

FINANCIAL MUSINGS

Gerri Harrison
Financial Services

It has been a ride!!

We have heard from so many of you (and I am sure that we have yet to hear from all) about the devastations from the recent flooding.

People lost entire houses and the next door neighbor may have had no damage. Streets and towns in many cases look like a war zone.

Some have lost their job due to businesses closing. In some cases the owner of the business was our client and we had to counsel them as to whether or not to re-open.

We were fortunate that here at Gerri Harrison Financial Services we had minimal water in the basement. Some of the staff's personal houses flooded in the basements and they are working to get them put back together.

Among all the horror stories we are also hearing the stories of individuals pulling together. An 85 year-old woman handing out home improvement gift cards while apologizing that she cannot do more to help. Individuals cooking for anyone walking by and asking if they need a hot meal, telling them to help themselves. Elementary school children donating toys to local day care centers. High school and college students hauling garbage and mucking out

basements, wanting nothing more than a thank you. The story of a community coming out to help clean the local grocery store to make sure it stays in the neighborhood. Neighbors helping neighbors. Communities helping communities.

That is what this area is about. We will bounce back from this and probably be stronger and better for the effort.

We are working diligently to help clients as much as possible. If you have not had a chance to look, check out our website for current information regarding FEMA, filing for unemployment, extended due dates for individual and business income, payroll and sales taxes and claiming the loss on your income tax return.

Enclosed you will also find information about a class we are doing at the Broome County library specifically on tax issues related to the flooding. Please feel free to pass this along to anyone you know who can use the information. There is a lot of information and misinformation out there. We want to try and clear up as much information as we can when it comes to the tax issues.

We have also been working diligently to get prepared for our Fall Festival this year. We had decided back in June to replace the summer picnic with a fall event this year. Hopefully you have received your invitation by



now and are going to join us for a fun, relaxing evening among friends. It is a chance to meet up with old friends and to make some new ones. This is a no-business event. It is our way of saying "thanks for doing business with us".

You will find enclosed a flyer for the event, in case you did not get your invitation in the mail.

You will also find information asking you to bring a donation for Mom's House to the Fall Festival. This is an organization that we have supported for years who has been dramatically effected by the flooding.

We hope that you can help us out in supporting this wonderful organization who helps young parents with daycare while they are attending school to earn their degrees.

If you cannot make the Fall Festival and want to help Mom's House, feel free to drop off a donation to the office anytime before the end of October.

A donation of the items listed on the attached flyer, of cash or a gift card to allow supplies to be purchased would greatly be appreciated. We want to help get this organization back on their feet so that they in turn can help their clientele get back on their feet.

October 2011

My business works because of you and people like you. If you are happy with the service that I provide for you please consider referring me to your family, friends, co-workers and others. I am looking to expand all areas of my practice.

GerriHarrison.com

FinancesForEveryday.com



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EMT Workers need your Help!

In the midst of all the recent flooding, my family was dealing with a medical crisis at the same time. An elder member of the family was in and out of the hospital during that time. As an ambulance arrived, the EMT and emergency workers are asking for health documents—current list of medications, current insurance card, health care proxy and a driver's license for identification. While those documents all existed, time was wasted in trying to find them.

In talking with the nurses in the emergency room, we received a bit of advice that I would

like to pass onto all of you.

Emergency workers of all types—ambulance workers, firemen and policemen are all trained to look for that information on the refrigerator.

The recommendation is to make a copy of those documents that you carry with you and to also have a copy of those documents in an envelope on the refrigerator door.

Think how handy that would be if you are going



in an ambulance or if you need to grab it to rush to the emergency room in a car of your own.

Please help the EMTs save valuable time by putting these documents in plain site—

consider labeling the envelope “health care documents”. One caution, as your medications change be sure to update the list within the envelope.

We can hope the copies will be never needed. It is great to know they are there if they are.

Time to Start your Tax Planning, if you have not done so!

