MORE AND MORE Americans are stumbling through their final working years carrying a heavy debt burden. Those hoping for a long and happy retirement need to find a way to lighten the load.

Mortgages and credit card debt, along with the financial needs of college-age children and elderly parents, are taking a heavy toll on baby boomers and older retirees. Nearly half of boomers expect to retire with debt, according to a recent survey by Fidelity Investments.

Over the past two years, there has been a 27% spike in the number of retirees seeking help from members of the Association of Independent Consumer Credit Counseling Agencies, says David Jones, the group’s president. “Older people, especially retired people, are the biggest growth area we’ve seen,” Jones says. He notes that “it’s a very serious situation,” since seniors often have health problems and limited ability to return to work.

For many older people, the debt burden is growing intolerable. People 55 and over accounted for 28.6% of bankruptcy filers in 2011, up from 22.9% in 2008, according to the Institute for Financial Literacy, a nonprofit education organization.

In years past, older people often found it easy to borrow their way out of a tight financial spot—perhaps using a home equity line of credit to pay off high-interest debt. But because the financial crisis devastated home values as well as retirement accounts, many seniors find that safety net has dropped away. With emergency funds depleted and little time to recover from market losses, many retirees...
Remember the feeling you had the first time you got into a hot tub? The warm water, the energizing bubbles and the gentle hydrotherapy of the jets left you feeling relaxed and rejuvenated. Aches and pains seemed to fade away, and the bubbling sound of the water helped put you in a carefree and contented mood. The first time I ever got in a hot tub at a resort, I said to myself “One of these days I’m going to have one of these in my home– so I can experience this whenever I want.” Now that I’m older, I’d still like to have the pain relief and relaxation, but I have to be careful about slipping and falling in the bathroom. That’s why I was thrilled to find out that Jacuzzi had combined the safety of a walk-in bath with the benefits of a hot tub. Now that I have one in my home I can have that luxurious resort experience... whenever I want.

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Isn’t it time you rediscovered the comfort and luxury of a soothing therapeutic hot tub experience again? Call now and knowledgeable product experts will answer any questions and explain how easy and affordable it can be. Don’t wait, call now.

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✓ **Durable and Easy to Clean** - State of the art acrylic surface.
✓ **Comfortable Seating** - Convenient 17 inch raised seat.
✓ **Worry Free Enjoyment** - Thanks to Jacuzzi’s Lifetime Limited Warranty.
✓ **Maximum Pain Relief** - Therapeutic water AND air jets.
✓ **Relax Fully** - All controls are within easy reach.
✓ **Personalized Massage** - Adjustable back jets for pinpoint control.
✓ **No Hassle Installation** - Designed to fit in your existing tub space.
end up charging basic living expenses on credit cards. To make matters worse, financially strapped seniors are prime targets for mortgage modification scams, pricey loans pitched as bank “overdraft protection” and “debt settlement” programs that in some cases only dig consumers into a deeper hole.

Even if you’ve never struggled to pay the bills, you can boost your retirement security by learning to spot the debt traps that tend to snare retirees. And for those already burdened with debt, a host of resources are available to help you move toward retirement with a lighter step.

**The burden of credit cards.** Whether coping with rising health care costs, investment losses or family obligations, many seniors come to the same conclusion: Credit cards are the only way to make ends meet.

In a recent survey of low- and middle-income households carrying credit card balances, research and advocacy group Demos found that people 65 and up have more credit card debt than any other age group—nearly $9,300, on average. And while younger folks have unloaded much of their debt burden since the financial crisis, seniors’ debt level has barely budged.

A worst-case scenario—credit card debt leading to bankruptcy—is becoming all too common among seniors. In a study of the significant increase in bankruptcy filings among older Americans, John Pottow, a professor at the University of Michigan Law School, found that these debtors most often cite credit card interest and fees as the cause of their financial problems.

When faced with overwhelming credit card bills, focus on paying down the debt with the highest interest rate first. And if it will take more than a few months to pay off the cards, consider consolidating your balances on a card offering a 0% interest rate—bearing in mind that you could face a steep rate increase when the promotional period is over.

Be wary of credit card “add on” products pitched by telemarketers. Regulators in recent months have cracked down on major card issuers for deceptive marketing of such products as credit monitoring or “payment protection,” which promises to let consumers suspend payments for a limited time in event of unemployment, hospitalization or other troubles. Some consumers were signed up without their consent, the regulators found.

Review your bank and credit card statements regularly for any unusual charges. And if you’re interested in any bank or credit card services, get the information in writing rather than signing up over the phone.

Don’t hesitate to ask for help. Seniors seeking to conceal financial problems from family members or friends may be attracted to the anonymity of credit cards—and drawn into overwhelming debt. “Rather than have an awkward conversation with the kids or asking someone else for help, they’re borrowing to finance consumption,” Pottow says.

**Mortgage-debt pitfalls.** Paying off the mortgage before you hit retirement may be a worthy goal. Given today’s rock-bottom yields on savings accounts and certificates of deposit, you’ll likely save more money eliminating mortgage interest payments than by stashing cash in the bank. But homeowners near retirement shouldn’t accelerate mortgage payments if it means ignoring other high-interest debt or cutting their cash cushion to the quick. Also, if you withdraw from a 401(k) or traditional IRA to pay off the debt, taxes due on the distribution will counteract the benefits of paying down the mortgage. Online prepayment calculators such as the one at www.hsh.com can help you weigh the benefits of accelerating payments.

