduced capital gains rate. There is a temporary suspension of taxing dividends as ordinary income. Dividends will be taxed at the same rate as capital gains until sunset in the year 2008.

Income tax rate reductions.

Old Income Tax Rate	New Income Tax Rate
38.6%	35%
35%	33%
30%	28%
27%	25%
15%	15%
10%	10%

These laws will sunset in 2005.

10% tax bracket expanded. If you are a single filer the 10% bracket is expanded to incomes of $7,000.00 and $14,000.00 for joint filers. This provision sunsets in 2004.

Marriage penalty is going to disappear for years 2003 and 2004, then sunset.

Child tax credit increases to $1,000.00 per child for years 2003 & 2004, then will reduce to $700.00 each.

AMT (Alternative Minimum Tax) exemption increases to $40,250 for single filers and $58,000 for joint filers. This provision will sunset in 2004.

Section 179 expensing goes to $100,000 for small business owners. This is very substantial tax change and is scheduled to sunset in 2005. Investment limitation on cost of property will now be $400,000 until 2005.

All in all, the new tax law changes provide substantial tax savings in the near term, which we should all take advantage of. I expect in the near future the rates will be going up so this time should be enjoyed thoroughly. The state has raised its income tax but that will be absorbed by the federal cuts for most taxpayers.

Noteworthy News ! ! !

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Congratulations to Bert & Kelly Lutz on the birth of their daughter, Abby Lynn on June 23rd.

Congratulations to Mike & Breia Pinette on the birth of their twin sons, Nathan and Nicholas on June 17th.

Congratulations to James & Maria Oliviera on the birth of their daughter, Angelina Rose on April 3rd.

Congratulations to Lee Rho on her retirement from the State of Connecticut!

Our deepest condolences to Mrs. LaGamba and Nicholas LaGamba Jr. on the passing of her husband and his father Nicholas LaGamba Sr.

Our deepest condolences to Marc & Jamie Lemieux on the passing of both of Marc's parents.

Our deepest condolences to Brad Snow on the passing of his mother.

If anything special occurs in your life, good or bad, be sure to notify the office for advice and you'll be included in the noteworthy news section of the newsletter.

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Calendar of Events

Senior Financial Seminar

Place: Nuchie's of Forestville

Time 6:30

Date: August 5, August 7 & August 12

Educating seniors on financial issues. This seminar series is for people who are close to or already retired. It is also for those who have recently lost a job through layoff or transferred jobs. How to increase returns without increasing risk. How to increase your monthly income. Beat the investment returns on CD's. *(Last time someone told me they were renewing their CD, they had to pay the bank 1.5% annually for that privilege ☺)* What to do with your pension plan? Stop the bleeding on your investment portfolio. Stop paying taxes on your social security income. How to deal with the issues of long-term health care

If you or anyone you know would like to attend any of the seminars, contact the office to get your invitation and tickets now. Please respond quickly as seating is limited.

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Funny (from page 1)

the emotion takes over. One habit to build is to separate your emotion from your logic in making financial decisions. This will lessen the degree to which you are funny about money. Some people are very lucky and are hard wired to thing logically about finances. For them making savvy money decisions comes naturally. For 99% of the population, money decisions are stressful and carry a very high emotional price tag. The larger number of dollars involved, the higher the degree of stress or "funniness" about the behavior of the individual. One of the primary reasons this occurs is that the financial education level of the average American is quite low.

People get bombarded with so many advertising messages each day it is difficult to determine what is fact, fiction and marketing hype. This causes uncertainty and worry. Nobody wants to worry about anything, especially money. It is important to avoid forming financial biases from "pieces" of information and from people who are perceived as successful. Often times people will have a conversation with someone who appears to be financially savvy and determine that was an expert opinion. Remember not to judge a book by its cover. In our "keep up with the Johnson's" society, what you see on the surface and the true wealth of the individual are two separate things. This is especially true in Litchfield County. If you have questions, concerns or want information, call the office and we will provide you with what you need.

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HH Bonds arguably not worth the hassle

HH bonds may be obtained by exchanging matured EE bonds. These bonds pay a current interest rate of 1.5%. This is slated to remain the same until the year 2013. I believe the government will stop issuing HH bonds sometime in 2004.