With it being October already you are probably realizing that the end of the year is fast approaching. Now is the time to plan ways to save on your taxes before the end of the year.

If you are in the position of bunching your itemized deductions every other year, you need to determine if this is the year you are itemizing or taking the standard deduction.

This then determines if you are you making that January mortgage payment in late December or not until after the first of the year. In which year should medical expenses be paid? Should you accelerate or delay until after the first of the year charitable contributions? Are you wanting to prepay property taxes or delay until after January 1st? Should that last NYS estimated tax payment be made in December or delayed until January?

You are trying to maximize itemized deductions in one year and then claim the standard deduction the other year.

If you are trying to do Roth conversions up to the point of not kicking you into the next tax bracket, you need to begin calculating what your anticipated income is this year.

With the stock market increasing and dropping 200, 300 or 500 points a day, should you consider tax harvesting? In a non-retirement account, you can sell an investment at a tax loss

to allow you to get the tax deduction. You can then re-purchase the same investment after 30 days if you want to hold that investment or you can purchase a similar investment immediately.

If you are looking to lock in a capital gain, you can sell the asset and immediately re-purchase it. This is a consideration if you believe you should take advantage of the current low capital gain rates before they increase. We are not sure after 2012 what is going to happen to this special tax rate. There is discussion about it going away—at this point it is only discussion and we will need to wait and see.

Did you sell an investment earlier in the year—at a gain or loss that you now want to offset? If you had a gain, you may be looking to sell something at a loss to avoid the increase in taxes. If you sold something at more than a \$3000 loss you may want to generate taxable gain to avoid having to carry over a loss to next year.

Do not forget to take your required minimum distributions from IRAs, 401(k)s, 403(b)s and other retirement plans if you have reached the age of 70 1/2 and are required to do so. The penalty is 50% for failing to take a distribution when you are required to do so.

For business owners, where is that taxable income? Should you be delaying or accelerating your income? What about your expenses? Should that new piece of equipment be purchased this year or not until after the first of the year?

If you are anticipating claiming a casualty loss

in 2011—you want your income to be as low as possible to maximize the loss. See if you can delay payment of a bonus or commission check until after the 1st of the year that would be helpful. Avoid taking extra money out of IRAs or other retirement plans. Try and minimize your business income. Look to generate that capital loss. The key here is to get that number on the bottom of page one of the Form 1040 as low as possible.

Should you pay that college tuition bill in late December or not until after the 1st of the year? What about that last day care bill for the year, in what year should that be paid?

Do you have the means of qualifying for the energy tax credit and if so, what needs to be done in the house to qualify for that before year end?

Have you used all of your flexible spending account money or should you be scheduling appointments with doctors, dentists and other health care professionals?

The first step in tax planning is determining are you better off pulling income into this year and delaying expenses or do you need to do the reverse?

While tax planning is important throughout the year, it becomes even more pertinent the closer to the end of the year we get.

If you would like our assistance in doing your tax planning, please call and make an appointment to go over your current situation.



Is now the time for that Emergency Fund?

Even if you did not find yourself with water in your house, you may have found yourself affected by the flood. Many found themselves unable to go to work for a few days or more and lost wages. Many found themselves having to evacuate and incurring the cost of a hotel if they were lucky enough to find a room. Hundreds found themselves without power and having to eat out for several days in a row. Restaurants, bars and entertainment events are now finding less individuals going out which still means less revenue.

Add that to the individuals who are now replacing washers, dryers, furnaces and hot water heaters that adds up to a lot of extra expenses for many.

The question to ask yourself right now is, was there a reserve there to draw on or are you facing large credit bills or a new term loan payment?

If the answer is yes, you need to consider the establishment of an emergency fund. While we might not see another flooding of this magnitude for a long time, it is not unusual for an emergency that calls for extra cash to occur.

Think about the car breaking down or you suddenly realizing it needs new tires. Think about a medical issue and what it might cost you even if you have insurance. What about a refrigerator breaking down or a plumbing issue in the

house? I am sure that most of you can come up with something in your life that sent you scurrying for your credit cards or off to the bank for another loan.

