

FINANCIAL PLANNER

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PRESERVATION
FOR MATURE INVESTORS
JUNE 2007

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On a Personal Note

The weather is wonderful, and it is reflecting how we feel about our situation with our business structure and business family. Our “Park Place Wealth Advisors, Inc.” makes it easier to meet everyone’s overall needs. Our friends at Foothill Securities, the broker dealer we offer our securities through, helped us get everything set up, and have certainly made us feel pleased we have chosen them as a business partner.

Shortly after we made our change an announcement came out confirming that our old broker dealer was in fact being sold. The circumstances we had been dealing with seemed to indicate that possibility, and we didn’t want our clients to have to deal with that kind of turmoil.

We do have some new special art work in our office that you will see when you come in to see us. The Pinole Artisans have an art education program for children. One half of the proceeds from the sale of the art works displayed at our office go to help the children’s education program, and the other half to the artist for their help and time.

For those of you that came to our open house, we all want to thank you. It has been a treat to be able to launch our improvements, along with our new business family. There are a lot of opportunities being offered that are structured just a little differently than before, to address client needs that have been identified. Sometimes little course corrections can make a big difference. With the new season, it is a good time for us to examine your investment allocations, and make sure you have the bases that need to be covered in place the way you want them.

Should You Insure Your Retirement?

How can you insure your retirement and create a personal pension? Why is insuring your retirement income important? A few of the reasons you might consider are:

1. Insuring your retirement might make sense because during the last century, our life expectancy has almost doubled.

- People face the real possibility of outliving their savings. The average person can expect to live 19 or more years in retirement.¹
- In the past, many Americans cared for aging parents. Now with people living longer there is a real possibility of caring for aging parents, aging grandparents, and aging children.
- Medical technology has advanced, and as a result many situations that would have been life threatening are being resolved.

2. Many Large Employers are eliminating “Traditional Pensions”, affecting large numbers of the workforce. Employees insuring their retirement would save a lot of problems in these situations.

Companies like Fidelity, GM, Sears, Dupont, Tenneco, and Verizon to name just a few have frozen their “Traditional Pension” or “Defined Benefit” plans to new investments for existing employees, and are not offering them any longer to their new employees.

Headlines

- “Plans Under funded by Hundreds of Billions”
USA Today, July 17, 2004.

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- “With Thousands of Pensions Closing, How Safe is Yours? Wall Street Journal, September 15, 2004.
- “U.S. Insurer of Pensions Says its Deficit has Soared” The New York Times, January 14, 2004.
- Airline Pilots that have had their pensions turned over to the Pension Guarantee Corporation are seeing their benefits cut by over 75%. This happened with United Airlines on May 10, 2005.

3. The effects of Social Security are affecting everyone. Insuring some other form of retirement would provide peace of mind here.

- Social Security was originally intended to be a supplemental retirement income for a minority of retired Americans, but instead has become the primary income for a majority of retired Americans. 65% of retirees rely on Social Security for 50% or more of their income. 33% rely on Social Security for 90% or more of their income.²
- The Social Security program is projected to be paying out more than it takes in as early as 2018.³
- Given the situation it doesn’t seem prudent to count on Social Security for your retirement.

4. The Tax Axe Takes its Toll as Well. Just one more reason insuring your retirement makes sense.

Taxes represent the average household’s single largest monthly expense.⁴

5. Inflation – “The Invisible Enemy”, contributes to the challenge and loss of purchasing power over time. This causes yet another need to insure your retirement income.

With \$10,000 for example, at 3.5% inflation, the spending power is reduced by 25% after 10 years to \$7,500 and reduced to \$5,500 after 20 years.

Inflation will cause the amount of income you need to increase every year. Most “Traditional Pensions” pay a fixed amount each month, with little regard for inflation.

6. The Healthcare Nightmare. The costs just keep rising, causing yet another need to insure your retirement income.

- A study by the Employee Benefit Research Institute, estimates that the average American

may need \$297,000 to pay for Medicare premiums in retirement.⁵

- Remember to add prescription needs to that number!

7. Investor Blunders That Compound the Problems, causing the need to insure your retirement income.

- 40% of pre-retirees have saved almost nothing. 60% of adults have saved less than \$10,000!⁶
- 59% of workers do not have a retirement account.⁷

What is being lost?

- Pensions that provide insurance against outliving your money.
- Cost of living adjustments, that provide protection against inflation.
- Protection from down markets early in your distribution period that could cause depletion of funds early, and hence outliving your planning horizon.