EE Bonds are currently paying 2.72% and stop paying interest after 30 years. If you or anyone you care about holds either of these types of bonds call the office to discuss other safe alternatives with more attractive rates.

Money Quiz

1) You just won some type of lottery (lottery is a voluntary income tax and I do not suggest you "play" it – even for 260 Million) and you have the choice of two prizes. Option one is $1,000,000.00 in cash. Option two is a magic penny that doubles every day for thirty days. Which prize would you choose and what is value of the penny on the 30th day?
2) What does section 101 of the internal revenue code deal with?

Email, fax, call or mail your answers to the office. Correct answers will enter a raffle for a free dinner for two.

Painless ways to save money

One of the main reasons many people don't address financial planning is they believe a certain amount of "pain" is involved in the process. The way many people deal with their finances is riddled with problems and if that is corrected, saving is a painless thing to do. If you still believe it's painful to save, here are some ideas that will allow you to save painlessly:

Debt Retirement (debt likes to retire too)

When you pay off a debt continue to make that payment to yourself in the form of savings. Any debt in any amount will work whether it is a student loan, car loan, personal loan, credit card or mortgage. It can be $43 or $1800 monthly. The issue here is building good habits. Most people never miss a mortgage payment but are not good savers due to poor habits.

Refunds Too Large

If you are getting more than $1,000.00 back in tax refunds each year combining federal and state you are missing a great opportunity to increase your wealth. When the government uses your money all year long you lose the interest the money could have earned all year long, this is an example of an "opportunity cost." Change your estimated payments or your W-4 withholding to put more in your checkbook each month and save that newfound money.

Income Increases

If you get a raise or the income of your business grows, save part of the growth. It will allow you painlessly save and simultaneously enjoy a better standard of living today. This is a habit you want to build early. Many have become very wealthy and happy by not changing their standard of living as their income grows.

Changes in Expenses

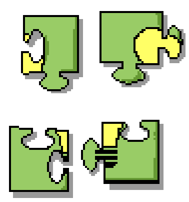
When you have been paying for something that eventually ends but is not a debt. Examples of this include daycare, school tuition and medical care. When these expenses disappear it is a great time to begin keeping those dollars for yourself and your family.

Debt Consolidation

When you consolidate debts by refinancing your home and including other payments such as auto, student loans, credit cards, etc. The amount of your payment reduction should go to savings and investing. If we have not spoken in the past few months, call the office immediately to discuss the feasibility of debt consolidation and refinancing in today's low interest rate environment.

Inspirational Quotes

- Attitude determines altitude, author unknown
- Where there is no vision, the people perish, the bible
- The world you desired can be won. It exists, it is real, it is possible, and it is yours. Ayn Rand
- Do not go where the path may lead, go instead where there is no path and leave a trail, Ralph Waldo Emerson
- One hundred percent of the shots you don't take will not go in, Wayne Gretzky



Importance of the number 72 in finance

The rule of 72 is the first notable use of this gifted number. Divide the interest rate you are earning on your investment and the result is how long it will take your money to double. If you are earning 6% on investment and divide it by 72, the answer is 12. Every 12 years your money will double. If you earn 2% on CD's and divide that by 72, your money will double in 36 years. (Painful, I know)

72 is also several IRS (Internal Revenue Codes) codes dealing with taking money out of retirement plans (72t) and annuities (72q) prior to age 59 $^{1/2}$. Most of the population is under the impression you cannot get money out of annuities or retirement plans prior to age 59 ½ without penalty. Rule 72(t) or (q) are the exceptions to the rule. They are called the equal and substantial payments rule.

Providing you take the money out in "equal and substantial payments," you can have access to the money without penalty. The income needs to come for at least five years or until age 59 ½, whichever is longer. This provides many interesting opportunities for retirement planning or using retirement plan assets for a number of other unintended uses.

If you would like anyone you care about to begin receiving this newsletter, tell us who they are and they will be included on our mailing list. They'll also get a note with their first issue telling them you suggested they receive the newsletter. They certainly will benefit from this information and I'm sure they'll appreciate you thinking about them and having their best interests at heart.

Name____

Address____

City ________________________State___________Zip Code____________

Name____

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Be sure to think of us whenever you or someone you care for needs the following:

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

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