What if instead you could head to your bank and pull the money out of a savings account? Try and experiment and see how much more secure and less stressed you feel as you see a savings account hit a thousand dollars, five thousand dollars or more.

You are probably saying, how do I do that? I am barely making ends meet. Do that a little bit at a time. Try one or more of the following suggestions and watch how quickly your bank account grows.

- 1— Each night when you come home take the change and the one dollar bills out of your pocket and set them aside to go into your savings accounts.
- 2—When you use a coupon at the store or online, take that amount of savings and put it into a savings account.
- 3—Hold a garage sale or sell some items on e-bay and put the money away.
- 4— Give up your coffee, muffin, candy bar, trip to the vending machine, a beer or soda for just one day a week. Add that savings to your account.



5—Take on a seasonal job, for the Christmas or summer season. If you know it is only temporary and for a few months it will be easier to handle than if you are thinking it is a long term part time job. Have your paycheck directly deposited into that emergency fund savings accounts.

6—Have \$10, \$25 or \$50 a paycheck directly deposited into a savings accounts.

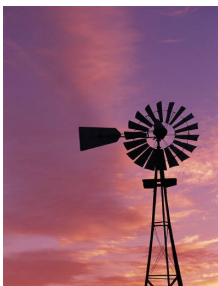
What else can you think of that might get you a quick infusion of cash into a savings account?

Is your problem that you get the money into the account and then just as quickly pull it right back out? Make it difficult to get at the money.

Put it in an account that you cannot access with an ATM or debit card. Put it in a bank where you do not do your normal banking so that it means an extra trip or stop. Put it in an online bank where it takes a couple of days for the money to transfer back to your local bank. Put it in a bank that has no local branches and you have to travel out of town to get at your money. Put it in an account that requires more than one signature to be able to withdraw the money from the account. Do whatever it takes so that you do not have easy access and will have to think more than twice before getting at \$50 or so to take care of that “emergency need to go out to dinner and a movie” tonight.

Another chance at an Energy Tax Credit!

There has been some extension of the energy tax credit available for 2011—with new rules and new twists.



First—the maximum credit is \$500. You must take the amount of the credit claimed in 2009 and 2010 and subtract that from the \$500 to determine how much you are eligible

for now.

If you got the full \$1500 previously, there is no credit available now. If you took a \$300 credit in 2009 and nothing in 2010, you would be eligible for a \$200 credit in 2011.

Second—there are now more limitations for particular types of energy saving measures. For example, the most credit you can claim on a heating system is \$150. There are different limits for windows, insulation, hot water heaters, and various other items.

Third—there is a higher bar for the energy efficiency to qualify. If you want to determine if your model qualifies, go the IRS website at irs.gov. Search on energy tax credit and it will bring up the information to determine if your purchase qualifies.

If some items were replaced in the flooding they can still qualify for the energy credit. Even if you qualified for the NYS rebate/grant on the hot water heaters or the furnaces, you can still receive the tax credit.

Would you file a claim?

It is a question that I keep finding myself asking of clients? Here is how the conversation goes:

What is the deductible on your car insurance? The answer, usually \$250 or \$500.

So, if you have an accident and the repair bill is going to be \$450 and you have a \$250 deductible then you would file a claim to get the \$200 right? The answer, no of course not. I do not want my premiums to go up.

So, then why carry a \$250 deductible?

Increasing that deductible to \$500 or \$1000 could mean a 30-40% decrease in the premium that you pay per year.

The question usually then is, what if I have an accident, how will I pay the deductible?

The answer of course, from your savings account. The key here is when your premium drops you take the difference and put it into a

savings account until you have saved the \$1000. You then have extra money to do what you want with.

While you are talking with your insurance agent to change your deductible, be sure to review your policy.

Consider things like:

If you have roadside assistance via a credit card or Triple A or some other form, do not be paying extra as part of your vehicle insurance.