Over the past two decades, a steadily growing number of homeowners have been carrying mortgage debt well into their retirement years, according to a recent study by AARP. And among those age 50 and older, 6% of mortgage loans were seriously delinquent...
Expect Congress and President Obama to turn their attention to bolstering the Social Security trust fund. In the closing days of 2012, Obama backed the idea of changing the formula used to adjust benefits for inflation. The “chained” consumer price index would slow annual cost-of-living adjustments—to the detriment of many seniors who depend on their benefits as their major, if not sole, source of income.

Perhaps what lawmakers should consider instead is raising or eliminating the level of earnings subject to the Social Security payroll tax, which is $113,700 in 2013. In 2009, 83% of all earnings from jobs covered by the Social Security payroll tax were below the maximum taxable amount, compared with 91% in 1983, according to the Congressional Budget Office.

The CBO noted in its study that the percentage declined as the earnings of workers in the highest income groups grew faster than average earnings did. Changing the wage base would shift the burden to those whose earnings have increased—from those least able to afford the hit. It's at least worth a look.

Susan B. Garland, Editor

From the Editor

in 2011, up from 1.1% in 2007, AARP found. “I don’t think people are making a conscious decision to carry debt,” says Lori Trawinski, senior strategic policy adviser at AARP Public Policy Institute and author of the study. “People have no choice, because they have other obligations they need to take care of.” Many older people have relied on home equity to cover health care, home repairs and other big-ticket items.

Some seniors struggling to make mortgage payments may be able to downsize to a smaller home and slash their maintenance, insurance and tax bills at the same time. Alternatively, those who have good credit may be able to take advantage of today’s low interest rates and refinance their mortgage. If you are current on your mortgage payments but having trouble refinancing because the value of your home has dropped, the Home Affordable Refinance Program (HARP) may help. This federal program, which is available for mortgages owned or guaranteed by Fannie Mae or Freddie Mac, helps borrowers refinance even if they owe more than the value of their home.

For information on HARP and other programs designed to help homeowners, go to MakingHomeAffordable.gov. Also get in touch with a government-approved housing counselor by calling 888-995-4673.

Be wary of advertisements or other promotions promising to help you modify your mortgage or avoid foreclosure. The Consumer Financial Protection Bureau recently reviewed hundreds of mortgage-related ads, particularly those targeting seniors and veterans, and found that many misrepresented a government affiliation or promoted misleadingly low rates. And if a mortgage-relief firm asks for money upfront, “that’s a huge warning sign,” says consumer debt expert Steve Rhode, who runs the Web site GetOutofDebt.org.

Under Federal Trade Commission rules that took effect in 2011, firms offering mortgage assistance aren’t allowed to charge upfront fees—although there’s a loophole for some services offered by lawyers.

A reverse mortgage, which allows a homeowner 62 or older to convert some home equity into cash, can make sense for some seniors who understand the risks. The loan must be repaid with accumulated interest when the borrower dies, sells the home or no longer uses it as his primary residence. There are no monthly principal or interest payments while the homeowner lives in the house, but the borrower must stay current on tax and insurance premiums. “We see people coming to us in a panic” after taking a reverse mortgage and being threatened with foreclosure because they don’t have the money to pay the taxes, says Jones of the credit counseling agency group. A government-approved housing counselor can help you weigh a reverse mortgage against other options. (Read “Reverse Mortgages: Risky for Boomers?” in the September 2012 issue.)

Assuming a child’s loans. Even the most scrupulous savers can feel squeezed when confronted with simultaneous financial demands from elderly parents and college-age children or grandchildren. As college tuition costs soar, older Americans are loading up on student loan debt in order to put a younger generation through school. As of the first quarter of last year, 2.2 million student loan borrowers were age 60 or older, more than triple the number seven years earlier,
according to the Federal Reserve Bank of New York. That makes the 60- and-older crowd the fastest-growing age group among student loan borrowers. What’s more, 9.5% of older borrowers are more than 90 days delinquent on the loans.

Much of the trouble starts when older people co-sign student loans for children or grandchildren. More than 90% of private student loans now require co-signers, says financial aid expert Mark Kantrowitz. “A co-signer is a co-borrower, equally obligated to repay the debt. And if the borrower is delinquent, it affects your credit history, too,” Kantrowitz says.

What’s more, the volume of federal PLUS loans to parents has skyrocketed in recent years—and some parents are tapping retirement accounts to pay them down. Paul Kuon, 59, a hospital lab worker in Lafayette, La., paid his oldest daughter’s tuition out of his pocket. Now that his youngest son is in college, “education costs have ballooned beyond belief,” he says, and he’s covering the cost with cash, scholarships and about $18,000 in parent PLUS loans.

With the interest rate on the PLUS loans topping 7%, Kuon is eager to pay down the debt—and he’s planning to draw money from a traditional IRA to do it. The tax due on the IRA withdrawal will be another headache. In retrospect, he says, he wishes he’d had more liquid savings, “and we never would have gone with the PLUS loans.”

With no cap on the PLUS loan amount, it’s easy for borrowers to get in over their heads. When older borrowers default on federal student loans, the government can garnish up to 15% of their Social Security benefits.

Rather than signing their name to a loan, parents and grandparents can help with college costs by contributing to a 529 college-savings plan, helping to make tuition payments directly to the college or helping the student pay down his loans after graduation. If you must take out loans, borrow no more than you can afford to repay in ten years or by your retirement date, whichever comes first, Kantrowitz suggests.

If you’re falling behind on federal student loan payments, visit the U.S. Department of Education’s student aid site (www.studentaid.ed.gov) for information on repayment plans. Options may include repaying the loan over an extended period or a plan that bases payment amounts on your income.

