



Your Bottom Line

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Navigating a clear course toward your financial security.



David T. Mayes

Waiting in cash for higher rates can be costly

According to Bankrate.com, the average rate being paid on high-yield savings accounts is 0.675%, well below the annual inflation rate of 3.6% as measured in May by the Bureau of Labor Statistics. Still, investors are holding record amounts of cash in these low-yield accounts, perhaps trying to time interest rate movements by holding out for the seemingly inevitable increase in rates.

Low-rate, liquid savings vehicles certainly are essential in any financial plan as a place to store cash for near-term expenses. But these accounts are not the place to stash funds for the longer term, as inflation will quickly erode purchasing power. All too often people stay in savings accounts instead of moving up to higher-yielding investments because they thought rates were bound to rise.

The problem for these investors is that waiting for rates to rise can be very costly. The waiting strategy pays off only if interest rates go up fast and significantly. Consider a hypothetical investor who passed up the opportunity to purchase a five-year Treasury bill with a yield of 2.05, leaving the money in a money market account currently yielding 0.07%.

Assuming that the money market rate rises 0.2 percentage points every six months, the T-bill rate must rise to 2.48% just to break even on the five-year investment, a significant rate increase.

Investors may also be waiting in cash because of an aversion to the risk evident in the current stock and bond markets. Still, holding longer-term investments in cash is not likely to pay off because, in any given year, cash outperforms stocks only 32% of the time, and bonds only 34% of the time, based on annual return data going back to 1926. Cash outperforms either stocks or bonds only 12% of the time, based on annual returns.

A better approach for long-term investing is to use a balanced portfolio and stick with it through market cycles. Timing when to be in stocks, bonds, or cash is a fool's game. An equally-weighted portfolio of nine major asset classes provides better returns than a timing strategy based either on buying the best- or worst-performing asset class from the prior year. Staying balanced trumps tipping the scales either toward chasing last year's winners or betting on a strong comeback by the prior year's loser. ❖



Warren Mackensen

Lost 401(k)?

Have you ever misplaced your car keys? How about a stock certificate, savings account, or even an old 401(k) plan? Every year, millions of dollars in cash and securities end up in the hands of the abandoned property divisions of each state's treasury department when the original custodian is unable to locate the rightful owner or a legitimate heir. The states have online databases making it easier for these assets to be located and claimed by owners or their heirs. Visit www.unclaimed.org to find your state's website.

What the states have done for lost stocks, bonds, and bank accounts, the National Registry of Unclaimed Retirement Benefits (NRURB) is doing for lost retirement plans, such as 401(k)s. With frequent job changes being the norm in today's workforce, an individual may forget about a retirement plan, or lose track of it because they moved and failed to inform the administrator of their new address. While still in the building stage, the NRURB database attempts to match people with abandoned plan balance records. At present, the database has records for more than 50,000 plan participants who are owed money, with most balances ranging from \$500 to \$1,000. ❖



David A. Batchelder

Law can override beneficiary form

Our clients know that we always ask for current beneficiary designation forms as written proof of how retirement accounts, annuities, and life insurance benefits are to be paid out upon the death of the participant or insured. Why do we need written documentation? Well, over the years, we have found that people rarely review these forms. Typically, they are completed when an account or insurance policy is opened and never revised, even when circumstances change. What

appears on the beneficiary form often does not match a client's recollection of how it was completed or their current desires for distributing these assets to heirs.

In most cases, the beneficiary form is gospel, overriding a will in determining how assets are transferred at death. When 401(k) plans are involved, reviewing beneficiaries can be tricky because federal law may actually trump your beneficiary form. In a recent legal case, a plan participant dutifully updated his beneficiary form after his wife died, naming his three children as beneficiaries. Then, six weeks prior to his death, he

remarried. Who is entitled to his 401(k) balance: his children, whom he designated as beneficiaries, or his new spouse? According to the court, the plan belonged to his wife, not his kids, because she had never waived her rights to the plan. Federal law provides that a spouse must consent in writing to any distribution from a 401(k) plan to another party. ❖



Deb Curtis

Mileage rate increased

While the IRS generally avoids making mid-year changes to the standard mileage rates for calculating the deductible costs of operating a vehicle for business or other purposes, rising gasoline prices and pressure from Congress make this year an exception. For the last six months of 2011, the standard mileage rate for all business miles is 55.5 cents, a 4.5 cent increase from the rate applicable for the January – June period.

Recognizing that increased gas prices are hurting consumers and small businesses, the IRS is raising the standard mileage rate so that it better reflects actual vehicle operating expenses. Gasoline is a large component of the standard mileage rate figure, but other items like maintenance, depreciation and

insurance costs are also built into the mileage rate. Business owners may use the standard mileage rate to calculate their deductible vehicle expenses instead of tracking actual costs.

The mileage rates for medical and moving expenses will also increase by 4.5 cents per mile to 23.5 cents for the July – December period. However, the rate for charitable miles, which is set by law and not the IRS, will remain at 14 cents per mile for all of 2011.

When recording your deductible miles, be sure to document the dates of your trips so that the appropriate standard mileage rate can be applied. Our tax organizer for 2011 will request separate figures for miles driven in the first and last six months of the year. Having a good log book or contemporaneous calendar with trip dates will greatly simplify the

reporting of this information to us so we can be sure you are taking full advantage of the mileage rate increase. ❖

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