Look at your track record for the last several years—how often have you been towed? Does it make sense to having towing coverage or should you save that money and add it into that savings account in case you need to pay for a tow.

Are you getting all available discounts? Safe driver, any affiliation discounts with schools

you went to or employers you work for, multiple policy discounts, anti-lock brakes or safety restraints discounts, good student discount, student away at school discount, defensive driving course discount and so many more. Ask, ask and ask your insurance agent again to make sure you are getting to the lowest premium possible.

Do not restrict yourself to looking at just your car insurance. What about that deductible on your house insurance? How about available discounts for that—dead bolt or security alarm system discount, nearness to a fire hydrant, multiple policy discount and many more.

Realize too that insurance varies dramatically from one company to another. If you have not shopped insurance rates in a few years, consider getting some quotes to make sure you are paying a competitive rate.



What to do?

Bi-weekly Payments: what is the Difference?

Over the years I have recommended to many that they make bi-weekly payments on all debt to help them get out of the debt quicker. Many are surprised at how much quicker it does pay off a debt.

For example, a 30 year mortgage is paid off in 25 years or less if you make 1/2 of the payment every 2 weeks rather than one full payment at the beginning of the month. How?

Two reasons—first, by making a payment every 2 weeks you end up over a year making 26 payments which is equivalent to one extra payment per year.

Second and more pertinent is that with each payment more is applied to principal making the outstanding balance drop quicker.

Take an outstanding balance of \$100,000 with an interest rate of 5%. For a 30 year loan that would be a monthly payment of approximately \$538.

If you make that payment monthly, at the end of 10 years you have paid a total of \$64560. A little less than \$19000 would have gone to principal and almost \$46000 in interest.

If you take that same \$538 and make a payment of \$269 every two weeks, at the end of 10 years you have paid in just under \$70000. The big difference is that almost

\$29000 would have gone to principal. So even though you paid only \$5500 more you have wiped out an extra \$10000 of debt.

How does that work? It is due to the compounding of interest. If you have an outstanding balance of \$100,000 for 30 days then the interest calculation would be \$417. If you are making a payment of \$538, that means \$121 of the payment goes to interest. In the second month the interest calculation would now be \$100,000 less \$121 for a balance of \$99,879 times the 5% for 30 days.

If you however made that \$269 payment then \$100,000 for 14 days outstanding would mean \$192 in interest. The \$269 less \$192 would mean \$77 would be applied to principal.

On the next payment take the \$100,000 less \$77 to principal for a balance of \$99,993 times the 5% for 14 days would be \$191 in interest. That means \$78 has gone to principal.

So at the end of one month with monthly payments \$121 is applied to principal. At the end of one month with bi-weekly payments \$155 has been applied to

principal.

Take that calculation out the 10 years and you have an extra \$10000 paid to principal.

While it does not have such a dramatic effect

on shorter term loans, it will still have an effect. You can make 1/2 of your car payment every two weeks. You can make 1/2 of your credit card payments every 2 weeks. A personal loan. A home equity loan. Any debt that you currently have outstanding.

Are you thinking, what a pain to write checks every 2 weeks? This is where you want to use online banking or automatic payments.

You do not have to notify the financial institution of your decision to make bi-weekly payments. You just need to make sure that the minimum has been paid by the due date each month.

With so many individuals living paycheck to paycheck, it might be hard to start this cycle. Consider starting when you have a 3 paycheck or 5 paycheck month. Start with one loan at a time and gradually do all loans. Maybe it is not 1/2 and 1/2 at first; maybe it is 1/3 and 2/3 or even 1/4 and 3/4 until you have the cash accumulation.

Many find making 1/2 of the payments every 2 weeks evens out their finances. They do not end up trying to cover a big mortgage or other loan payment out of one check and trying to stretch the remainder. Each paycheck you know what needs to go to debt and it is a consistent amount.



So much out there!