Finding help. Use extreme caution when considering “debt settlement” services. These programs typically tell debtors to stop paying their bills and instead send payments directly to the debt settlement company or a separate account while the company tries to persuade creditors to settle for less than the amount owed. This can mean that consumers default on their debts, rack up late fees and wreck their credit scores.

Some lenders won’t work with debt settlement firms, and many consumers enrolled in the programs end up filing for bankruptcy anyway, according to the consumer group Center for Responsible Lending. Plus, consumers who settle non-mortgage debt for less than the amount owed will typically get an income-tax bill for the amount of debt forgiven.

Instead, contact a nonprofit credit counseling agency, avoiding any services that charge big upfront fees. Find an agency in your area at www.aiccca.org or www.nfcc.org, the Web site of the National Foundation for Credit Counseling. Counselors will help consumers review their budget and develop a spending plan. These agencies can also help establish a schedule for repaying debts through “debt management plans,” which typically involve a sharp reduction or waiver of interest charges and penalties.

Seniors should carefully explore their options before raiding retirement accounts to pay off debts. William Brewer, former president of the National Association of Consumer Bankruptcy Attorneys, says he recently met with a 55-year-old man who had been unemployed and struggled with $75,000 of credit card debt. The man had contacted the creditors himself, persuading them to settle for $25,000 and took money from his IRA to pay the bill. He then received a tax bill on the $50,000 worth of forgiven debt, another tax bill on the $25,000 withdrawal from his IRA and a 10% early-withdrawal penalty. If the debt had been discharged in bankruptcy, Brewer says, the IRA would have been protected from creditors and the extinguished debt would not have been considered taxable income.

Even those in good financial health should consider working longer to ward off financial strain. Maintain a solid emergency fund to cover two to three years’ worth of living expenses. Use tools such as the National Council on Aging’s Web site BenefitsCheckup.org to be sure you’re getting all the benefits that you’re entitled to. And at the first sign of trouble, ask for help—loudly. “No one should be worried about making a credit card payment versus paying for medicine,” says Leslie Linfield, executive director at the Institute for Financial Literacy. “You’ve contributed to the system your whole life. It’s okay to ask for assistance.”

—ELEANOR LAISE
INVESTING

Investors Are Winners As Funds Slash Fees

If you haven’t tallied your fund fees lately, fire up the calculator. Firms offering index mutual funds and exchange-traded funds are furiously slashing fees and announcing new initiatives to reduce shareholders’ costs.

When fund firms wage war for investor dollars, long-term shareholders win. Fund fees take a bite directly out of investors’ returns—and in a low-yield, low-return environment, that bite really hurts. “Fees are an enormous contributor to performance” and should be a top consideration for investors, says Robert Goldsborough, ETF analyst at investment-research firm Morningstar.

Some firms already known for low fees are taking additional steps to cut shareholders’ costs. Vanguard Group said in October that it would switch benchmarks for 22 index funds, a move expected to save shareholders money over the long haul. BlackRock the same month announced a new group of low-cost iShares ETFs designed for long-term investors, and Fidelity Investments in December said it would lower investment minimums on 22 of its lowest-cost funds, making them available to a broader swath of investors. Fidelity, Charles Schwab and Invesco PowerShares also announced fee reductions late last year.

A growing selection of index funds and ETFs now cost shareholders well under 0.1% of assets annually. And long-term data show that most actively managed mutual funds fail to beat market benchmarks—meaning that investors opting for low-cost index-tracking funds aren’t sacrificing returns. In the year ending June 30, for example, about 90% of all actively managed U.S. stock funds lagged their benchmark, according to Standard & Poor’s.

Not all of the fee cuts mean dramatic savings. In September, for example, Schwab said the fee for its U.S. Broad Market ETF (symbol SCHB) would drop to 0.04%, from 0.06%. That would mean a difference of $2 on a $10,000 investment.

Investors considering a move to a cheaper fund must weigh not only the potential fee reduction but also any tax consequences, trading costs and other factors. If you’re holding a fund with an unrealized gain in a taxable account, for example, “it just wouldn’t make any sense” to switch funds to save 0.02 or 0.03 percentage points in fees, says Roger Wohlrn, a financial planner in Arlington Heights, Ill. Your tax bill on the sale of fund shares would counteract the fee savings.

But if you can sell the fund at a loss, or if you hold a higher-fee fund in a tax-deferred account, it may make sense to switch to a cheaper fund—even if the fee difference is as little as 0.1 or 0.15 percentage point, fund analysts say. Seemingly minuscule fee reductions can mean substantial savings over the long haul.

Consider two very low-cost funds: Vanguard 500 Index Fund Investor (VFINX), charging 0.17%, and Vanguard S&P 500 ETF (VOO), charging 0.05%. If you invest $100,000 in each, get a 5% annual return (before fees) and hold on for ten years, total fees in the mutual fund would amount to $2,171 versus just $643 in the ETF. Compare fees for specific funds using the Financial Industry Regulatory Authority’s online tool at www.finra.org/fundanalyzer.

Look at Costs Before You Leap

Before switching funds, consider the transaction costs you will incur. Investors typically pay commissions, for example, to buy and sell ETFs. But a number of firms, including Schwab, Fidelity and TD Ameritrade, offer commission-free trades on at least a limited selection of ETFs. For small investors, “eliminating commissions on ETF trades is the easiest way to save money,” says Matt Hougan, head of ETF analytics at IndexUniverse.com.

