

The Goodman Report

Summer 2010

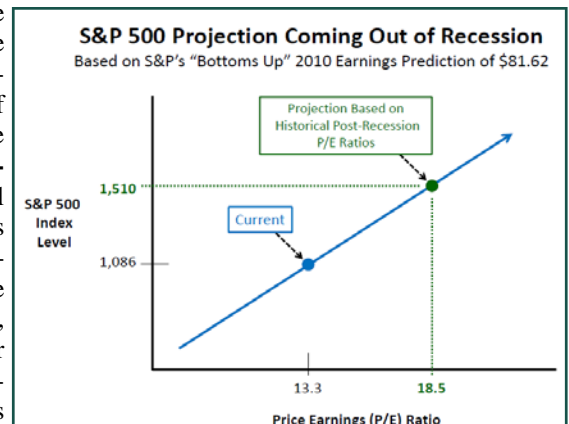


Investment Knowledge: Accumulating, Evaluating, Processing, and Proceeding

By Steve Goodman, CPA, CFP®, President & Chief Investment Officer

One of our roles is the evaluation of economic, market, sector, and company data. As Chief Investment Officer I work with the entire professional team including five who are CFP® practitioners, four of whom are also CPAs, and additionally three that are CFA charterholders or candidates. As you might expect, we see a large volume of information in the form of raw data, reports, articles, and presentations. We immediately discount anything that carries the baggage of being authored by those with a conflict of interest, winnow out the irrelevant and irreverent, and focus on the useful. That is the information we utilize, discuss, and sometimes debate in order to formulate our investment decisions.

This past month I had the privilege of attending the 2010 Elite Advisor Summit in Laguna Beach. Among the speakers was former Secretary of State **Condelezza Rice**, who spoke optimistically about the resolution of certain world trouble spots (except for the middle east) and of the sustainability of global democracy and capitalism. She saw China as continuing its progress and being a partner in worldwide economic growth, more out of necessity, than philosophy. However, the highlight of the conference was the joint appearance of the often bullish Wharton Business School professor, **Jeremy Siegel**, and the often bearish Yale professor, **Robert Shiller**. Dr. Siegel gained his fame with his bestselling book *Stocks for the Long Run* and he is often quoted in financial publications. Dr. Shiller gained his fame for his bestselling book *Irrational Exuberance* and his Case-Shiller Housing Index. While each spoke at length and had numerous slides with data to make their points, the most telling comment came at the end when Dr. Shiller stated that, after seeing Dr. Siegel's data, he would be inclined to increase his personal allocation of equities. What Dr. Siegel's data showed is that projected 2010 earnings of the S&P 500 were close to their all time high of the pre-recession 12 month period ended June 2007, and would likely eclipse that level by next year. At the same time, the S&P 500 was trading at only 13.3



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Reasons to Rollover Your Old 401(k) or 403(b) to an IRA

Often one of the best decisions an investor can make is to rollover an old 401(k) or 403(b) into an IRA. Goodman Financial can assist you in assessing your choices recognizing that each situation is unique. The following are eight common reasons for rollover.

- 1) The ability to customize your IRA investment portfolio to your goals and objectives.
- 2) Limited or no professional investment advice available from the 401(k) plan provider specific to your goals and objectives.
- 3) IRAs provide substantially more investment choices.
- 4) Potential fee savings with IRAs.
- 5) Consolidation of accounts enables efficient tracking of performance and identification of duplicate holdings, portfolio concentration, and lack of diversification.
- 6) Simplify asset allocation decisions. With fewer accounts you'll more readily see the mix of investments in your portfolio and be able to make any needed adjustments to align with your target allocation goals.
- 7) If a prior employer is bought or sold, your old 401(k) plan is rolled into a new plan or terminated. Former relationships, processed paperwork, etc., become less relevant.
- 8) Distributions typically take much longer from a 401(k) than an IRA.

For more on retirement planning, please see the article on *Tax-Efficient Distribution Planning* on page 3.



Healthcare Reform: Key Provisions and Timeline

By **Wade Egmon, CPA, CFP®**
Client Service Manager

In late March, President Obama signed into law major health care reform legislation. The primary goals of this legislation are to provide coverage to 32 million currently uninsured Americans, to improve the quality of health care, and to lower its overall costs. While the two health care bills that were passed encompass over 1,000 pages of legislation, we have highlighted below key provisions relevant to our clients and how they will be phased-in over time. Additionally, we have included a chart below that summarizes the major sources of revenue and spending for this legislation.