What can be done?

Give us a call. As your financial advisors, we will help you create and be proactive in the management of your long range plan. Together, we will address the investment vehicles that are part of your program and make sure that the risks are covered by some form of insurance. You insure your vehicles, you insure your home, and you should decide if you want to insure your retirement income. There are a lot of options available, and we would be happy to share with you the positives and negatives of creating an insured personal pension account.

¹ Source: “Beyond 50: A Report to the Nation on Economic Security”. Ken McDonnell, research analyst, Employee Benefits Research Institute, May 2001.

² Source: AFL-CIO Org. 2004.

³ Source: “How Sick is Social Security”, Wall Street Journal, June 28, 2004.

⁴ Source: Special Report No. 122, The Tax Foundation, April 2003.

⁵ Source: Paul Fronstin and Dallas Salisbury, “Retiree Health Benefits: Savings Needed to Fund Health Care in Retirement”, Issue Brief 254. Employee Benefit Research Institute, February 2003.

⁶ Source: Federal Reserve Board, 2004

⁷ Source: American Express Advisors Survey, December 2004.

Breakeven Social Security

If two retirees are now age 65 and one of them started collecting Social Security benefits at the age of 62 and the other one waited and started collecting now at the age of 65, they will have collected the same total amount of money when they are 77 years old.

Consider This Before Changing Jobs Prior to Retirement

A 401(k) — an employer-sponsored retirement plan that allows you to save money for retirement on a tax-deferred basis — is usually a great deal. Many of us contribute until the day we retire, and we encourage our kids, whether they're recent college graduates or more established in their careers, to do the same. But just *how* good deal is a 401(k) plan? Is it worth giving up if you're offered a more lucrative position — such as a consulting jobs without extensive benefits — as you approach retirement?

Let's run the numbers. To start, let's say you currently earn \$75,000 a year, and you contribute 10% of your salary to a 401(k) that matches your contribution 50 cents on the dollar. So, you end up with \$11,070 per year in your 401(k) — \$7,500 of your own contributions, and \$3,750 of your company's.

By contributing to a 401(k), you also save \$2,250 in taxes, assuming a 30 percent combined federal and state rate. How do we figure that? Well, 30 percent of \$75,000 is \$22,500. But 30 percent of \$67,500 — your taxable income after contributing to the 401(k) — is \$20,250. That's a difference of \$2,250.

Now, suppose you get a more lucrative job offer of \$90,000 per year, \$15,000 more than you're currently making. You're approaching retirement, and you think the extra cash sounds great. But the new firm doesn't have a 401(k). Are you getting enough of a raise to justify changing positions?

To start, you'll lose the \$3,750 in matching contributions, which means the raise is really only worth \$11,250. But you also have to look at the loss of tax savings: You can now open a traditional IRA, but there's a \$4,000 limit on that, and at a 30 percent combined federal and state rate, that will only result in a \$1,200 tax savings — \$1,050 less than you now have. As a result, your raise is worth only \$10,200.

There's more, however. A 401(k) plan allows for tax-free compounding. According to SmartMoney.com, the after-tax rate of return on a taxable account can be more than 1 percent lower each year. As a result, if you keep your money invested for 20 years, \$6,451 of your new raise will go to replacing the cost of the 401(k) you're giving up. So the raise you'd get by going to a new job is 11.3 percent, not the 20 percent you thought. That may be enough to justify changing jobs, or it might not; it will all depend on your individual financial circumstances.

Those calculations may sound complicated, but we'll do the figuring for you at no charge. Contact us now before you make a job change. ♦

Thoughts from Dan

Mom has a saying, the stock market is like an old fashioned water pump, and to get water to flow the handle must go **UP** and **DOWN**...The question is, when it comes to investing how do you get investment returns while smoothing out the bumps caused by the handle swings or fluctuations in the market? I personally use the concept of Asset Allocation to manage risk and capture returns. I spread my personal investments into Asset Allocation funds and into various sector investments that correspond to my overall risk tolerance and growth plan. I have many years to retirement and have a high tolerance for risk.

Asset Allocation is based on "Modern Portfolio Theory." authored by Harry Markowitz. This concept had such a profound impact on the study of economics and investment management, that he was awarded a Nobel Prize for Economics in 1990. The theory demonstrates, and is proven in real markets, that Asset Allocation accounts for approximately 90% of investment returns, making it nearly 10 times as important as stock picking and market timing combined.