Taking that Early Retirement Distribution

With the state of the economy right now, we have been seeing more individuals under the age of 59 1/2 taking money early from retirement plans—401(k), 403(b), 457 and traditional IRAs.

There is some confusion that we would like to clear up. Just because money was withheld from the distribution before you received it does not mean:

A) that you do not have to report it on your tax return.

B) that the amount of the tax withheld was correct.

The tax laws mandate that the company withhold 20% from a distribution from a company retirement plan. If you are under 59 1/2, you owe the 10% early withdrawal penalty plus income taxes. If you are in the 15% bracket that means that you owe 25% federal tax on that.

Lets say that you took a \$10,000 distribution. The company would typically withhold \$2,000 in taxes. You would however owe \$2,500 in federal taxes. When you claim that

distribution on your income tax return, it will be added to your other income. A total tax will be calculated on all income including the distribution.

The tax withheld on the distribution will be added to your income tax withheld from your wages and other sources. If the amount withheld from all sources is larger, you will see a refund. If the tax liability is larger, you will owe additional money.

Now, say that instead of taking \$10,000, you took \$100,000. This probably will jump you from the 15% tax bracket to the 25% tax bracket. With the penalty you now owe 35% on a distribution that you only had 20% tax withheld. That shortfall on a \$100,000 distribution would be \$15,000.

And we have not even mentioned the 7% NYS tax that you will owe on that distribution.

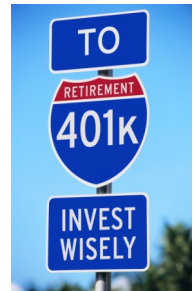
It is not unusual between federal, state and the early penalty for the taxpayer to loose between a third and a half of the distribution to taxes.

Please consider carefully if there is a way to avoid the distribution. Can you take a loan

against the retirement account? Can you find another source of funds? Can you stretch distributions out over multiple years using the 72t rules to avoid a penalty? Do you qualify for an exception to the penalty? Can you sell an asset or take on a second job to come up with the cash? Think creatively and see if you can avoid taking the money out of a retirement plan.

If you do have to take it out—consider contacting us here at the office to determine what the real tax consequences of that withdrawal will be so that you are not surprised at tax time and are struggling to come up with tax dollars because the retirement money is now gone.

If you do take money out of a retirement plan, whether it is an early distribution or a normal distribution you will in January receive a Form 1099-R that you need to make sure we have when your taxes are being prepared.



Annuities are not all bad, if the benefits are worth the costs to you!

You often hear financial planners, investment gurus and others touting to never buy an annuity. That is too costly and that you lose in that deal.

Never is a very strong word. You need to consider your circumstances before determining if an annuity is right or wrong for you.

Consider, will it relieve stress for me if I know that I have that pension-type check coming in for life? Can I enjoy my retirement more if I know I will always get X or X plus an increase for inflation month in and month out as long as I am living? That might mean a guaranteed lifetime income annuity would be appropriate to insure that basic expenses are always covered.

Is this all the money that I have? If I do not have access to a lump sum if needed, is this really appropriate for me? This might be a signal that an annuity is not appropriate for you

Do I need or want the tax deferral to minimize

taxes for me now? If you have maxed retirement plans through work and are still looking for a tax deferred way to save, an annuity to give you growth in the stock market might be a good vehicle for you—especially if it has guarantees that you find appealing.

Is a fixed rate annuity a good idea? The answer of course, maybe. Like all interest rates, the rates for fixed annuities are low. It might be more appropriate to wait for rates to go up some before locking in for several years.

In determining if an annuity is right for you, are you looking for a guaranteed payment for life? If yes, you should be looking at GLI type annuities.

If you are looking for the ability to be out of the market and be earning interest, you are looking for a fixed annuity.

If you are looking to participate in the market, you are looking for a variable annuity.

You need to consider the company that you are considering doing business with. An

annuity is a long term investment and you want to make sure that company will be there for the long haul.

What are the fees associated with the annuity? Has the history shown it can out perform even after paying fees?