2010

- Establishes a temporary high-risk pool for individuals with pre-existing conditions
- Eliminates lifetime and unreasonable annual coverage limitations
- Provides \$250 rebate to Medicare Part D beneficiaries who reach the coverage gap (“donut hole”) in 2010
- Provides tax credit to employers who provide health benefits and have no more than 25 employees and average wages below \$50,000
- Mandates emergency services to be covered at in-network levels
- Establishes temporary health “reinsurance program” to provide benefits for retirees over the age of 55 but not yet eligible for Medicare

2011

- Requires employers to report insurance benefit information on employee W-2 forms; Reporting will not make benefits taxable to employees and is designed to identify uninsured employees that could be subject to penalty (see individual mandate in 2014) and employees with “Cadillac plans” subject to taxation (see 2018)
- Freezes Medicare Advantage payments at 2010 levels and restructures them to be tied to traditional Medicare payments
- Requires drug manufacturers to give Medicare Part D enrollees 50% discount on brand-name drugs purchased during the coverage gap (“donut hole”)

2012

- Requires all group plans and insurers to provide summary of benefits and coverage explanation

2013

- Levies 3.8% tax on the lesser of net investment income or the excess of modified AGI over \$200,000 for single filers and \$250,000 for joint filers
- Increases medical expense deduction floor to 10% of AGI (from 7.5%)
- Increases Medicare payroll tax by .9% (1.45% currently to 2.35%) on wages or self-employment income in excess of \$200,000 for single filers and \$250,000 for joint filers

2014

- Establishes state-based exchanges for individuals and small businesses to purchase coverage
- Imposes tax penalty on employers with over 50 full time employees if health insurance is not provided for employees or if coverage provided is deemed to be “unaffordable”
- Imposes tax penalty on US citizens and legal residents without “minimum essential coverage”; credits and exemptions from penalty provided for qualifying low-income individuals
- Eliminates pre-existing condition exclusions and waiting periods longer than 90 days

2018

Levies tax equal to 40% of the aggregate value of employer provided health plans that exceed \$10,200 for individuals and \$27,500 for family coverage (tax on “Cadillac plans”); tax will be levied on the insurance company for fully insured plans and the employer/plan administrator for self funded plans

2020

- Closes Medicare Part D coverage gap (“donut hole”)

Snapshot of major spending and revenue components (2010-2019)			
Spending increases	(billions)	Medicare cuts/tax increases	(billions)
Individual subsidies, exchanges and related	\$464	Medicare cuts	\$455
Medicaid and children's coverage expansion	\$434	Increased Medicare HI taxes	\$210
Small employer tax credits	\$40	Taxes on insurers, drug manufacturers and medical device sales	\$107
		Employers (penalties, high-cost plans, Part D deduction)	\$89
		Other tax increases	\$103
Total	\$938	Total	\$964

Source: Ernst & Young, LLP

While this list is not comprehensive, it highlights some of the more significant provisions of the sweeping health care reform legislation. Please do not hesitate to contact Goodman Financial for more information on how this legislation impacts you.



Retirement: Tax-Efficient Distribution Planning

By Ed Roth, CFA, CPA, CFP®, CEBS
Vice-President, Investment Advisory Services

Well done! For years, you worked hard, saved diligently, and invested wisely to accumulate your retirement nest egg. Now it's time to start accessing and spending these funds according to your *tax efficient distribution plan*. If you do not have a *tax efficient distribution plan*, your accumulation efforts will be negatively impacted. Uncle Sam will gladly tax your income and distributions, perhaps needlessly, if you overlook opportunities to reduce the income that is taxable, at what rate, and when.

Most people have retirement assets in multiple and a variety of accounts. Examples include IRAs (Traditional, SEP, Roth, and Beneficiary), 401(k)s, personal investments, annuities, etc. This multitude of accounts presents different distribution and tax planning opportunities. Often, minimal consideration is given to the amount, timing, and which source provides the optimal combination of meeting a retirement income goal while paying the least amount of taxes. For instance, attentively tailoring cash distributions from an IRA and a personal investment account can result in a lower tax bill and still meet your after-tax retirement income goal. The following example will illustrate this idea.

Consider an investor who requires \$120,000 of after-tax income per year. Under Scenario 1, thought is given to the amount and taxable nature of potential retirement income whereas under Scenario 2, an IRA account is relied upon to provide most of the needed cash flow once interest and dividends are consumed from a taxable account.

