

Thinking about Gobbling Up Your Company's Stock? Make Sure it's a Balanced Diet

There was a time when owning the stock of the company you worked at was a fairly transparent matter. If your company offered an employee stock purchase plan (ESPP), you could elect to buy a certain number of individual shares each week or month, and if you were in a traditional defined benefit plan, there would probably be a certain percentage of company stock mixed in among the other investments that you could find out about in an annual statement.

Such options still exist in many companies. But the task of searching for company stock in all of your investments has gotten a bit like checking the nutritional labels in your grocery cart. You might not do it very often, but when you do, it can be quite a shock.

Just as it's a stunner to see how much salt or preservatives are in certain foods, it can be amazing to see how much of your total investment holdings are made up of your employer's shares. For example, have you checked how much of your company's shares you might own inside:

- Your personal mutual fund choices in taxable and non-taxable accounts.
- Your company's own 401(k) plan, which might match your contributions with company stock.
- And particular all-company-stock vehicles like employee stock purchase plans, employee stock ownership plans (ESOPs) and stock option plans that allow you to buy the company's shares as you vest.

In good times, this might not be a problem, because rising markets raise all boats and you'll reap the gains that your hard work is contributing to. But in other times, an oversupply of any one kind of investment – even one you know intimately – can be a bad idea because investment performance may change in unexpected ways.

A financial planner can help you examine your overall holdings for not only an overabundance of your employer's stock, but imbalances in your overall portfolio given your age, risk tolerance, length of time to retirement and any other savings goals you have. Having too much of your company's stock may not be the only portfolio imbalance you have.

Meanwhile, what's the correct percentage? There are some experts who say you should limit exposure to your employer's stock at 30 percent. Others will draw the line at 10 percent. In part, the answer may depend upon the degree to which other parts of your financial picture are tied to the success of the company. Most experts will also say that if you have less than five years to retirement, you should make sure your portfolio is properly balanced so a sudden downturn in the company doesn't sidetrack your plans.

Here are some other ideas to explore in making sure your portfolio doesn't sink you:

Keep educated about all your investments: Time is a factor for everyone, but it's particularly important to keep reading and listening to the news about any kind of investment that's dominant in your portfolio. At the same time, you might learn about investments that could be added to improve your performance.

Talk to your tax professional: If your company shares are in a retirement plan or IRA, selling shares won't trigger any current taxes, but if you're planning to sell shares you own outright that you purchased for a fraction of their current value, talk strategy with your tax professional first. Depending on your personal circumstances, there may be ways to limit your exposure to a significant capital gains tax hit.

Rebalance your portfolio: If you find you have no choice but to keep your total holdings in your company's stock, take a look at all of your outside investments to make sure they are properly balanced against a potential loss in those company shares. However, if these other investments are in taxable accounts, absolutely make sure you're not taking a significant tax impact as a cost of balancing that portfolio.

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As the Downturn Deepens, it's a Good Time to Review Your Financial Habits

The old wisdom that says the economy turns positive in an election year appears to be exactly that – old wisdom. As the market continues its gyrations and bad news continues to flow on energy, housing and food prices, it's time for a tune-up of the way you spend, save and plan.

Do a career check-up: The time to plan for a career change is *before* your employer shows you the door. If you're hearing about job cuts in your industry, figure out how close cutbacks are to you and plan accordingly. Make a list of the top three to five employers you would be happy to join and start networking with employees of those companies at local industry associations, through friends or at conferences. Talk to your human resources department about what you could do about your pension and 401(k) assets, your health insurance and other benefits if you were laid off. Most important, get some advice from an employment law attorney or an outside human resources expert about negotiating a better exit package. Some companies might offer special incentives to employees who quietly offer to pack up – but make sure everything is in writing, and do so only if you have another job lined up.

Assess your current financial situation: If you're not already working with a financial planner, maybe you should be. Plan a visit now with a financial planner. Making a financial plan in bad economic times can be a good idea because you'll develop a more protective mindset of your finances that can reap even greater benefits when times are good.

Create a budget: In tough times, it's important to limit your spending on unnecessary extras and zero in on what financial goals are truly important. A financial planner can help you with a reality check of your current spending and help you divert more of your weekly paycheck into an emergency fund as well as dollars to pay down debt and increase your savings and investments.

Convert to cash or debit for most of your spending: Develop a "real-money-only" mentality. Your budget will tell you how much to spend, and the best way to stick to those numbers is to shop only with folding money or a debit card. Debit cards wearing a bankcard logo are typically welcome at most stores where credit cards are accepted. This way, you pay cash without the risks of carrying cash. If you're considering a debit card, ask your bank to limit the spending power on that card to the cash balance in your checking account, and be sure to ask how you're protected in case of loss or theft. Also, ask about any fees you may incur.