What is the guaranteed death benefit? How is it calculated? Are there any living benefits to the annuity?

Will the payment keep up with inflation?

Are you in need of tax deferred growth to avoid rolling into a higher tax bracket?

How quickly do you need access to this money? In a fixed or variable annuity there is typically a surrender charge if you cash it in within the first few years. Make sure you understand when you will have access, how much you have access to and what the penalties would be if you touched it earlier.

Before you write them off as good or bad, understand what annuities are about and determine if it fits your needs more appropriately than other investments might.



Gerri Harrison Financial Services

189 Riverside Dr
Johnson City NY 13790

Phone: 607-729-4144
Fax: 607-729-0533
Email: Gerri@GerriHarrison.com

GerriHarrison.com
FinancesForEveryday.com



Relax, Gerri is here to help

I hope you are enjoying Financial Musings. Please feel free to pass it onto a family member or friend. Or if you want give me a call with their names and addresses and I will add them to my mailing list to receive their own copy.

Gerri Harrison Financial Services provides financial and tax preparation services to individuals and small businesses. We want to be part of the family. There for the good and the bad. Everyone has a job and purpose in the family. My job is to assist you in achieving your financial dreams and aspirations as well as meeting your financial obligations and concerns. I want to be there to pack your child off to college or pack you off to retirement. I want to be there through the christenings, weddings, illnesses and deaths. Whenever there is a financial matter you have a question about I want the first thing you think of to be “Gerri will know how to handle it.”.

Let saving money become a game!

Are you trying to find ways to save money? Stop considering it work. Make it a game.

I am often trying to figure out—will I get a better deal on gift cards if I go to Price Chopper or Weis and get the percentage off on gas? Or is it be a better deal if I order the gift card using my Upromise card and ordering through the Turbo Saver found on Upromise.com.

Can I find an item on sale that I have a store coupon for, that I have a Upromise coupon for and that I can get Upromise percentages for?

What is the lowest I can get gas for? Check out the gift card section at Price Chopper or Weis. Are there places that you go regularly—from restaurants to home improvement stores to department stores? If you purchase a \$100 gift card (there is no fee to purchase it) then you would get 20 cents off gas. You can then use the gift card yourself.

You are spending the same identical amount you would spend anyways, you have just saved yourself some gas money.

For in-store coupons without having to spend hours clipping coupons, try CouponMom.com or e-bay to purchase coupons for a few cents.

It is my goal to not purchase from anywhere online without having a coupon. So, goggling the name plus “coupon” or “coupon code”.

If you do a lot of shopping online and find yourself paying for shipping, consider ShopRunner.com. For \$79 you get free 2 day shipping for a year on all websites.

Let your smart phone make you some money back by using money savings app. Consider Coupon Sherpa or MobilQPon to get coupons. Compare prices while in a store with Price-Grabber, RedLaser or ShopSavvy.

Learn which stores price-match. Use your smart phone while in the store to find out which items on sale and get your items at the lower prices without having to run all over town.

You hear about the extreme coupon-ers who are paying \$7 for \$300 worth of groceries. You might not be able to get to that level, what if you could save 50%? Set a goal and use the web and smart phone apps to help.

Open your pantry and see what you have in there that has been around for awhile that you have not figured out a use for. Use the web to find recipes—an interesting website is

www.wildrecipes.com. Search on a particular food and see what you come up with. Use up those items in your pantry. If you see a food deeply discounted in a store, can you find a recipe to use it in?

Rather than using the major travel sites—try discounters such as Momondo.com, AutoSlash.com, HotelsCombined.com., VacationsToGo.com and numerous other sites. See how low you can get your air fare, hotel and car.

There are so many options out there. Enlist your kids and spouse. Dream about what to do with the found money. Hold contests to see who can find the greatest savings. See who can find the best deal. See who can serve the least expensive dinner. Whatever gets you and the family excited to be saving money on the basics to have more money for the fun and the interesting.

