

Dogwood Financial Planning

Rest Easy. Grow Strong.

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Now that spring is here and many of us have received a tax refund, it can be tempting to spend that money on a well-deserved vacation. A better strategy, though, might be to earmark that money for things that will help your long-term financial well-being. Consider using the refund to add to your emergency fund or retirement fund contributions, buying that life or disability insurance you need, or getting important estate planning documents drawn up.

In this May newsletter, we explore tips on keeping your small business going in these rough times, 529 college savings plans, how to deal with job loss, and avoiding some common but devastating financial and estate planning mistakes.

I hope you find this newsletter worthwhile. To schedule a complimentary, no-obligation Get-Acquainted Meeting, call Celia at (901)869-5790 or email me at info@dogwoodfinancialplanning.com.

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A Small Business Plan for Uncertain Times

It's official: these are hard financial times. Many small business owners are feeling the pinch, and you may be one of them. Here are some tips to help you swim against the tide and help you keep your head above water.

Review your business plan

Your business plan represents the roadmap your company is following. Consider reviewing it as if through the eyes of someone new to the area. Is it still the best possible route to where you want to go, or should you consider some change in direction? It may be valuable to create an advisory team from your circle of business contacts to help you with this task.

Keep current and vigilant

When the times are changing, you need current and accurate financial information on which to base your decisions. Keep a close eye on all your expenses. If you must cut your expenses, consider reducing expenditures only on goods or services that are no longer profitable. And try not to slash all of your advertising budget. If people don't know you're there, before long you may not be.

Be careful about the urge to cut your prices without exploring alternatives or without adequate justification. Doing so might lead to a temporary swell in your sales volume, but it will also undercut your margins, and may dilute your brand name. You might also want to continue spending money on development. The hard times will eventually pass, and when they do you'll want to have new items or services for your customers or clients to buy.

Examine your revenue stream, and think about ways to pursue any delinquent accounts receivable. Be careful of the credit terms you extend to your customers, especially new ones; if they can't meet their obligations, you might fall behind on your own. Try to maintain a healthy cash flow, and create a

cash reserve to cover times when your accounts receivable may be slow.

Finally, meet with your banker. Try to keep a line of credit available to hedge against potentially declining revenues. Perhaps you're thinking you should defer making the capital improvements you were planning. However, while interest rates are low, consider if this would be a good time to lock in financing for them.

Work with me here

Your existing customer base may be your best prospects for new business, so remain in close contact with them. Determine their needs and seek to help them meet those needs. Consider offering them discounts in exchange for advance payment or long-term contracts with you. And always provide them with excellent customer service. In return, they may refer other potential customers or clients to you.

By the same token, work closely with your own suppliers. Agree to long-term contracts in exchange for a fixed price, if doing so would be beneficial to you. Consider seeking discounts if you pay in cash, or asking for longer payment terms if you are willing to pay full price. Be willing to contract for supplies at the regular price if they will give you great discounts on any of their own overstock that you might need. If you are open about your needs with each other, you might be able to create win-win situations for you both.

Value your employees

You no doubt have good people working for you, and they are a valuable part of what has made your business thrive. They have a stake in your business, too. Try to find ways (even if only simple gestures) to thank them for jobs well done. Look for ways to boost productivity, and reward those employees who meet the challenge of becoming even more productive.





Hard times

According to the U.S. Labor Bureau, 533,000 non-farm jobs were lost in November 2008. Employment has fallen by 2.7 million jobs since the recession first began in December 2007; almost half the decrease occurred in September, October, and November 2008.

Source: U.S. Bureau of Labor Statistics, December 5, 2008.

You've Just Lost Your Job. Now What?

Maybe you saw it coming, maybe you didn't, but there it is--the pink slip in your In box, the personnel officer shaking your hand as you're shown the door. So, what are you going to do now--I mean, right now?

Evaluate your exit package

If you haven't already done so, find out the exact terms of your termination. Are you being fired for cause? Laid off? Downsized? Will you lose your health insurance immediately (unless you pay to extend it through COBRA), or will it carry you through the end of the month? Are you being offered a severance package? (Do you have any leverage to negotiate it?) Will receiving it depend on signing a waiver? (If so, you might want to consult an attorney first.) Are you required to sign a non-competition or a nondisclosure agreement? Will you receive any help searching for a new job (outplacement), or be allowed to use company equipment (copy machine, telephones, etc.) while you're doing so? Will your former employers write references for you? And what will they say about you when future potential employers call to verify your employment?

