Randhir S.Judge F.L.I.A.,LUTCF

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Judge For Yourself Inc.
Randhir Judge, F.L.I.A., LUTCF
P.O. Box 14192
Fremont, CA 94539
925-989-8113
info@jfyfinancial.com
www.jfyfinancial.com

Dear Friends,

Hope this edition of our newsletter finds you all in the best of health and cheer.
According to a recently released LIMRA report, women are still underinsured. Whether a woman is a working mother or a homemaker, she still plays a crucial role in caring for and raising a family. Make it a priority to insure the woman in your life if you don't carry insurance already.
Tax season is here, so should you need
assistance with funding IRAs or other financial matters, please feel free to contact my office.

Sincerely,

Randhir S. Judge

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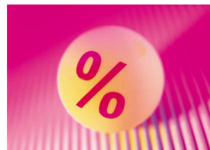
The 1% Difference

Last year, New York City school children went door to door collecting pennies. By asking for only 1% of a dollar, they were able to raise $1 million for charity.

Sometimes the small actions we take yield big results. Take a look at three examples of how adjusting your finances by just 1% can make a real difference over time.

Boost your retirement contribution

Making contributions to an employer-sponsored retirement account via payroll deductions can be a convenient way to save for retirement. But because these contributions come out of your salary automatically, you can easily lose track of how much you're contributing, and end up with less than you should have--or could have--for retirement.



If you're not already saving the maximum amount allowed, why not commit to steadily increasing your contributions by 1% (or more) each year? For example, if you're earning $100,000 per year, and you're currently contributing 10% of your salary to your retirement account at work, you'll have approximately $1,181,340 by the time you retire in 30 years, assuming an average return of 8%. But if you increase your contribution by 1% (to 11% of your salary), your retirement account could be worth approximately $1,299,484--10% more--by the time you retire.*

Review investment expenses

When you're focused on returns, it's easy to overlook the costs associated with investing. However, it's important to periodically review investment expenses and their impact on returns. These vary widely, but even a 1% difference can be significant over time. For example, the following table shows what a $200,000 investment might be worth in the future, assuming an annual return of 8% before expenses are taken into account. (Note that taxes and inflation are not considered.)*

	Annual expenses of 1.50% (net 6.5%)	Annual expenses of 2.50% (net 5.5%)	The 1% difference
After 10 years	$375,428	$341,629	$33,799
After 20 years	$704,729	$583,551	$121,178
After 30 years	$1,322,873	$996,790	$326,083

Of course, there are other things to be concerned about when investing. For example, you may want to consider potential ways to generate higher returns through your asset allocation and investment management choices, taking into account your investment objectives, risk tolerance, and time horizon.

Refinance higher-cost loans

Concerns about the economy have led to rate cuts by the Federal Reserve. With some interest rates falling to their lowest levels in two years, now might be a good time to think about refinancing a higher-cost loan or mortgage. As the following examples show, interest rates don't need to fall far for you to save money. Here's what you could potentially save by reducing your interest rate by just 1%:

- Refinancing a 48-month, $25,000 car loan to reduce the rate from 6.99% to 5.99% could save you approximately $553 in interest over the life of the loan
- Refinancing a 25-year, $400,000 mortgage to reduce the rate from 6.75% to 5.75% could save you approximately $74,166 in interest over the life of the loan

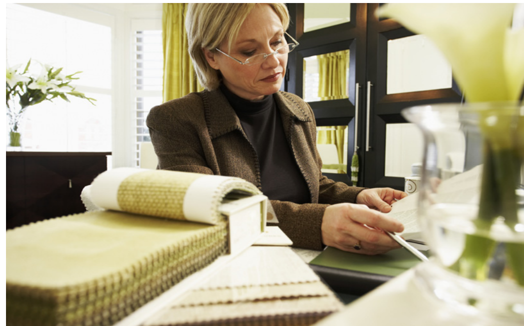
** This is a hypothetical example, and does not reflect the performance of any specific investment.*

Women Need Life Insurance Too

Today, women have more financial responsibilities than ever before. But, according to the LIMRA report entitled *U.S. Individual Life Insurance Sales Trends (2007)*, women are still underinsured. To be sure, life insurance planning is now just as important for women as it is for men.