The theory is quite complex, but I like to sum it up as breaking down your portfolio into different baskets, or classes of investments, to maximize returns and minimize risk. We all have heard the saying, "Don't put all your eggs into one basket." Single asset investments often carry higher risks, where an Asset Allocation portfolio may possibly under-perform an individual stock, but it will carry significantly less downside risk. A well diversified portfolio spreads the risk among the different investments in a portfolio. Using this strategy combined with some of the insured investment vehicles available today can create a guaranteed pension, providing lifetime income regardless of market direction.

Asset Allocation funds we work with carefully manage the investments and regularly rebalance investments. The ones I use have a mix of domestic and international stocks as well as small allocations to cash. There are many different styles of portfolios, each for a different type of investor, allowing you the investor to participate in the growth potential of stocks while taking into account your risk tolerance and investment goals. Many of you are looking to grow your investments. Some are in a spend down or distribution phase, while others want to create generational wealth transfer.

Wherever you are, Mom and I can work with you to create a personal investment plan. Give me a

ring to discuss your current goals and review your investment plan. I look forward to talking with you.

Good News for Your Grandkids Education

There's good news for seniors helping out with their grandchildren's education: The Pension Protection Act (PPA), which became law in August 2006, made the federal tax exemption on Section 529 tuition plans permanent.

Section 529 tuition plans are state-sponsored savings programs designed to help parents and grandparents finance a child's educational expenses. Anyone can contribute to a child's 529 plan, regardless of relationship to the child or income level. Earnings accumulate on a tax-deferred basis, and are exempt from federal income tax if used to pay for qualified higher education expenses, such as tuition, room and board, and supplies. Most states accord a similar favorable tax treatment to 529 plans.

But 529 plans aren't just a boon for kids. In many cases, seniors planning their estates are attracted to them because of their accelerated gift tax treatment. An individual can make a lump-sum contribution of up to \$60,000 per beneficiary free of gift taxes. That's \$120,000 per couple - and is five times the annual gift tax exclusion. Even better, you can contribute to an unlimited number of beneficiaries. So, if you and your spouse have five grandchildren, you can contribute \$600,000.

Previously, the federal tax exemption on 529 plans was set to expire in 2010. Afterward, investment earnings would be mostly taxable even if used for education. Now that "sunset provision" no longer exists.

Still, potential investors should be aware of two caveats about 529 plans. First, withdrawals are reduced by tax-free scholarships, fellowships and some other forms of financial assistance; if the remaining expenses are less than the qualified distributions, part of the earnings will be taxable. Second, the IRS will likely be clamping down on abuse of 529 plans - that is, using them to transfer funds while avoiding gift taxes. So if you use them for estate planning purposes, you'll want to be sure what you're doing is legal.

Still, 529's are a great way to help a grandchild save for college, and when used honestly, can be an effective estate planning tool. If you're interested in leaning more about them, we can provide you with information. Contact us now.

Investors should consider investment objectives,

risks, and charges and expenses associated with 529 plans and municipal fund securities before investing. Information on municipal fund securities is available in the issuer's official statement which should be read carefully before investing. 529 plans are subject to market risk and non-qualified withdrawals are subject to penalties.

Call us or complete the attached reply coupon to request some additional information. ♦

Recipe Corner: Easy Cobbler

Recipe generously provided by Maggi Baum

Here is a great cobbler recipe and it really is this simple! Works with any type of fruit, fresh, canned or frozen...use your best judgment for baking time by the amount of fruit and the type of baking dish you use. It is great for pears or peaches, fresh or canned. Berries might need a little thickening and little extra sugar added.

2 cups fruit
1 cup sugar
1 cup flour
1 teaspoon baking powder
1 egg lightly beaten
½ cup butter, melted (one cube)

Place fruit in the bottom of an 8" square or pie pan. Sprinkle lightly with sugar *if needed*.

Mix together the dry ingredients, add egg, and mix until crumbly. Then scatter over the fruit.

Drizzle melted butter over the top.

Sprinkle the top with brown sugar...this is an extra but worth it!

Bake @ 350 degrees for 30 to 35 minutes...or until golden brown. ♦

Protect Yourself From Identity Theft

According to the most recent Federal Trade Commission (FTC) identify theft survey¹, there were likely 10 million victims of identity theft in 2003, bringing the total number of victims for the prior five

¹Source: http://www.consumer.gov/idtheft/pdf/synovate_report.pdf

years to 27 million. And once discovered, it's up to the consumer to clean up the identity theft mess typically a lengthy drawn out process that can go on for months or even years. How can you protect yourself?