Investors diving into low-fee ETFs that aren’t heavily traded can encounter extra costs. As a general rule, look for ETFs that have a “bid-ask spread” no greater than ten cents, Hougan says. You can find this data point, which reflects the difference between the price buyers are willing to pay and the price that sellers are asking, at sites such as Morningstar.com and IndexUniverse.com. Avoid using “market orders” to buy ETF shares at the current available price—in a fast-moving market, you may pay significantly more than you intended. Instead, use a “limit order,” which places a cap on the amount you’ll pay for the shares. —ELEANOR LAISE
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The New Year Rings in Higher Taxes

You may be breathing a sigh of relief. The new tax law signed by President Obama on January 2 leaves most tax rates as they were. The big change: a new marginal rate of 39.6% for single taxpayers with taxable incomes above $400,000 and for married couples with incomes above $450,000. It also hikes the tax rate on long-term capital gains and qualified dividends for those same high-income taxpayers.

Even if your income is not that high, you’re unlikely to escape unscathed. Taxpayers with incomes far less may well pay a bigger tax tab in 2013. “Everybody’s going to get whacked a little bit,” says Marc Minker, a certified public accountant in CBIZ MHM’s New York City office.

The tax deal, combined with tax increases in the new health care law, will hit many households with incomes much lower. One reason is the eleventh-hour agreement squeezes itemized deductions. Meanwhile, the health care law imposes a new 3.8% surtax on certain investment income—and adds 0.9% to the Medicare payroll tax for those still working. And all workers are seeing paychecks clipped as a result of the expiration of the two-point reduction in the Social Security payroll tax.

Still, there are some goodies in the tax-law bag. After years of last-minute “patches” to the alternative minimum tax, the new law permanently indexes the AMT to inflation. It also extends the IRA-to-charity transfer through 2013. And Congress extended a tax credit for homeowners who make energy-efficient improvements to their homes. Here are key provisions.

■ Investment-related taxes. Taxpayers with incomes in the 10% and 15% brackets will continue to benefit from a 0% rate on capital gains and dividends. In 2013, the 15% bracket will top out at $72,500 of taxable income for joint filers and $36,250 for singles. On the far side of the income spectrum, taxpayers in the new 39.6% bracket will pay a 20% rate on long-term capital gains and qualified dividends—from 15%. All other taxpayers will continue to pay the 15% rate.

The 20% rate will apply only to the portion of the gain that exceeds the thresholds of $400,000 for singles and $450,000 for joint filers, says Brooks Mosley, a certified public accountant at Security Ballew Wealth Management, in Jackson, Miss. He offers this example: Say a married couple has $150,000 in capital-gain income and $350,000 in other income after deductions. The first $100,000 in capital gains will be taxed at 15% and the remaining $50,000 will be taxed at 20%.

This higher rate comes on top of a 3.8% surtax on net investment income that began this year. Under the health care law, the surtax applies to taxpayers whose adjusted gross income exceeds $250,000 for joint filers and $200,000 for singles. Not only are the thresholds lower than for taxpayers who are subject to the 20% capital-gains rate, but workers at these thresholds also will be subject to a 0.9% increase in their Medicare payroll tax. (Note that these thresholds are based on AGI, not taxable income, which is AGI reduced by deductions and exemptions.)

The surtax applies to the smaller of net investment income or the amount by which modified AGI exceeds the thresholds. Here’s an example of how it works: A couple has $200,000 in wages and $150,000 in net investment income. Income exceeds the threshold for joint filers by $100,000, so the couple would owe a surtax of $3,800. (Net investment income includes capital gains, dividends and interest.)

To reduce or avoid the potential tax bite, Minker suggests socking money into tax-deferred retirement plans, deferring income or “considering assets that don’t create taxable income,” such as municipal bonds.

■ Deduction reduction. The new law revives limitations on itemized deductions and personal exemptions. These limits, which had been eliminated as part of the Bush tax cuts, apply to taxpayers with AGI of $300,000 for joint filers and $250,000 for singles.

The phaseout for itemized deductions cuts deductions by 3% of AGI above the thresholds. The limitation includes charitable deductions but exempts deductions...
for medical expenses and investment interest.

Bob Scharin, senior tax analyst for business information publisher Thomson Reuters, offers this example: Assume a married couple has $350,000 in income and $40,000 in deductions. The allowable deductions would be reduced by 3% of the $50,000 in income that exceeds the $300,000 threshold. "While $40,000 of expenses would normally be deductible, these taxpayers only get to deduct $38,500," Scharin says.

Under the personal exemption phaseout, the total amount of exemptions is reduced by 2% for each $2,500 of income above the threshold. "When you take those two phaseouts together, it could add one point to your tax rate," says Bob Meighan, vice-president of consumer advocacy for Intuit’s TurboTax.

**Expired breaks extended.** The new law extends through 2013 a popular tax break that allows taxpayers 70½ or older to transfer up to $100,000 directly from their IRAs to charity. The charitable contribution can count toward a required minimum distribution. Lawmakers made the provision retroactive for 2012.

Congress also extended for 2012 and 2013 a provision that allows taxpayers to deduct state and local sales tax instead of deducting state income tax. And it extended a tax credit of 10%, up to $500, for the cost of energy-efficient home improvements. (However, if you claimed the credit on a past tax return, you can’t claim it again.)

**Roth 401(k) flexibility.** If your employer offers a Roth 401(k), there’s no longer an age limit for converting all or part of your traditional 401(k). Before, you could not convert unless you were eligible to take a distribution—that is, if you were 59½ or older. The new law allows anyone to convert, but only if the employer allows withdrawals from a 401(k) while you’re still on the job. The law also applies to 403(b) and 457 plans.

**Estate-tax changes.** The estate- and gift-tax exemptions for 2013 increase to $5.25 million and are adjusted for inflation, and the tax rate on larger estates rises to 40%, from 35%. The new law also makes permanent a “portability” provision that permits a surviving spouse to use the unused portion of the late spouse’s estate-tax exemption.

