



The Mint Edition

from Yerba Buena Financial Partners, LLC

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YBFP empowers its select clientele to make informed decisions regarding building, protecting, and distributing wealth by providing independent management advice, comprehensive education, and service of the highest caliber.

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Social Security: Late Retirement Boosts Benefits

If your retirement savings have taken a beating, you may be wondering how you will make up a monthly retirement shortfall. One option might be to delay receiving Social Security benefits. Although you can receive retirement benefits as early as age 62, the longer you put off retirement, the larger your monthly benefit check will be.

When can you retire?

How much you'll receive from Social Security every month depends mainly on how old you are when you begin receiving benefits and on your lifetime earnings. Your full retirement age is 65 to 67, depending on the year you were born. The Social Security Administration calculates your base benefit--the amount you'll receive at full retirement age--using a formula that takes into account your 35 highest earnings years.



If you begin receiving benefits earlier, you'll receive less than you would at full retirement age. If you begin receiving Social Security benefits at age 62, each monthly check you receive will be 25% to 30% less than it would be if you waited until full retirement age.

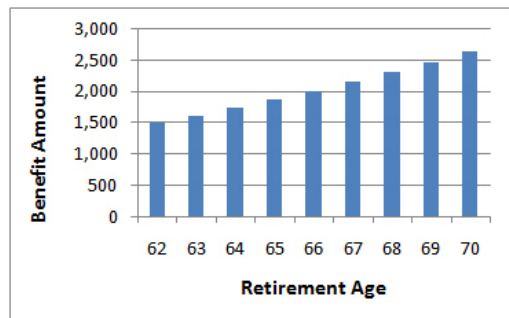
If you begin receiving benefits later than full retirement age, you'll receive more than you would receive at full retirement age, because you'll earn delayed retirement credits for each month you postpone retirement up until age 70. Delayed retirement credits will increase the amount you receive by 7% annually if you were born in 1939 or 1940, 7.5% if you were born in 1941 or 1942, or 8% if you were born in 1943 or later.

Retirement benefit illustration

The following chart illustrates how the age you begin receiving benefits can greatly affect the amount of income you receive from Social Security every month. The chart assumes a

full retirement age of 66, and a base benefit at full retirement age of \$2,000 (which is nearly the maximum Social Security benefit an individual can receive).

Social Security Retirement Benefit



In this hypothetical example (your individual situation will be different), the Social Security benefit available at age 62 is \$1,500, which is 25% less than the \$2,000 monthly benefit available at full retirement age. But at age 70, the benefit available is \$2,640, which is 32% more than the monthly benefit available at full retirement age, due to delayed retirement credits. Keep in mind, too, that other factors, including post-retirement earnings and cost-of-living increases, can also affect your monthly benefit check.

You can explore various retirement benefit scenarios by using the Retirement Estimator, or one of the other benefit calculators available at the Social Security Administration's website, www.ssa.gov.

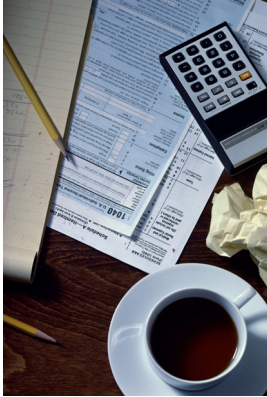
There's no right or wrong time to begin receiving Social Security retirement benefits, and you should determine how retiring at a certain age affects your overall lifetime income, as well as your monthly income. How long retirement is likely to last, the effect on your spouse's income, and your tax situation are also considerations when deciding when to retire.

IRAs and 401(k) Plans: Four Strategies in a Declining Market

No doubt, 2008 was one of the worst years in the history of the stock market, and one of the worst for retirement savings. Here are four things you can do now to help make the best of a bad situation.

1. Review your retirement plan

Review your overall retirement plan with your financial professional. What, if any, adjustments can you make to help you reach your retirement goals? If you were planning to retire in a certain year, determine if that's still realistic, and calculate how much longer your assets might last if you work a few years longer. Can you reach your goals by using a smaller withdrawal rate assumption, or by increasing your IRA or 401(k) savings? Does your asset allocation still make sense? And if you don't have a plan for your retirement, now is a good time to think about establishing one.



