



# Your Bottom Line

PUBLISHED QUARTERLY BY: MACKENSEN & COMPANY, INC. FEE-ONLY FINANCIAL PLANNERS  
*Navigating a clear course toward your financial security.*

## Energy Tax Credits Get a Boost from Stimulus . . . . .



Warren Mackensen

If you have been considering upgrading your home to improve its energy efficiency, the latest stimulus bill has good news for you. The American Recovery and Reinvestment Act renewed some expiring energy tax credits and increased several of the caps on these credits that were imposed under prior law.

For most of these home improvements, the energy-efficient upgrades must be placed in service at your principal residence before December 31, 2010. The credit applies to items such as insulation, windows and doors, roofing, and energy-efficient heating and cooling systems, including biomass

(wood) stoves. The credit amount is 30% of the cost of installation, up to a maximum of \$1,500.

For larger systems, such as solar panels and water heaters, geothermal heat pumps, small wind-energy systems and fuel cells, this upper limit does not apply. The credit amount is 30% of the installation cost. In addition, these systems do not have to be installed at your primary residence to qualify. The credit for these systems also applies to second homes and rental properties.

Warren can help you with your questions about solar energy as his former company installed over 37,000 square feet of solar collectors two decades ago. The technology is substantially the same today. The sun has not changed much! ♦

## Inflation Picture May Mean Smaller Social Security Checks for Some Retirees . . . . .



David T. Mayes

Each year's cost-of-living increase for Social Security is based on the average annual change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). This calculation is done each October, based on the CPI-W figures for the prior three months. For 2008, the average reading on the CPI-W was

215 during the July – September period, compared to 203 for the same three months in 2007, resulting in the 5.8% increase in Social Security checks for 2009.

The downside to this large increase is that, by law, Social Security recipients will not see another cost-of-living increase until the CPI-W rises above the level on which this adjustment was based – 215. Even accounting for the

*continued on reverse side*

## Roth IRA Conversion Opportunity Approaching

If you have money invested in a traditional IRA, you may want to consider converting all or a portion of your account to a Roth IRA in 2010. The key difference between these two types of retirement accounts is that your traditional IRA funds represent future tax liabilities when withdrawn, whereas Roth IRA distributions are completely tax free. With future tax rates likely to go higher, conversion provides an opportunity to get your traditional IRA through the tax window at today's rates and take advantage of tax-free withdrawals in the future.

Why is 2010 so important? Yes, you can convert your traditional IRA now, but only if your adjusted gross income is less than \$100,000 in the year of the conversion. In 2010, this income ceiling is eliminated, allowing anyone to complete a conversion. In addition, because you need to pay tax on the amount of your traditional IRA account that you convert, the IRS has instituted a special provision for 2010 that allows you to spread the tax due over two years, paying half in 2011 and half in 2012.

Whether a Roth conversion makes sense for you will depend upon several factors. Over the next several months, we will be reviewing your accounts so that we can assist you in determining whether a Roth conversion will help you meet your financial goals. ♦



David A. Batchelder

## Signs of Stability in Economy and Markets .....

We are seeing some improvement in the outlook for the U.S. economy and global financial markets. Various indicators suggest that the economy might be reaching a turning point including improvements in personal income, manufacturing and trade sales, and stabilization in the inventory of unsold homes. March was a low point for the U.S. stock market, with the S & P 500 index hitting a level of 683 on March 9.

While the employment picture in the U.S. is still deteriorating, the rate of job loss has slowed to about half of the average monthly decline during the prior six months. The unemployment rate continues to rise, but not unexpectedly so, because changes in the job markets tend to lag changes in the overall economy. It will take a much larger, sustained improvement in business conditions before the economy starts to see job growth again. After sharp declines last year, consumers' outlook for the economy has improved markedly. The Conference Board Consumer Confidence Index, which posted large gains in April and May, now stands at its highest level in eight months. From a business perspective, conditions appear to be improving as well with increases in new orders combining with inventories that are too low, which suggests that production will need to increase soon to meet demand. Similar improvements in consumer confidence and business expectations may be found overseas as well.

The financial markets are also showing signs of stability. Investor confidence appears to have improved over the past two months, at least for the time being. Many of the banks that received government assistance through the Troubled Asset Relief Program have established a solid enough footing that these funds could be paid back to the government. In addition, spreads between interest rates across different segments of the bond market have declined, indicating improved investor confidence in the prospects for lower-credit-quality borrowers.

Despite these improvements in the economic outlook, the timing of the recession's end remains uncertain. The recovery still faces significant headwinds, particularly with regard to recovery in the housing market. While mortgage rates have recently touched below 5%, these low levels will be difficult to maintain as the increased government debt and expectations of future inflation may push rates up in the bond markets.

These are just a few of the factors we continue to weigh in reviewing your investment strategy during this ongoing period of uncertainty. For our part, we continue to look for opportunities to prudently rebalance your portfolio and identify investment options that are likely to improve your portfolio's risk/reward profile over time. As always, our goal is to customize your portfolio to your needs, with a keen eye on your need for cash from your investments over the next few years. ❖

## Inflation Picture May Mean Smaller Social Security

**Checks** *(continued from front page)*

government's many efforts to re-inflate the economy in recent months, the Congressional Budget Office projects that the CPI-W will not return to this level until 2012, delaying the next increase in Social Security checks to January 2013.

If Medicare costs continue to increase, the disappearance of the Social Security cost-of-living adjustment may actually mean smaller benefit payments for many (about 11 million) retirees. Because of the way the Medicare rules are written, high-income beneficiaries now are responsible for a higher portion of their Medicare costs. A "hold-harmless" provision in the law guaranteeing that a Social Security benefit check will not decrease as a result of an increase in the Part B premium will protect beneficiaries with smaller incomes. Because of this "hold-harmless" rule, a larger portion of any Medicare cost increases will be borne by high-income beneficiaries, at least until the Social Security cost-of-living adjustments come back into play. ❖

Mackensen & Company, Inc., is a fee-only financial planning and investment management firm. No commissioned products are sold. For further information, call:

**MACKENSEN & COMPANY, INC.**  
FEE-ONLY FINANCIAL PLANNERS

6 Merrill Drive  
Hampton, NH 03842-1970

603-926-1775

800-927-7365

fax: 603-926-1249

web address: [www.mackensen.com](http://www.mackensen.com)

email: [info@mackensen.com](mailto:info@mackensen.com)