First, it's important to understand that consumers usually aren't liable for fraudulent charges. As a result, their out-of-pocket expenses are usually limited when identity theft does occur. In fact, 63 percent of identity-theft victims have no out-of-pocket expenses, according to the FTC. The problem is the damage to the victim's credit report, which can impact his or her credit score — and make getting credit difficult in the future.

So, how do you protect yourself against identify theft? First, understand how identify thieves get your data. According to the FTC², the most common methods are dumpster diving (rummaging through trash looking for bills or other paper with your personal information on it), skimming (stealing credit card numbers when processing your card), phishing (sending spam e-mail messages to get you to reveal your personal information), changing your address (diverting your billing statements to another location), and plain old stealing (taking wallets and purses, mail or personnel records).

The FTC offers the following tips³ for protecting yourself:

- Shred financial documents and paperwork with personal information on them before discarding.
- Protect your Social Security number: Don't carry your card in your wallet or write your number on a check. And ask businesses, such as physicians, to use another identifier; they usually will.
- Don't give out personal information on the phone, through the mail, or over the Internet unless you know who you're dealing with.
- Never click on links sent in unsolicited emails; instead, type in the URL you know.
- Don't use an obvious password like your birth date, your mother's maiden name, or the last four digits of your Social Security number.
- Keep your personal information in a secure place at home, especially if you have

roommates, employ outside help, or are having work done in your house.

We can provide you with a free brochure on how to deter, detect, and defend against identity theft. Contact us for details.

As federal and state tax rules are subject to frequent changes, you should consult with a qualified tax advisor prior to making any investment purchase decisions. ♦

Is Not Retiring a Viable Last-minute Retirement Planning Option?

Many financial planners will tell you the best way to save for retirement is to start young and consistently put aside a portion of your salary into a retirement savings vehicle. And some people certainly do that. But if you're like many of us, you didn't save as much as you could, and now you're looking for some last minute options.

On one hand, you could save more. But that isn't necessarily viable. More immediate goals, such as paying your mortgage and health care bills, or helping out your children and grandchildren, may be stretching your budget. Around 58% of Americans age 55 and older have saved less than \$100,000 for retirement, according to the Employee Benefit Research Institute's latest Retirement Confidence Survey. Only 19% have saved \$250,000 or more.

That means you may need to adjust your expectations for retirement. And one way to do that is to consider not retiring - or retiring later.

It may sound depressing, but it doesn't mean giving up lazy days with the grandchildren or on the golf course. You could simply postpone your retirement - or work part-time in retirement.

Postponing your retirement can significantly impact your retirement finances - not just because each year is an additional year to save money, but because there's also one less year that you'll need to live off your retirement fund. According to a March 2006 report from the Center for Retirement Research at Boston College, Americans who delay retirement by just one year would increase their annual income in retirement by \$1,317 to \$2,402 per year, depending on whether they dip into their 401(k)s. Those who delay retirement by five years would see their annual retirement income rise by \$14,888.

Working part-time in retirement also doesn't have to be something you dread. You could take part-time work as a consultant in an industry you know well, or you could pursue a career you always dreamed of - for

² Source: www.consumer.gov/idtheft

³ Source: www.consumer.gov/idtheft

example, working with children in a library, or helping out at the canteen on a golf course (which might also result in free tee times!).

How much can you save by delaying retirement? We can show you. Contact us now. ♦

Can You Make IRA Contributions After 70½?

Many clients who are over age 70½ ask us if they can still make contributions to their Individual Retirement Accounts (IRAs) — and if so, what the maximum amount they can deposit is. The answer depends upon your individual situation.

You can contribute to a traditional IRA up until the year that you turn 70½, but not after. For example, if you turn 70½ in 2006, you cannot contribute to a traditional IRA after 2005. There is one notable exception. Federal tax rules will allow the rollover of a lump sum, such as a pension payout, into an IRA, even if you are older than 70½. But you'll want to be careful about the way the transfer is handled. If the lump sum is given to you directly, your employer must withhold a portion of the amount distributed to you. For this reason, you should have the money transferred directly from your employer plan to the new IRA.

You can also contribute to a Roth IRA after you reach the age of 70½, as long as you have earned income and your income does not exceed certain limits (Income limits: \$114,000 for single taxpayers & \$166,000 for married couples). How much can you contribute? \$4,000 for each working individual, or \$8,000 in total for a working and non-working spouse. Assuming they are over age 50, and qualify for the "catch up" contribution limit, they each may contribute \$5,000. There is an exception: if your earned income (wages or salary from work) is under \$5,000, you may only contribute up to the amount of your earned income.

