

# Financial Planning Quarterly

J.P. Collins & Associates, Inc.

Volume I, Issue I

## Special points of interest:

- Newsletter published quarterly by J.P. Collins & Associates, Inc.
- Educational newsletter designed to help its readers make better financial decisions
- Articles will cover a broad range of financial topics

## Financial Planning Quarterly— timely ideas, effective solutions

Financial Planning Quarterly is a newsletter published by J.P. Collins & Associates, Inc, a fee-only financial planning and investment management firm located in Towson, Maryland. This newsletter is designed to be purely educational, helping its readers make better financial decisions on how to protect and grow their wealth.

The newsletter will be published quarterly and the articles will be written by staff members of J.P. Collins & Associates, Inc. and its partners. Topics will cover areas like cash flow planning, tax minimization strategies, retirement planning, education funding, charitable giving strategies, asset protection, estate planning, real estate investment and debt management.



We hope that our readers will enjoy the articles and find the topics that are discussed in each issue to be timely and useful. If you would like to unsubscribe, please email us at [info@jpc-associates.com](mailto:info@jpc-associates.com) with instructions to take you off the distribution

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If you have a friend or family member that you think would benefit from receiving the newsletter, please have them sign up for a free subscription at [www.jpc-associates.com](http://www.jpc-associates.com). Click on "Information Request" to subscribe.

Perhaps Franklin D. Roosevelt said it best when asked about money. He wrote, "Happiness is not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort."

May 2005 be a year of personal, professional and financial milestones for you and your family.

-J.P. Collins & Associates, Inc.

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## Want to Retire? - Reprioritize Your Savings

As the largest segment of the population begins to approach retirement, planning for financial independence is becoming a major issue for a large percentage of Americans. Unfortunately, there is flawed information being disseminated on how to prepare for retirement. Nearly every brokerage firm and bank spews the same mantra, "You have to save more

money". Logically, it makes sense, but I'd like to point out a more effective alternative.

My recommendation to the vast majority of those I counsel approaching retirement, is to pay off all of their debt. Instead of saving more money inside their IRA, 401k or investment account, those approaching retirement should be

taking that money and paying off their credit cards, car loan, and mortgage.

In retirement, the most important factor for almost all retirees is cash flow: are you spending more than is coming in? There are two alternatives on how to solve this dilemma. First, you can increase your income by saving more

## Retirement Planning (cont.)

money during your pre-retirement years. Second, you can decrease your expenses in retirement by paying off your debts. In both examples, you increase your spendable income. Let's look at a real life example of which scenario is more effective:

### **John and Jane Client, Age 55**

Expected Retirement Age: 65

John and Jane have an extra \$10,000 per year to save.

Current Assets: \$750,000

Current Liabilities: \$150,000

### **Scenario 1: Save \$10,000 per year, and pay regular debt payments for 10 years**

In this scenario, John and Jane would have assets of \$1,765,000 at retirement which would produce approximately \$88,250 per year in income. They would still have to pay their debt payments in retirement, which would cost approximately \$11,500 per year. John and Jane would end up having approximately \$76,750 to spend after paying their debt payments.

### **Scenario 2: Pay \$10,000 per year towards debt for 10 years**

In this scenario, John and Jane would have assets of \$1,620,000 at retirement which would produce \$81,000 per year in income and their debts would be paid off. With no debt to pay John and Jane would have the full \$81,000 to spend.

In Scenario 2, by paying off their debt versus saving the extra money, this couple increased their cash flow in retirement by \$4,250!

So, why do you rarely hear this advice from banks and brokerage firms? There are two main reasons this information is not advertised at the major financial institutions:

1. The more money added to investment/savings accounts, the more money they make in fees and commissions. Recommending more savings increases their revenues.
2. These institutions are usually the ones who are lending money for mortgages, credit cards, and other liabilities. By encouraging their customers to save more and not pay down their debt, they can continue charging interest on the money they have loaned.

Managing your liabilities is just as important as managing your assets. If you are dreaming of retiring within the next 10 years, don't listen to the large financial institutions encouraging you to save more in annuities, IRA's, 401k's, mutual funds, and investment accounts. Pay off your debts and increase your cash flow.

