

# Your Bottom Line

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*Navigating a clear course toward your financial security.*



## Happy New Year! It's 2002. What now? .....

Here's a simple guide to the new tax law changes.

### Retirement Limits for 2002

The 2001 tax act favorably reduced tax rates and increased many retirement plan limits. Here is a summary of important retirement plan limits.

Plan Type	New Limit	50 or over in 2002
401(k)	\$11,000	\$12,000
403(b)	\$11,000	\$12,000
457	\$11,000	\$12,000
IRA	\$3,000	\$3,500
SIMPLE	\$7,000	\$7,500
Profit Sharing	\$40,000	
Keogh	\$40,000	

As always, the earlier in the year that you make retirement contributions, the more beneficial it usually is with an up-trending market. This may be especially true in 2002 as the financial markets are expected to come out of the 2000-01 recession.

### Estate Planning

The estate tax exemption equivalent amount for 2002 was increased from \$675,000 to \$1,000,000 as part of the 2001 tax act. Although the increase in the exemption is favorable news,

the need for estate planning does not diminish.

The annual limit on gifts to family and friends is \$11,000 in 2002, up from \$10,000 per person per year. Gifting to the next generation reduces estate taxes if the estate is over the \$1,000,000 exemption equivalent.

We cannot predict our health status in the future, nor can we predict our capacity to manage our affairs, so durable powers of attorney and living wills remain paramount in importance. Executing a will, and possibly a trust, also remain very important.

The best way to achieve peace of mind is to schedule an appointment with an estate planning attorney and get started on the process. *Myth:* When you sign a will, you die soon thereafter. Simply not true. Don't put it off.

### Small businesses

The first-year expense deduction for equipment placed in service in 2002 is raised to \$24,000.

The health insurance deduction for self-employed individuals is 70% of premiums (up from 60%). In 2003, the deduction is finally 100%.



Warren Mackensen

### Educational Funding

*College savings plans:* Section 529 college savings plans will no longer be taxed at the federal level

starting January 1, 2002. This applies to withdrawals for qualified tuition, room and board expenses. There are many considerations in developing an educational funding plan, so please call us to address your specific situation in more detail.

*Coverdell Accounts (old "Education IRAs"):* The annual contribution limit per child becomes \$2,000 on January 1, 2002. The income limitations have also been increased to \$110,000 for a single parent and \$220,000 for married couples. For the first time, the new legislation allows the savings plans to pay for elementary or secondary schools, including private religious schools and extended day care programs. Contributions to Coverdell accounts may now be made up until April 15th for the prior calendar year. ▲



Susan Veligor

## The Markets . .

There are two major obstacles to investment success: fear and hope. Let's explore these one at a time.

Fear is an obstacle when it stymies one from investing, resulting in no action. A true adage is "buy into fear and sell into greed." This means that when things seem to be at their worst, it is one of the best times to invest. Though the economy is still soft right now, the future looks very bright. Now is a great time to invest to enjoy the future recovery.

Hope is an obstacle when an investment that has gone sour is held with the expectation that it will turn around and come back. The investment may very well recover, but over what period of time? An investment that doubles is great, but if it took 20 years to double, it was *not* a great investment (3.5% average annual total return). We need to ensure that hope does not get in the way of making realistic investment decisions, including cutting losses when appropriate.

Now that we've brought you past fear and hope, let's review the outlook for 2002. Inventories are starting to shrink, which will slowly re-ignite the manufacturing sector. We continue to favor mid-capitalization and small-capitalization companies, which are selling at a 30% discount to their blue-chip brethren. We're about two years into what is typically a four-year outperformance period for mid-cap and small cap stocks. ▲



Jill Boynton

## Living Life . . . . .

At the risk of being insensitive to the world situation, it is important to remember that few of us can do anything about the dark cloud of terrorism that hangs over our heads. Given this fact, it is important to go on living life, perhaps a bit more conservatively, but at least still enjoying it. Our lives must be balanced between saving for tomorrow and living for today.

Preparing a cash flow statement for 2002 is a healthy exercise that will relieve some of the anxiety associated with balancing today with tomorrow. Quicken software, Microsoft Money or an Excel spreadsheet is an easy tool to use in preparing a cash flow statement. Or if you would like to down-load a sample cash flow statement from the web, visit [www.mackensen.com](http://www.mackensen.com) and click on the Cash Flow page.

The four major components of a cash flow statement include *income, savings & investment, fixed expenses, and variable expenses.*

The income component is pretty obvious. The trick is to use *gross income* figures (before taxes) from all sources.

The *savings and investment* section includes contributions to retirement plans at work, IRAs, education savings plans, and regular savings. It is this component that adds to your wealth and helps build your estate.

The *fixed expenses* component includes mortgage payments, car

payments, taxes and insurance premiums. Don't forget to include FICA and Medicare taxes based on your earned income.

Finally, the *variable expenses* component includes all those expenses over which you have the most discretionary control.

The bottom line of your cash flow statement should be close to zero because it is the sum of the income section, less the savings & investment, fixed expenses and variable expenses components. If you have a surplus, then increase your savings & investment component. If you are running a deficit, better to know now so that you can shave some variable expenses. The first place to start eliminating expenses is usually the "dining out" line. ▲

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