In this case, Scenario 1 produces:

1. Over \$10,000 in tax savings,
2. Continued tax-deferral on \$45,000 of capital in the IRA, and
3. Achievement of the after-tax income goal of \$120,000 per year

Many planning possibilities exist and we recognize each situation is unique. Whether you have one or several investment and retirement accounts, it is worth investigating tax-efficiency solutions to determine the most advantageous approach to fund your retirement goals.

Our team of financial advisory professionals can assist you with these important decisions.

Tax Efficiency Plan for Retirement Income Hypothetical Scenario

After-tax Income Goal	Account	Value
Monthly \$10,000	Personal (Taxable)	\$900,000
Annual \$120,000	IRA (Tax-deferred)	\$900,000
	Total Portfolio	\$1,800,000

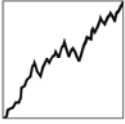
Distribution Source	Scenario 1	Scenario 2
Personal	\$68,000	\$33,120
IRA	\$68,000	\$113,000
Total Distributions Needed to Meet Goal	\$136,000	\$146,120
Taxable Interest*	\$24,120	\$24,120
Taxable Dividends*	\$9,000	\$9,000
Taxable Capital Gains (from asset sales)*	\$7,000	\$0
Taxable IRA Distribution	\$68,000	\$113,000
Adjusted Gross Income	\$108,120	\$146,120
Less: Standard Deduction	(\$11,400)	(\$11,400)
Exemptions	(\$7,300)	(\$7,300)
Taxable Income	\$89,420	\$127,420
Tax	\$13,118	\$23,318
After-tax Cash Flow	\$122,882	\$122,802
Percent of Total Tax (Effective Tax Rate)	14.67%	18.30%
Percent of Total Distribution	9.65%	15.96%

*Income items based on historical returns for 50/50 Asset Allocation and assumes 20% of asset sales are subject to capital gains tax

(Investment Knowledge: Accumulating, Evaluating, Processing, and Proceeding, continued from page 1)

times the 2010 estimates. Historically, price earnings multiples reach a level of 18.5 when coming out of a recession. That ratio would put the expected market valuation 39% above current price levels. While one might argue that there have been periods of much lower price earnings multiples, those periods were at times of high inflation and high interest rates, certainly not the current environment of low interest rates and today's absence of inflation. In fact, corporate earning yields are at about 7.5% of stock prices, while bond yields are near their all time lows.

While we are not making our decisions based on expectations of 39% near terms gains, we do think that an upside scenario is far more likely than any *sustained* downside risk. Further, when also considering the substantial amounts of cash on the sidelines represented by record or near record funds, funds on corporate balance sheets, money market funds, and institutional and private capital, it appears that the markets are waiting for a little less uncertainty coming from Washington. Our role is then to ferret out the sectors and companies that will benefit the greatest.



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The Goodman Report

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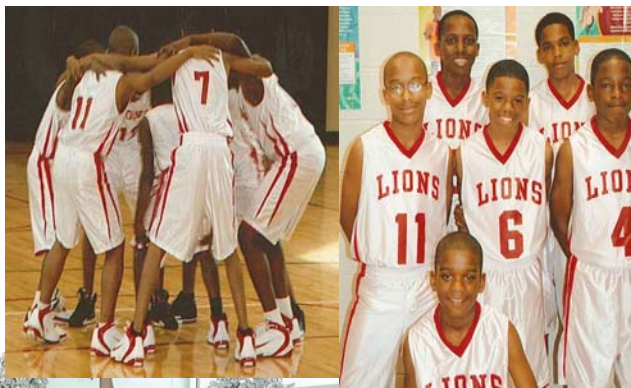


Goodman Financial Assists Yellowstone Academy

By Steve Goodman, CPA, CFP®

President & Chief Investment Officer

When one of our private foundation clients requested that we assist Houston's Yellowstone Academy we welcomed the opportunity. The school serves children from families living in extreme poverty with a program designed to provide the resources they need to reach their full potential. We asked though, how can we make a tangible difference. Their fundraising staff developed a proposal where we would fund the purchase of equipment and uniforms for their new boys basketball team and girls dance team



as the school celebrated the inception of their first sixth grade class. The photos are a testimony of how one call, one person, or one firm can make a difference.

If you wish to find out more about assisting Yellowstone Academy, you may visit them at www.yellowstoneacademy.org.