Income replacement

Life insurance can be a useful tool for replacing income lost due to the death of a family's wage earner. Increasingly, families depend on the income of two working parents. If you're a working mother, your income can have a significant impact on the quality of your family's lifestyle. Your income helps cover the cost of ordinary living expenses such as food, clothing, and utilities. It provides savings for your children's college education, and for your retirement. Life insurance protects your family by providing proceeds that can be used to replace your lost income if you die prematurely.



If you're a single mother, you most likely are primarily responsible for your children's support. If you die prematurely, life insurance can provide ongoing income to cover child-care costs, medical expenses, and debts. While term insurance would suffice for simple income replacement, you may want to consider a permanent policy that builds cash value. The policy can replace your lost income if you die prematurely; otherwise, the cash value can be used to supplement your retirement.

Stay-at-home moms

Maintaining a household is a full-time job, and you have many important roles and duties. If you die, your surviving spouse may have to pay for services such as child care, transportation for your children, and housekeeping. Assuming any added responsibilities could cause your spouse to shorten work hours, resulting in a reduction in income. Proceeds from your life insurance can help your spouse pay for necessary services and replace lost income.

Caregiver replacement costs

Many women find themselves providing care for both children and elderly family members. It's hard enough finding sufficient income to pay for household expenses, child care, and college tuition. Add the costs of caring for an elderly parent or other family member, such as adult day care, uninsured medical expenses, and extra travel and transportation costs, and the financial burden can be overwhelming.

Unfortunately, these financial responsibilities may continue after your death. Life insurance provides a source of funds that can be used to help pay for these expenses.

Business succession

The Center for Women's Business Research reports that over 10 million businesses are owned by women. If you die while owning your business, life insurance can be used to provide cash for company expenses such as payroll or operating costs while your estate is being settled. Life insurance can also be a useful tool for women business owners who are structuring buy-sell arrangements or providing benefits to key employees.

Final expenses

The costs of funeral and burial expenses, estate administration expenses, outstanding debts, estate taxes, and the uninsured expenses of a final illness can place a financial burden on your survivors. Life insurance can ease this strain by providing a benefit that can be used to help pay for these expenses.

The need for life insurance protection for women is equally as important as it is for men. However, women's life insurance coverage is often inadequate. It may be time to consult with an insurance professional who can help you assess your life insurance needs, and offer information about the different types of policies available.

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Will You Pay Taxes on Your Social Security Benefits?

Did you know that you might have to pay federal income tax on your Social Security benefits? If Social Security was the only income you had during the year, then your benefits generally won't be taxable. However, if you or your spouse worked and had any earned income during the year, or if you had other substantial income (such as investment income), then a portion of your Social Security benefits may be taxable.

Gather information

Your benefits are taxable if one-half of your Social Security benefit plus your other income (called your "combined income") exceeds a certain amount (called the "base amount"). To determine if your benefit is taxable, you need to know three things: (1) how much you received from Social Security during the year, (2) your combined income, and (3) the base amount for your filing status.

Find out how much you received from Social Security

Each January, the Social Security Administration (SSA) will send you a Social Security Benefit Statement (Form SSA-1099) showing the amount of benefits you received during the previous year. You'll need to use this information to figure out whether any of your benefit will be taxable.

Calculate your total income

Once you know how much you've received from Social Security, it's time to calculate your combined income. This figure includes the following:

- One-half of Social Security benefits received
- Other income including wage income, and taxable interest and dividends
- Tax-exempt interest income
- Income that's normally excludable--interest from qualified savings bonds, employer-provided adoption assistance, foreign earned income or foreign housing, and income earned by bona fide residents of American Samoa and Puerto Rico

The IRS has a worksheet you can use to calculate your combined income and determine whether or not your Social Security benefits are taxable. You can find this worksheet and more information about the taxation of Social Security benefits in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

Compare your combined income against the base amount for your filing status

Once you've calculated your combined income, you must compare that against the base amount for your federal income tax filing status. If your total income is less than the base amount, then your Social Security benefits won't be taxable. If your combined income is more than the base amount, then part of your benefits will be taxable. Base amounts aren't indexed for inflation, so they're the same year after year.

Your base amount is:

- $25,000 if you file as single, head of household, qualifying widow(er), or married filing separately and you lived apart from your spouse for the entire tax year
- $32,000 if you file as married filing jointly
- $0 if you file as married filing separately and you lived with your spouse at any time during the tax year

For example, let's say your combined income for the year was $30,000 and you file your taxes jointly with your spouse. Because your combined income is less than the base amount for your filing status, $32,000, your benefits won't be taxable.