These provisions may mean that many couples will no longer need credit-shelter trusts to preserve the exemption of the first spouse to die. But trusts could be necessary if you live in a state with its own estate tax with lower exemptions than the federal level, says Robert Romanoff, an estate-planning lawyer at Levenfeld Pearlstein, in Chicago.

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**TAXES**

**Cut Your Tax Bill On Your 2012 Return**


If there’s one thing you can say about the spectacle in Washington over tax rates, it’s this: It’s business-as-usual when it comes to trimming your 2012 tax bill. When you sit down to prepare your return, keep in mind that federal tax rates and write-offs are pretty much unchanged from 2011.

That means a good place to start your review is your 2011 return. For instance, if you paid alternative minimum tax in 2011, you’ll probably pay it again if your financial situation hasn’t changed. If you avoided the AMT in 2011, it’s likely you’ll escape it again.

But don’t put your tax prep on autopilot. If your income dropped last year and you incurred big health care bills, you may qualify for a deduction of medical expenses above 7.5% of your adjusted gross income.

Also, if you’re a lifelong itemizer, perhaps it’s time to consider taking the standard deduction instead—especially if you’re newly retired and your income has taken a hit (and thus your state income tax write-off has fallen). And if you were 65 or older at the end of last year, your standard deduction will be higher. The basic 2012 standard deduction of $11,900 on a joint return rises by $1,150 for each spouse who’s 65 or older. On single returns, the basic $5,950 becomes a $7,400 standard deduction for taxpayers 65 and older.

If you do itemize, you can choose between deducting state and local sales tax or state and local income tax. In its New Year’s Day tax package, Congress retroactively restored the sales tax option, which had expired at the end of 2011—a real benefit for taxpayers who live in states without an income tax.

Taxpayers who deduct state income tax must remember to look at all state income tax withheld from paychecks or shelled out in quarterly estimated payments, says Bob Scharin, senior tax analyst for Thomson Reuters, a publisher of business information. And he offers this reminder: If you paid extra state tax when you filed your 2011 state return last spring, remember to include that in your 2012 federal deduction.

**Supercharge your savings.** You have until April 15 to max out on your 2012 contributions to your IRA. You can sock away up to $5,000, plus a $1,000 catch-up contribution if you were 50 or older by the end of last year. If your spouse has little or no earnings and

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K —— SUSAN B. GARLAND
you file a joint return, you can contribute to a spousal IRA for your husband or wife as long as your salary can cover the deposits. If you’re self-employed, you have until you file your return—as late as October 15 if you file for an extension—to set up and contribute to a SEP IRA. The maximum contribution is $50,000.

Moderate-income workers may be eligible for the retirement saver’s credit, which could offset up to $1,000 ($2,000 for joint filers) of contributions to an IRA or workplace retirement plan. The credit phases out above AGI of $28,750 for individuals and above $57,500 for joint filers. If you retired in 2012, perhaps your AGI has fallen enough to open the door to this credit. Check out IRS Form 8880.

■ Watch for new cost basis reporting. Take a close look at Form 1099-B from your mutual fund company or brokerage firm. New rules in effect in 2012 require that when you sell shares of mutual funds and exchange-traded funds, the company must report to you—and the IRS—exactly what you paid for them (the cost basis) and whether any gain or loss is long- or short-term. For mutual funds, the rule is limited to shares bought in 2012 or later; it applies to stocks purchased starting in 2011. (Cost basis reporting will extend to bonds, options and other investments purchased beginning in 2014.)

Anyone who dealt with the reporting rules for stocks last year knows how confusing they can be. Most investors will have shares covered by the new rules (such as stocks bought and sold since the beginning of 2011) and uncovered shares, for stocks and funds bought before the new rules took effect. You will need to fill out separate Form 8949s for the sale of covered and uncovered shares and carry the results to your Schedule D for reporting gains and losses.

You’ll have to search your records to find the basis of uncovered shares. But take a close look at the basis reported by your broker on covered shares. Unless you specifically identified the shares you wanted to sell, the broker will likely report the basis of the first shares you bought. If you bought in multiple transactions and sold only part of your shares, the oldest shares could have the lowest basis and the biggest taxable gain.

■ Check on IRA-to-charity rollover. On January 1, Congress made retroactive the tax break that allows people 70½ and older to make tax-free transfers of up to $100,000 from their IRAs to charity. The transfer counts toward your required minimum distribution.

Unfortunately, action came too late for most seniors, who were required to take distributions by December 31. But people who transferred money directly from their IRAs to charity in 2012 hoping that the law would be passed retroactively are in luck.

Edmund Reif, 79, was one of them. Taking advice from Kiplinger’s Retirement Report, the retired engineer from Painted Post, N.Y., says he asked his IRA custodian to transfer funds directly to the United Way, American Red Cross and three other charities. The transfer satisfied his RMD. Because the transferred funds are excluded from his adjusted gross income, Reif says, “I’m able to decrease the taxable portion of my Social Security benefits.”

Lawmakers passed some special rules for taking advantage of the break for 2012. People who took their RMDs in December 2012 had until January 31 to give that cash to a charity and have it count as a tax-free transfer for 2012.

■ Deduct disaster losses. People who suffered property damage from Hurricane Sandy or other severe weather may qualify for a deduction to offset losses for property such as a principal residence. “You can’t take a deduction for any losses reimbursed by insurance, but only for out-of-pocket costs,” says Bob Meighan, vice-president of consumer advocacy for Intuit’s TurboTax.