*Example assumes a 6.5% interest rate on liabilities and an 8% rate of return on assets invested. The example also assumes a withdrawal rate at retirement of 5% on the couples invested assets.*

*The author, J. Patrick Collins Jr., CFP, is the President of J.P. Collins & Associates, Inc., a fee-only financial planning and investment management firm, located in Towson, Maryland. The firm specializes in working with business owners, retirees and pre-retirees, and families of children with special needs. Mr. Collins is also a contributing author to The Journal of Special Needs Planning.*



*“Managing your liabilities is just as important as managing your assets.”*



## Six Tax-Saving Strategies for 2004

F.J. Raymond once wrote, “Next to being shot at and missed, nothing is quite as satisfying as an income tax refund.” Minimizing the amount of money we pay to Uncle Sam is a goal many of us strive for. As we approach the end of 2004, I have noted some simple, yet often overlooked items, to reduce one’s income tax:

1. **Maximize Retirement Plan Contributions**— in 2004 individuals are allowed to defer up to \$13,000 into specific work retirement plans. If over 50, an individual can contribute an additional \$3,000 to the plan. When you contribute to a retirement plan, you defer the receipt of this income until a later time (retirement), when you will be in a lower tax bracket, therefore, reducing your overall tax liability.
2. **Defer Year-End Bonus**— if you receive a year-end bonus, talk to your employer about receiving the bonus in the new year. While you still have to pay tax on this money in 2005, you will defer the payment of that tax for 15 months.
3. **Consider Passively Managed Mutual Funds**— if you have money invested in taxable investment accounts, you may want to consider utilizing low-turnover mutual

funds. By law, a mutual fund must pass through capital gains and dividends to their shareholders. If the fund is trading excessively, you can experience a significant tax due at the end of the year. Passively managed funds typically mimic an index and create little to no capital gains prior to you selling the fund. Two other side benefits from utilizing passively managed funds: first, studies have shown that the majority of actively managed funds do not outperform their index fund counterpart. Second, passively managed funds typically have lower internal expenses, which can save you money over the long term.

4. **Sell Your Losers**— if you have made investments in taxable accounts that have lost money, you should consider selling those investments. The IRS allows you to use \$3,000 of your losses every year against your taxable. If you have lost a money in an investment and you don’t think it is going to bounce back, sell it, and at least receive some benefit from the loss.
5. **Pay All Deductible Expenses this Year**— try to cram as many deductible expenses into 2004 as possible. Common examples in-

clude paying your January mortgage payment the last few days of December and making sure you pay your property tax prior to year end.

6. **Gifts to Charity**— with so many people less fortunate than us, gifts to charity not only improve the lives of others, but help reduce our tax burden to Uncle Sam. When contributing to charity, rather than giving cash or check, consider giving them a gift of appreciated stock for the same amount. Because of their favorable tax status, a charity can sell that stock and pay no capital gains. With the cash you were going to give them, purchase the same stock you gave the charity. In essence what you are doing is establishing a new and higher cost basis on your stock, which not only means a deduction this year, but when you go to sell the stock in the future, you will pay less in capital gains tax.

Taxes can be complicated. In fact, Albert Einstein once said, “ the hardest thing in the world to understand is the income tax.” Before implementing any of these strategies, I would recommend consulting your tax professional for further counsel.



“Next to being shot at and missed, nothing is quite as satisfying as an income tax refund.”

-F.J Raymond



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The firm's principal, J. Patrick Collins Jr., has extensive knowledge of the issues surrounding financial planning and is a frequent guest lecturer on the topic. Mr. Collins is a Certified Financial Planner™ and is active within several financial planning organizations.

## Is there an issue or topic you would like to see addressed in Financial Planning Quarterly?

Email us your ideas and opinions at [info@jpc-associates.com](mailto:info@jpc-associates.com)

## Important Tax and Financial Information for 2005

The following are important dates and information for 2005:

### Federal Income Tax Rates:

<u>Taxable Income:</u>	<u>Taxed at:</u>
0-\$14,300	10%
\$14,301- \$58,100	15%
\$58,101- \$117,250	25%
\$117,251- \$178,650	28%
\$178,651- \$319,000	33%
Over \$319,100	35%

### Contribution Limits:

<u>Plan Type</u>	<u>Limit</u>
401(k), 403(b), 457 Plan:	\$14,000
401(k), 403(b), 457 Catch-Up	\$4,000
IRA, Roth IRA:	\$4,000
IRA Catch-Up:	\$500
Simple Retirement Plan:	\$10,000
Simple Catch-Up:	\$2,000

### Important Dates to Remember:

March 15, 2005	Corporate Tax Returns/Extensions due
April 15, 2005	Individual and Partnership Returns/Extensions due
April 15, 2005	Last day to contribute to IRA or Roth IRA for 2004 tax year
September 30, 2005	Last day to establish SIMPLE retirement plan for 2005
December 31, 2005	Last day to take out Required Minimum Distributions from Retirement accounts for 2005
December 31, 2005	Last day to open KEOGH for 2005 contributions

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