Roth conversions

Individuals who would like to contribute or convert to a Roth IRA in 2009 but don't qualify because of income limitations might benefit from making nondeductible contributions to a traditional IRA today, and converting the funds to a Roth IRA in 2010, when the income limits no longer apply. Additionally, for Roth conversions in 2010 only, any resulting taxable income will be deferred until 2011 and 2012 (with 50% taxed in each year).

2. Convert your traditional IRA, or transfer 401(k) plan securities, to a Roth IRA

Due to declining values, the tax cost of converting to a Roth IRA has dropped dramatically for many investors. Consider whether converting to a Roth IRA makes good financial sense for you. The taxable portion of your traditional IRA will be subject to ordinary income tax in the year of conversion, but qualified distributions from your Roth IRA will be entirely free from federal taxes.

For 2009, you're able to convert only if your modified adjusted gross income is \$100,000 or less (this dollar limit applies whether your tax filing status is single or married filing jointly). If you're married filing separately, you can't convert at all in 2009. But if these rules preclude you from converting, there's always next year—literally. These limitations are repealed in 2010, so anyone will be able to convert a traditional IRA to a Roth, regardless of income level or marital status.

Similarly, if you've decided a Roth IRA makes sense for you, and you're entitled to a distribution from your 401(k) plan, keep in mind that you can roll over (that is, essentially convert) your non-Roth assets to a Roth IRA (hardship withdrawals, certain periodic payments, and required minimum distributions (RMDs) can't be rolled over). This may be especially attractive if you're entitled to an in-kind distribution of employer stock whose values are seriously depressed—you'll pay tax on this reduced value and any additional appreciation may be

tax free. (The same income and marital status limitations that apply to traditional IRA conversions also apply to rollovers from 401(k) plans to Roth IRAs in 2009.)

3. Undo a 2008 conversion in 2009

What if you already converted your traditional IRA to a Roth in 2008, and your IRA balance has taken a significant hit since then? The tax cost of converting was probably much greater than if you had waited until 2009 to convert. Well, don't fret—you can undo a 2008 conversion up until the due date for filing your 2008 tax return, including extensions. Technically called a "recharacterization," this procedure allows you to treat the conversion as if it never occurred.

To undo your 2008 conversion, you need to carefully follow these steps:

- Inform your IRA providers (the one holding the Roth IRA and the one providing the traditional IRA, if different) that you intend to recharacterize your Roth IRA to a traditional IRA. You must provide this notice on or before the date the assets are transferred back to the traditional IRA.
- Make sure the transfer is completed by the due date for filing your federal income tax return for 2008, including extensions. For most taxpayers, that can be as late as October 15, 2009. (If you've already filed a timely 2008 tax return, you can still recharacterize by making the transfer and filing an amended return by October 15, 2009. Be sure to write: "Filed pursuant to Section 301.9100-2" on your Form 1040-X.)
- Report the recharacterization to the IRS (see Form 8606 for more information).

You can even reconvert your traditional IRA back to a Roth in 2009 (if you meet the eligibility requirements) beginning on the 31st day following the recharacterization.

4. Continue to contribute

Despite the recent downturn, for many people IRAs and employer retirement plans remain important vehicles for retirement savings. Make sure you're taking full advantage of any company matching contributions you're entitled to. And if you're age 50 or older, keep in mind that you may also be able to make catch-up contributions (up to \$1,000 for IRAs and \$5,500 for 401(k) plans in 2009).

Income Annuities Can Help Fill the Retirement Income Gap

If you're like many retirees, you may find that your sources of fixed retirement income, such as employer or military pensions and Social Security, aren't enough to meet all of your retirement income needs. To make up the difference, you can draw from your savings and investments, but how much can you safely withdraw without running out of money? One option is to create a stream of income for the rest of your life by investing some of your savings in an income annuity.

Income annuities (also known as immediate annuities) are purchased from insurance companies. In exchange for a lump sum of money, the issuer promises to make payments to you for a fixed period of time or for the rest of your life, or for the rest of your life and that of your spouse.

You can use almost any type of savings or investments to create a stream of income that can last for your lifetime. For example, you can purchase an income annuity with money from your personal savings accounts, matured CDs, or investments such as stocks, bonds, and mutual funds. You can even convert a portion of your retirement plan, such as an IRA or 401(k), to a lifetime stream of income by purchasing an income annuity within the retirement plan. However, some of these transactions may have income tax implications, so consult your tax advisor before you proceed.