Before reporting a personal loss, you must reduce the amount of the loss by $100. Then, deduct only the balance that exceeds 10% of your adjusted gross income. For example, if you have $20,000 in unreimbursed casualty losses from Hurricane Sandy and your AGI is $100,000, you would first subtract $100. From the $19,900 balance, you would then subtract $10,000. The remaining $9,900 is the amount you can deduct on Schedule A of your tax return. Use IRS Form 4684 to report casualty losses, and then carry the amount to Schedule A. Consult IRS Publication 547, Casualties, Disasters, and Thefts. —Susan B. Garland
Calculate IRA and 401(k) Distributions Separately
I turned 70½ in 2012. I have a 401(k) from a former employer and one from my current employer. I also have two IRAs. I plan to take my first required minimum distributions by April 1. Do I need to take an RMD from each account?
You need to take an RMD from your former employer’s 401(k), but you don’t have to take a distribution from your current employer’s account as long as you work there and don’t own more than 5% of the company. You have to figure out the RMD for the 401(k) separately from the IRA distributions. With the two IRAs, you can base the RMD on the total account balances on December 31, 2011, and tap either or both of the accounts to fund the payout. Keep in mind that since you are taking your first RMDs in 2013, instead of in 2012, you will have to double up and also take your second RMDs by December 31, 2013.

State Taxes Not Withheld From Benefits
Can I have state tax withheld from my Social Security benefits?
The Social Security Administration does not have the authority to withhold state or local taxes from benefits. You can apply to have federal tax withheld by filing IRS Form W-4V.

A Strategy to Boost Household Benefits
I am 68, and my wife is 62. When I turn 70, I am eligible for a Social Security benefit of about $3,000. My wife is 62 and would be due a benefit of about $600 when she turns 66. Do you have any suggestions for boosting our benefits?
Engaging in a “file and suspend” strategy could pay off handsomely. This involves filing for your own benefit now and immediately suspending your claim. Filing for your benefit makes your wife eligible to claim a spousal benefit, which, even starting at age 62, would be significantly more than her own benefit at 66. By suspending your claim, you would continue to earn the delayed retirement credits that would boost your benefit until age 70. At that age, you can reapply and start receiving that supercharged benefit. Kiplinger has partnered with Social Security Solutions to help retirees maximize their benefits. For more information, visit kiplinger.socialsecuritysolutions.com.

Spousal Benefit Doesn’t Include Credits for Delaying
I read your January cover story, “Strategies to Boost Your Social Security.” My wife is 62, and I’m 66. She plans to take her own benefit now, and I plan to delay claiming mine until age 70. When I file, will my wife get a spousal benefit that is 50% of my benefit at the time I file?
No, her benefit will be based on your “primary insurance amount,” which is the amount you are entitled to if you filed at your full retirement age. You will get an extra 8% in delayed retirement credits for each year you delay until 70, but delayed credits don’t boost the spousal benefit. However, if you die first, your wife’s survivor benefit will be based on 100% of your benefit when you die (assuming she waits until her full retirement age to collect a survivor benefit).
If your wife claims her own benefit at age 62, she will get just 75% of her own primary insurance amount. When she claims her spousal benefit later, her total benefit will be somewhat less than 50% of yours because she is claiming her own benefit early. If her primary insurance amount is less than half of yours, you may want to try the file-and-suspend strategy previously explained.

Retroactive Medicare Benefits Could Affect HSA
I am 69 and have Social Security and Medicare. My wife, who is 66, had declined to take Medicare Part A at 65 because she was still working and contributing to a health savings account. Now she intends to apply for a Social Security spousal benefit. We were told that she would get six months in retroactive Part A benefits. What does that mean for her HSA contributions?
When your wife applies for Social Security benefits, she will automatically get Medicare Part A. And once that happens, she can no longer contribute to her HSA. Also, Part A will be retroactive for up to six months because she was eligible for Medicare during those six months, according to the advocacy group Medicare Rights Center. She will need to withdraw the HSA contributions made during those months, and assuming she has already deducted those payments, she will pay income tax on that money.
ECONOMY

Low rates. Short-term interest rates won’t change much in 2013. Look for the prime lending rate to remain at 3.25%, the three-month Treasury bill rate at around 0.1%, and the most generous one-year certificates of deposit at about 1%. We expect a slight rise in long-term rates. The ten-year Treasury note could reach 2.25%, from 1.9%, and the 30-year fixed rate mortgage will likely push to 3.7%, from 3.4%.

Gas prices. The slowly healing U.S. economy and rising demand for oil abroad will push crude oil prices up a bit in 2013, to as much as $95 a barrel by early spring. The national average price of regular unleaded gas will rise, to about $3.50 a gallon by March. Prices will continue to rise, averaging about $3.70 in 2013.

INVESTING

Muni bonds. The Securities and Exchange Commission has issued an investor bulletin on municipal bonds at Investor.gov. The bulletin looks at the factors an investor should consider when assessing the credit risk of a muni bond.

Whistleblowers. The SEC received more than 3,000 whistleblower tips from 50 states and 49 countries in 2012, according to its Dodd-Frank Whistleblower Program. Under the program, the SEC pays individuals who provide information that leads to a successful enforcement action. Visit www.sec.gov/whistleblower.

TAXES

Cost basis help. Figuring out cost basis at tax time can be tricky if a company has undergone splits, mergers and spinoffs since you bought stock. NetBasis Services can search for a stock or fund for $19.50, with discounts for multiple searches. Go to www.netbasis.com, or call 888-802-2747.

Home breaks extended. The new tax law extends through 2013 a break that allows up to $2 million in canceled or forgiven mortgage debt to be excluded from income. The law also extends a provision that allows taxpayers with adjusted gross income of $110,000 or less to deduct all or part of the cost of mortgage insurance on a qualified personal residence.