Call your state unemployment office

Since your unemployment benefits may not start until two or three weeks after you file your claim, the faster you can initiate processing of your claim, the sooner you'll receive your first check. In general, your benefits will be a percentage of your earnings, up to your state's maximum claim amount. Depending on your state, your benefits may last up to 26 weeks, and may be extended during periods of high unemployment.

Tell your family, friends, and associates

Losing a job is one of life's hardest experiences, and you shouldn't try to "go it alone." Tell your family, friends, and business associates what has happened. Not only can they be emotionally supportive, but they also may be able to help you find your next job. During any transition between jobs, particularly one that takes a while, your lifestyle may be affected, and your family, particularly those you support, will need to understand the financial implications of this.

Review your financial situation

Obviously, your financial situation will be impacted by your loss of income, especially if your lack of employment lasts a while, so now's the time to rethink your budget, even if

it turns out only to be for the short term.

Determine your expected income from unemployment benefits and other sources (severance pay, part-time temporary employment, investment income, and perhaps spousal income). Then develop a bare-bones budget (one that pays the essentials and postpones the nonessentials) and compare it to your expected income.

If your expenses will exceed your income, schedule withdrawals from your cash reserve to cover the difference. (Your cash reserve? It's that "financial safety net" of 3 to 6 months income you've accumulated for a situation such as this.)

Also list any other possible sources of potential income, including investment accounts or other assets you could sell if you need to.

Update and reflect

If you haven't done so, update your resume to reflect your recent work history, experience, and references.

There's no better time than this to determine if you're going where you want to with your career. Are you happy with the type of work you do, or is now a good time to make a change? Whether you're making a change or not, would now be a good time to update your skills (or learn new ones) to make yourself more marketable?

If you will be changing careers, slant your resume to highlight the skills and experience relevant to your new direction. Write generic cover letters that will be appropriate introductions for what you seek.

Hit the floor running

Looking for work is, in itself, a full-time job, and you should treat it as such. Look for employment online, in newspapers, and in trade journals. Contact employment agencies and headhunters. Attend industry conferences or seminars, relevant community events, and networking meetings to make new contacts and disseminate your resume. Follow up any new employment leads in writing and/or with telephone calls.

Be positive, and be aggressive. Believe in yourself and your abilities, and don't wait for the world to come to you.

What You Don't Know Can Hurt You

You've probably heard the saying, "what you don't know can't hurt you," but when it comes to your finances, ignorance is not necessarily bliss. It's easy to make bad financial decisions when you lack sufficient information or you are misinformed. By the time you realize your mistake, it's usually too late to correct it. Here are several common mistakes that can be avoided with just a little bit of forethought.

Naming the wrong insurance beneficiary

Life insurance has many benefits. Among them is the fact that death benefits are generally paid directly to the beneficiary you name in the policy without passing through probate. But what happens if the beneficiary you name is unable to accept the death benefit, because he or she is a minor, deceased, or incompetent? In these circumstances, unless you've named an alternate beneficiary, the life insurance proceeds will be subject to all of the expenses and delays associated with settling an estate through probate.

What can you do before it's too late? Review your life insurance beneficiary designations at least annually to be sure the proceeds will pass to the proper beneficiary without the involvement of probate. Also, consider adding at least one contingent or alternate beneficiary in case the primary beneficiary is unable to receive the proceeds.

Selecting the wrong pension option

If you're lucky enough to have an employer-sponsored pension for your retirement, the distribution choices you make usually can't be changed, regardless of whether your circumstances change. Before making your choice, get all of your plan's options from the plan administrator and review them with a financial professional who can help you crunch the numbers. Estimate your retirement income needs, then determine what the best strategy is for you and your family.

What can you do before it's too late? If you're married you're required to take a joint and survivor option, unless your spouse waives his or her rights to your pension. If you elect the single life option, your payments will be larger, but at the expense of a future spousal benefit. If you choose the single life option, make sure

you have plenty of other income or life insurance to replace the pension for your surviving spouse.