You have options

You generally can choose how long your income annuity payments will last. For example, you can choose to receive payments for the rest of your life. This option allows you to supplement lifetime income from other sources, such as Social Security. However, payments end at your death, providing no benefits to your surviving spouse or heirs.

To ensure that your spouse continues to receive income after your death, you can select a joint and survivor payment option. The annuity will make payments to you, then at your death, to your surviving spouse until his or her death. Payments end at the death of the surviving spouse, with no benefits payable to your heirs.

You also can choose to receive income payments for a fixed period of time, such as 5 or 10 years, by setting up an income annuity. If you die during the payment period, your

beneficiary will receive the remainder of the payments, either systematically or in a lump sum.

Another choice combines lifetime payments with the fixed period option. Payments are made for life or for a fixed period of time, whichever is longer. This alternative makes certain that payments will last for a minimum number of years.

Other factors to consider

- Payments from income annuities funded with pretax dollars, such as 401(k)s and IRAs, may be subject to income tax. Income annuities purchased with after-tax funds are taxed only on the earnings part of each payment. The remaining portion is considered a return of your investment and is not subject to taxation.
- Usually, once you select a payment option, you can't change it. This means you may not have access to any of the funds you used to purchase the income annuity aside from the income payments you receive.
- Since some payment choices, such as the life or the joint and survivor life options, end at death, it's possible you won't live long enough to receive at least the return of your investment in the income annuity.
- Fixed income annuity payments don't change, even if your income requirements do. You may find that the income from the annuity isn't enough to meet increased income needs.
- Choose a financially strong company. Annuity guarantees are entirely dependent on the insurance company's financial ability to meet its obligations. Check the financial ratings of the company offering the income annuity before making your purchase.

Is an income annuity right for you?

Consider an income annuity if you want a guaranteed income to fill the gap between your retirement income needs and your fixed retirement income. Also be sure you can buy the income annuity and still have enough savings for other expenses.



Annuity guarantees are subject to the claims-paying ability of the annuity issuer.





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Ask the Experts



Can I open a 529 account in anticipation of my future grandchild?

No, not if you intend to name your future grandchild as beneficiary. A valid 529 beneficiary has to have a Social Security number, so it's not possible to name a child who hasn't been born. But there is a way to open a 529 account that eventually can be turned over to a future grandchild.

Your first step is to open a 529 account and name a beneficiary who is a "family member" of your future grandchild. Then, when your grandchild is born, you, as account owner, can change the beneficiary to your grandchild. All 529 plans have mechanisms in place for changing the beneficiary.

According to IRS Publication 970, Tax Benefits for Education, there are no income tax consequences if the beneficiary of a 529 plan account is changed to a "family member" of the original beneficiary. This includes the beneficiary's (1) spouse, (2) son, daughter, stepchild, foster child, adopted child or

descendant of any of them, (3) sibling or step-sibling, (4) parent or ancestor of either, (5) step-parent, (6) niece or nephew, (7) aunt or uncle, (8) daughter-in-law, son-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law, (9) the spouse of any person listed, and (10) first cousin. Changing the beneficiary could have gift tax consequences, though.

However, carefully check the details of any 529 plan you're considering before you name the initial beneficiary. Some plans impose age restrictions on the beneficiary, such as requiring that the beneficiary be under age 21. Such a restriction could pose a problem if you intend to name your adult son or daughter as the initial beneficiary.

Other plans may have rules that indirectly impact who you can choose as your initial beneficiary, such as a requirement that the funds in the account be spent within 10 years of when the initial beneficiary would be expected to enter college. You don't want to be surprised by a technicality.

Can more than one 529 plan account be opened for the same beneficiary?



Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, provided you do so under different 529 plans.

For example, you could open three 529 college savings plan accounts for your daughter: one in State A, one in State B, and one in State C. Similarly, you could open accounts in States A and B for your daughter, and another relative could open an account for her in State C. Or, you could open a 529 college savings plan account and a 529 prepaid tuition plan account for your daughter in State A. But you can't open two college savings plan accounts (or two prepaid tuition plan accounts) in State A for the same beneficiary.

If you do open multiple 529 accounts for the same beneficiary, keep in mind that each plan has its own contribution limit, and contributions can't be made after the limit is reached.

However, some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) can't exceed the current year's maximum contribution amount.

Also, keep in mind that each 529 plan will have its own investment options and flexibility, contribution rules, ownership and beneficiary designation rules, costs and fees, and ability to perform account management tasks online.

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.