Higher limits. Health savings account owners with family medical coverage can make tax-deductible contributions of up to $6,450 in 2013, and owners with single coverage can stash up to $3,250. Owners 55 and older can put in $1,000 more. Limits on out-of-pocket expenses rise to $12,500 for families and $6,250 for singles. Policy deductible minimums rise to $2,500 for families and $1,250 for singles.

SOCIAL SECURITY

Shorter hours. Most local Social Security offices are closing to the public at noon on Wednesdays and half an hour early on other days. The earlier closing allows employees time to process claims without incurring overtime. Many services can be done at www.socialsecurity.gov or by calling 800-772-1213.

Online services. The government is offering new services for those who sign up for a My Social Security account at www.socialsecurity.gov/myaccount. You can instantly receive a benefit verification letter, which you can use as proof of income or health coverage. You can also check your benefit and payment information and your earnings record.

E-benefits. If you are receiving Social Security, veterans or other federal benefits by check, you must switch to electronic payment by March 1. You can choose to directly deposit the benefits to your bank account or receive them on a Direct Express prepaid debit card. Visit GoDirect.org, or call 800-333-1795.

TAX TIP

A Permanent Patch for AMT

After years of making taxpayers suffer through last-minute inflation “patches” to the alternative minimum tax, Congress finally created a permanent patch, saving many middle class taxpayers from the snares of the AMT. For 2012, the new law increases the exemption amount to $50,600 for individual filers, from the $33,750 it would have been without the patch. The exemption rises to $78,750 for those married filing jointly, from $45,000. Tax credits, such as those for tuition and dependent care, can offset the AMT.

The law provides future relief because the exemption amount is now indexed to inflation. For example, in 2013, the single filers’ exemption increases to $51,900 and the joint filers’ exemption rises to $80,800.
CONSUMER INFORMATION

■ **Free advice.** Kiplinger’s and the National Association of Personal Financial Advisors are teaming up for Jump-Start Your Retirement Plan Days. On Thursday, February 7, and Tuesday, February 12, financial planners will answer your questions from 9 a.m. to 5 p.m. eastern time at live.kiplinger.com. You can submit a question in advance and read a transcript after each chat.

■ **Avoid fraud.** The Better Business Bureau and the Financial Industry Regulatory Authority’s Investor Education Foundation have launched *BBB Smart Investing* to help investors avoid fraud, risky investments and unlicensed brokers. Go to www.bbb.org/smart-investing for tip sheets and tools.

■ **Gift cards.** If you have unused gift cards or received gift cards you are unlikely to use, try exchanging the cards online for cash at Web sites such as GiftCard Granny.com, Cardpool.com and PlasticJungle.com. You’ll receive a percentage of the card’s full value.

■ **Friend a job.** In collaboration with the U.S. Labor Department and several employment associations, Facebook has launched a job search tool at www.facebook.com/socialjobs. The search engine will pull up job listings from several participating job-search sites.

RETIREMENT PLANNING

■ **Confidence.** Nearly 90% of Americans who have investable assets of $250,000 or more say they feel confident they will have saved enough for the life they want in retirement, compared with 57% of those with less money, according to a survey by Wells Fargo. About 55% say they calculated the percentage of current income they need for retirement.

■ **Alzheimer’s resource.** Kiplinger.com has launched *Financial Planning for Alzheimer’s*. The special report offers videos, a quiz, checklists and more on what you need to do if a loved one has been diagnosed. Go to kiplinger.com/links/alzheimers.

RETIREMENT PLANS

■ **Rollover.** Sixty-seven percent of households with rollovers in their traditional IRAs cited preserving the favored tax treatment as the major reason to do a rollover, says the Investment Company Institute. Wanting to move assets from a former employer was second, and wanting more investment options came in third.

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Rates and Yields

**Certificates of Deposit**

<table>
<thead>
<tr>
<th>SIX MONTHS</th>
<th>YIELD</th>
<th>PHONE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doral Bank (Fla.)</td>
<td>0.90%</td>
<td>855-513-6725</td>
</tr>
<tr>
<td>GiantBank.com (Fla.)</td>
<td>0.80%</td>
<td>877-446-4200</td>
</tr>
<tr>
<td>National Average</td>
<td>0.18%</td>
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</table>

<table>
<thead>
<tr>
<th>ONE YEAR</th>
<th>YIELD</th>
<th>PHONE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colorado Fed Savings Bank (Colo.)</td>
<td>1.11%</td>
<td>877-484-2372</td>
</tr>
<tr>
<td>AbleBanking (Mass.)</td>
<td>1.05%</td>
<td>877-412-9590</td>
</tr>
<tr>
<td>National Average</td>
<td>0.28%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FIVE YEARS</th>
<th>YIELD</th>
<th>PHONE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIT Bank (N.Y.)</td>
<td>1.80%</td>
<td>866-532-4095</td>
</tr>
<tr>
<td>Nationwide Bank (Ohio)</td>
<td>1.80%</td>
<td>866-353-4291</td>
</tr>
<tr>
<td>National Average</td>
<td>1.14%</td>
<td></td>
</tr>
</tbody>
</table>

Yields include compounding and are as of January 1, 2013. For information on deposit insurance, go to the Web site of the Federal Deposit Insurance Corp. (www.fdic.gov). SOURCE: Bankrate.com