Shop on a schedule with a comprehensive list: Consider limiting your shopping trips to maybe one or two a week, and work only from a comprehensive shopping list that shows you *everything* you're thinking of buying in a week – groceries, family items and incidentals for yourself. First, planned shopping trips mean you'll save gas as well as time. Second, a comprehensive shopping list – either on a computer file or on a big sheet of legal paper – allows you to see everything you want and allows you to split your priorities between legitimate needs and stuff you can put on hold. What about the "wait for" side of the list? Keep those items in their own column on your main list week-to-week so you can keep a lookout for sales and coupons.

About those coupons: If you're searching only in newspapers or print circulars for coupons, you might be missing big savings. If you have access to the Internet, use your search engine to identify manufacturers of items you regularly buy and see if you can get on their e-mail list for special coupons online. Major retail chains also e-mail coupons and news of special sales to customers online as well. Also, if you don't have something to type in that "discount code" box when you're buying something online, stop. It's wise to pull up another search window and type in the name of the product, the retailer's name and the words "discount code" and see if anything comes up that fits the product you're buying. Also, there are many independent coupon Web sites out there that will save you money, but use only those that won't put spyware on your computer that lets those companies monitor your spending and surfing habits.

Think about the holidays and year-end tax planning now: December is probably the most damaging money month of the year. Now is a good time to start planning what you'll spend on presents and entertaining during the holiday season. Also, set aside some time to review your tax situation and set aside the funds for any charitable giving or investment moves you might want to make at year-end.

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Having Trouble Paying Your Kids' Tuition? Keep Your Hands off Your Retirement Nest Egg

As the financial pressures of a drooping economy and rising college costs continue to squeeze parents, it's tempting to tap retirement accounts as a source of ready cash to make ends meet.

But not so fast.

There are serious financial consequences to breaking into 401 (k) and other tax- advantaged retirement savings, and parents tempted to do so should look for other alternatives. A July 2007 Country Insurance and Financial Services survey found not only that 25 percent of respondents thought it would cost less than \$50,000 to send a child to a four-year college (by now, averages have surpassed that), but that nearly half believe that saving for college is more important than their retirement, which most qualified experts advise against.

Before you pick between yourself and your child, here's what you should know:

You'll escape an early distribution penalty, but... Any withdrawals from an IRA you might take for your child or grandchild's education (as well as your own or your spouse's) can be taken out without the usual 10 percent penalty on early distributions before age 59 ½. But you really need to talk with a tax advisor or a financial planner to determine whether your IRA withdrawals will have to be reported on your Form 1040.

You might hurt your kid's chances for financial aid: The entire withdrawal from an IRA -- whether taxable or not -- must be included as income on the following year's application for the Free Application for Federal Student Aid, or FAFSA. Family income does more to influence financial aid than the size of the family's assets, and dipping into your IRA can potentially damage your child's potential financial aid. Check with a financial planner who specializes in financial aid strategy before you make a move.

Don't even consider a 'hardship withdrawal' from a 401 (k) plan: Earlier this year, the Transamerica Center for Retirement Studies reported an increase in workers taking loans from their 401 (k) and other work-based retirement savings. Eighteen percent of those surveyed reported they took loans from their retirement plans in 2007 compared to 11 percent in 2006. Yet keep in mind that while most plans provide an option for hardship withdrawal for emergency medical or funeral expenses, the IRS restricts use of those funds for home purchases or tuition expenses.

So what do you do? Besides talking to a tax professional, it makes sense to find time to speak with a financial planner who can take a look at your overall financial situation and determine alternatives to raiding your retirement. A financial planner can help you take a comprehensive look at spending, saving and investment decisions you've made so far and seal up the leaks -- then you can discover whether you have smarter options to pay your child's tuition. They include:

Starting a search for scholarships and grants with your kid: See if there are sources of grants and scholarships not only in your community, but also within your industry. Understand what a prospective student's college choices might offer in terms of aid from its endowment. Also, some employers offer scholarships for their employees' kids. Start searching online, at the office and by phone for such aid. Go online and do a general search for such aid.

Fine-tuning your negotiating skills: Parents need to become more aggressive about negotiating tuition, room, and board at colleges where either they or their children have been accepted. A financial planner with expertise in college planning can help parents understand where those savings might be against the student's qualifications for getting into the program of their choice.

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