How much of your benefit is taxable?

Even if your combined income exceeds the base amount for your filing status, you won't have to pay taxes on the entire amount of benefits you've received. Generally, up to 50% of your benefits will be taxable, but if your combined income is more than $34,000 ($44,000 if you are married filing jointly), or if your tax filing status is married filing separately and you lived with your spouse at any time during the tax year, up to 85% of your benefit will be taxable. Again, see IRS Publication 915 for worksheets you can use to figure your taxable benefits.

Keep in mind that taxation of Social Security benefits can be complicated. Different rules apply to certain U.S. citizens and nonresident aliens living abroad and in other situations. If you have any questions, consult your tax professional.

Did you know?

Social Security benefits were not subject to federal income taxation until 1984. They became taxable as a result of the 1983 Amendments to the Social Security Act.

Tax withholding

You can have federal income taxes (but not state income taxes) withheld from your benefits if you so choose. Complete IRS Form W-4V and select the percentage that you want withheld (7%, 10%, 15%, or 25%), then return it to your local Social Security office.

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P.O. Box 14192
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info@jfyfinancial.com
www.jfyfinancial.com

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Ask the Experts

Is my pension safe if my employer goes bust?

If your employer goes out of business and terminates a defined benefit pension plan that's adequately funded (that is, the plan has enough assets to pay benefits), then your pension will be secure. The plan will purchase an annuity for you that will pay your benefits when due (some plans may also let you elect a lump-sum payment). But you'll only receive the benefit you've earned as of the plan's termination date, which could be far less than the full pension benefit you had counted on.

If, however, the plan is underfunded (that is, there aren't enough assets to pay all benefits earned to date), then the fate of your pension depends in part on whether or not your plan is insured by the Pension Benefit Guaranty Corporation (PBGC). Luckily, most defined benefit plans are covered (check with your plan administrator). When an underfunded plan terminates, the PBGC takes over responsibility for making pension payments. The PBGC guarantee applies only to "basic benefits"--normal and early retirement benefits, survivor annuities, and disability benefits--earned (and vested) before the plan terminates. If the plan terminates while your employer is in bankruptcy, the guarantee may be limited to benefits earned before the bankruptcy filing.

For plans that terminate in 2008, the maximum amount guaranteed by the PBGC is $51,750 per year for single life annuity benefits beginning at age 65. The limit is reduced if your payments start before age 65, if your benefit includes a survivor annuity, or if your plan was adopted (or amended to increase benefits) within 5 years of plan termination. In some cases you can receive more than the PBGC guaranteed amount (for example, when your plan has sufficient assets to pay nonguaranteed benefits).

According to the PBGC, 84% of retirees in recent years received the same benefit from the agency that they would have received from their pension plan. For more information, visit www.pbgc.gov.

Should I take my pension benefit in a lump sum or an annuity?

Although the traditional form of payment from defined benefit plans at retirement has been an annuity, in recent years there's been a sharp upward trend in plans offering a lump-sum payment option. If your plan offers a lump-sum payment, should you take it?

An annuity offers the security of knowing you'll receive a fixed payment for your lifetime. If you're married, payments can also continue for your surviving spouse's lifetime. However, like all fixed payments, your benefit could lose buying power because of inflation. For example, assuming a 3% inflation rate, a $1,000 expense today will cost $1,343 in 10 years. Check to see if your plan provides a cost-of-living adjustment if you take the annuity.

Some plans also offer subsidized benefits that are built into your annuity payments. Subsidies are benefits that are greater than what a straight actuarial calculation provides. For example, some plans provide early retirement and/or survivor annuity subsidies. If you choose a lump sum, the value of these subsidies is generally lost.

Because annuity payments end at your death (or your spouse's death if you receive a joint and survivor annuity) your (and your spouse's) health should also be considered. Annuities are calculated based on standard life expectancy tables. If you expect to live longer than the tables project, the annuity may be a good deal. On the other hand, if you are in poor health, the lump sum might be the better option.

If you elect a lump sum, you'll probably roll the payment over into an IRA to avoid current taxation. How comfortable are you taking control of investing your retirement dollars? The challenge for you, together with your investment professional, will be to generate an income stream from the IRA equal to--or greater than--the annuity option would have provided.

The decision you make is irrevocable. It's important that you fully understand the value of each payment option available to you before making this important decision.