It's also possible for some investors to convert funds held in a traditional IRA account to a Roth IRA if their Modified Adjusted Gross Income (MAGI) is less than \$100,000. MAGI includes the Adjusted Gross Income that you report on your tax return, most income from tax-exempt sources such as municipal bond interest, and up to 85% of your social security income less required minimum distributions from retirement accounts.

Although federal and state income taxes are incurred upon the conversion, distributions from your Roth account will not be subject to federal income taxes as long as you are 59½ years of age, and have

satisfied a five-year holding period requirement. You should also know that surviving beneficiaries also receive their distributions free of federal income taxes (however, state income taxes might apply in some states). As income distributions from Roth accounts come back to the account owner and beneficiaries free of federal income taxes, they do not affect the income taxes that are sometimes assessed on social security benefits. This can be an important benefit for taxpayers who want to manage their income taxes upon retirement.

It is important to note that partial rollovers into a Roth account can help reduce the income taxes incurred on the conversion. Consider a situation where a taxpayer is holding \$100,000 in a traditional IRA and wants to convert this money to a Roth account. Assuming the taxpayer converts \$20,000 each year for five years, the conversion tax will actually be spread out over a longer period. This can also sometimes prevent the converted funds from being taxed at higher 28-35% federal tax rates.

Roth IRAs can offer some other advantages. In contrast to traditional IRAs, which require you to take required minimum distributions (RMD) after you turn 70½, Roth IRAs don't require the account owner to take RMD at any age. This can be important for taxpayers who are interested in leaving the Roth account to surviving family.

We can review your investments and help you decide which IRA planning options might be best for you. Just call our office or send in the attached coupon.

In Case You Know Everything

A dime has 118 ridges around the edge.

A cat has 32 muscles in each ear.

A crocodile cannot stick out its tongue.

A dragonfly has a life span of 24 hours.

A snail can sleep for 3 years.

A goldfish has a memory span of 3 seconds.

A "jiffy" is an actual unit of time for 1/100th of a second.

A shark is the only fish that can blink with both eyes.

Al Capone's business card said he was a used furniture dealer.

Now you know it all

Mail this back to: Jean Gannett, CFP[®], Registered Principal
or Daniel J Gannett, Registered Principal
Park Place Wealth Advisors, Inc.
18 Orinda Way
Orinda, CA 94563

For any questions Please call: (800) 584-4101 or (925) 254-7766 or Fax to (925) 258-0591

I WANT SOME SERVICE !

YES, I would like someone to call me. I need information on the following:

- I would like to know more about insuring my retirement.
- I am about to or thinking of changing jobs and could use a financial analysis.
- I would like to know more about the best way to help my children or grandchildren with college.
- I would like to get the information on preventing identity theft.
- I would like to understand better the impact of delaying retirement on my retirement budget.
- I would like to learn more about when I should and shouldn't contribute to my IRA and I have questions about distributions.

I think these people would like to receive your newsletter and an invitation to your next public presentation:

Name: _____

Address: _____

Name: _____

Address: _____

If you are a Registered Investment Advisory client, we are required to annually offer to deliver to you, free of charge, our brochure, or our most recent Form ADV, Part II, which details the background, business practices and philosophy of the firm and its affiliates. We would also be happy to provide you with a copy of our privacy policy at any time. If you would like to receive a copy of either of these at any time, please call us. We will be more than happy to send you one. The information included in this newsletter is prepared from sources believed to be accurate; however, no guarantees are expressed or implied. Legal or tax issues should be discussed with the appropriate professional. The information or opinions presented in the newsletter are neither an offer to sell nor a solicitation to purchase any security.
06.07

¹ Source: "Beyond 50: A Report to the Nation on Economic Security". Ken McDonnell, research analyst, Employee Benefits Research Institute, May 2001.

² Source: AFL-CIO org. 2004.

³ Source: "How Sick is Social Security," Wall Street Journal, June 28, 2004.

⁴ Source: Special Report No. 122, The Tax Foundation, April 2003.

⁵ Source: Paul Fronstin and Dallas Salisbury, "Retiree Health Benefits: Savings Needed to Fund Health Care in Retirement," Issue Brief 254. Employee Benefit Research Institute, February 2003.

⁶ Source: Federal Reserve Board, 2004.

⁷ Source: American Express Advisors Survey, December 2004.