Owning assets jointly

Owning assets jointly often can be a good strategy to avoid probate or minimize estate taxes. However, this form of asset ownership also has disadvantages. The joint owner has equal rights to the jointly owned asset, meaning he or she can withdraw from a joint bank or brokerage account or sell his or her interest in the asset without your consent. In addition,

adding someone's name to an asset may be considered a gift, subject to possible gift taxes. And, owning assets jointly exposes those assets to the creditors of your joint owner. Finally, with respect to long-term care planning and Medicaid qualification, adding a joint owner can negatively

affect your Medicaid eligibility.

What can you do before it's too late? Consider the ramifications of joint ownership carefully before implementing this strategy. If your intent is to leave the asset to the joint owner, alternatives such as payable on death accounts, trust designations, or life estates may accomplish your goal and protect your interest in the asset at the same time.

Underinsured homes

Imagine this scenario: you just suffered through a terrible fire that destroyed your home and most of its contents. You get an estimate on the cost to rebuild your home and file a claim with your homeowners insurance carrier. To your shock, you find that they are not going to cover the entire cost to rebuild. You thought your policy covered the full replacement cost of your home. However, the policy actually provides extended replacement cost, which offers up to 120% of the policy's face amount--not enough to cover all of the costs to rebuild your home.

What can you do before it's too late? Review your policy at least annually and make sure the face amount is enough to cover the cost to rebuild your home should the unthinkable occur. That means you need to know the approximate cost to rebuild, including any additions and improvements you made to the home. Also, take into consideration increasing costs of materials and labor.



You could make financial decisions that turn out to be wrong because you lack sufficient information or you were misinformed altogether.

Other common mistakes

- *Failing to provide for financial loss due to a non-work related disability*
- *Miscalculating how much life insurance you need*
- *Owning too much company stock in your employer-sponsored retirement plan*
- *Underestimating how long your retirement may last*
- *Overestimating the annual rate of return you'll earn on your investments*
- *Trying to save for your children's college education at the expense of saving for your retirement*

Ask the Experts



Can I open a 529 account in anticipation of my future grandchild?

No, not if you intend to name your future grandchild as beneficiary. A valid 529 beneficiary has to have a Social Security number, so it's not possible to name a child who hasn't been born. But there is a way to open a 529 account that eventually can be turned over to a future grandchild.

Your first step is to open a 529 account and name a beneficiary who is a "family member" of your future grandchild. Then, when your grandchild is born, you, as account owner, can change the beneficiary to your grandchild. All 529 plans have mechanisms in place for changing the beneficiary.

According to IRS Publication 970, Tax Benefits for Education, there are no income tax consequences if the beneficiary of a 529 plan account is changed to a "family member" of the original beneficiary. This includes the beneficiary's (1) spouse, (2) son, daughter, stepchild, foster child, adopted child or

descendant of any of them, (3) sibling or step-sibling, (4) parent or ancestor of either, (5) step-parent, (6) niece or nephew, (7) aunt or uncle, (8) daughter-in-law, son-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law, (9) the spouse of any person listed, and (10) first cousin. Changing the beneficiary could have gift tax consequences, though.

However, carefully check the details of any 529 plan you're considering before you name the initial beneficiary. Some plans impose age restrictions on the beneficiary, such as requiring that the beneficiary be under age 21. Such a restriction could pose a problem if you intend to name your adult son or daughter as the initial beneficiary.

Other plans may have rules that indirectly impact who you can choose as your initial beneficiary, such as a requirement that the funds in the account be spent within 10 years of when the initial beneficiary would be expected to enter college. You don't want to be surprised by a technicality.

Can more than one 529 plan account be opened for the same beneficiary?



Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, provided you do so under different 529 plans.

For example, you could open three 529 college savings plan accounts for your daughter: one in State A, one in State B, and one in State C. Similarly, you could open accounts in States A and B for your daughter, and another relative could open an account for her in State C. Or, you could open a 529 college savings plan account and a 529 prepaid tuition plan account for your daughter in State A. But you can't open two college savings plan accounts (or two prepaid tuition plan accounts) in State A for the same beneficiary.

If you do open multiple 529 accounts for the same beneficiary, keep in mind that each plan has its own contribution limit, and contributions can't be made after the limit is reached.

However, some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) can't exceed the current year's maximum contribution amount.

Also, keep in mind that each 529 plan will have its own investment options and flexibility, contribution rules, ownership and beneficiary designation rules, costs and fees, and ability to perform account management tasks online.

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.*

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