**Top Yielding Money-Market Funds**

<table>
<thead>
<tr>
<th>TAXABLE</th>
<th>YIELD</th>
<th>PHONE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calvert Money Market Portfolio*</td>
<td>0.21%</td>
<td>800-368-2748</td>
</tr>
<tr>
<td>Direxion U.S. Govt MMF A*</td>
<td>0.11%</td>
<td>800-851-0511</td>
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<tr>
<td>Category Average</td>
<td>0.02%</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>TAX-FREE</th>
<th>YIELD</th>
<th>PHONE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invesco Tax-Exempt Cash/Inv*</td>
<td>0.09%</td>
<td>800-659-1005</td>
</tr>
<tr>
<td>Alpine Municipal Money Fund/Inv*</td>
<td>0.05%</td>
<td>888-785-5578</td>
</tr>
<tr>
<td>Category Average</td>
<td>0.01%</td>
<td></td>
</tr>
</tbody>
</table>

*Fund is waiving all or a portion of its expenses. The 30-day simple yields are to January 1, 2013. SOURCE: Money Fund Report

**High-Dividend Stocks**

We used Kiplinger.com’s stock-finder tool to screen stocks for at least five years of consecutive dividend increases.

<table>
<thead>
<tr>
<th>DIVIDEND STOCKS</th>
<th>YIELD</th>
<th>SHARE PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT&amp;T (T)</td>
<td>5.2%</td>
<td>$34</td>
</tr>
<tr>
<td>Lockheed Martin (LMT)</td>
<td>4.9%</td>
<td>94</td>
</tr>
<tr>
<td>Verizon Communications (VZ)</td>
<td>4.7%</td>
<td>44</td>
</tr>
</tbody>
</table>

**Benchmarks**

<table>
<thead>
<tr>
<th>THIS MONTH</th>
<th>3 MONTHS AGO</th>
<th>YEAR AGO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation rate*</td>
<td>1.80%</td>
<td>1.70%</td>
</tr>
<tr>
<td>Six-month Treasury</td>
<td>0.10%</td>
<td>0.15%</td>
</tr>
<tr>
<td>One-year Treasury (CMT)**</td>
<td>0.14%</td>
<td>0.18%</td>
</tr>
<tr>
<td>Ten-year Treasury</td>
<td>1.91%</td>
<td>1.72%</td>
</tr>
</tbody>
</table>

*Year-to-year change in CPI as of Nov. 2012, Aug. 2012 and Nov. 2011. **Constant Maturity Treasury yield

**Fixed Annuities**

<table>
<thead>
<tr>
<th>SINGLE-PREMIUM IMMEDIATE-ANNUITY MONTHLY PAYOUT FACTOR</th>
<th>HIGHEST</th>
<th>AVERAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male age 65</td>
<td>$5.78</td>
<td>$5.29</td>
</tr>
<tr>
<td>Female age 65</td>
<td>5.25</td>
<td>4.92</td>
</tr>
<tr>
<td>Male age 70</td>
<td>6.60</td>
<td>6.13</td>
</tr>
<tr>
<td>Female age 70</td>
<td>5.91</td>
<td>5.63</td>
</tr>
</tbody>
</table>

Payouts are guaranteed to the annuitant for life, with a minimum payout period of ten years. Payout factors are per each $1,000. SOURCE: Comparative Annuity Reports (www.comparativeannuityreports.com). Data are to January 1, 2013.
YOU’VE PROBABLY shopped online and checked the Web when buying everything from cars to even water filters. How about going to the Internet to find the best deals on medical care?

It’s something Chad Glaser of East Amherst, N.Y., does often when he needs to find care for his 11-year-old son, a liver-transplant recipient, outside his health plan’s network. Glaser’s first online stop: the FAIR Health Consumer Cost Lookup (www.fairhealthconsumer.org), which finds the estimated provider charges for hundreds of medical and dental procedures. The site also shows what you can expect to pay after insurance reimburses the provider for a service. The site gathers data from 15 billion medical claims from 70 private health and dental insurers.

Glaser recently priced the cost of his son’s twice-yearly exam. FAIR Health showed an estimated $370 cost, while his son’s doctor billed him for $375. The site also told him that he would pay $209 if the doctor were in network. Armed with the data, Glaser asked the provider if $209 was acceptable, and the doctor agreed. “It is one of the most useful tools,” says Glaser, a manager for a wholesale seafood distributor.

Americans always like to snag a bargain, and now new user-friendly technologies—as well as a wealth of new medical-payment data—are enabling health care consumers to find the best deals for doctor visits, health screenings, MRIs, drugs and even hospital care. And, like Glaser, some are using the information to demand lower prices from their providers.

A big eye-opener for cost-conscious consumers: The new data show that prices for the same service vary widely. For example, Maine’s public database of pricing information from 30 hospitals in the state shows that hospital charges for uninsured patients for outpatient arthroscopic knee surgery in 2010 ranged from $5,676 to $14,967. As people realize the variation in pricing, there is an opportunity to realize “hundreds of millions of dollars in savings,” says Karynlee Harrington, acting executive director of the Maine Health Data Organization, which operates the database, Maine HealthCost (http://gateway.maine.gov/ MHDO/healthcost).

The new information comes at a time when consumers are paying bigger tabs for health care out of pocket before their health insurance kicks in. Nearly 31 million Americans in 2012 were enrolled in a health plan with at least a $1,000 deductible for individuals and $2,000 for families—nearly twice as many as in 2007, according to the Employee Benefit Research Institute.

FAIR Health and Maine’s database are among a growing number of Web sites offering local pricing information. Several insurers, including Aetna, Cigna and UnitedHealthcare, offer pricing tools for scads of health services, based on the type of benefit plan a member has chosen. Aetna, for example, offers a tool to price the ten most common medical procedures by zip code for in-network and out-of-network care.

Finding a Fair Price

Another free site for consumers and the uninsured is Healthcare Blue Book (www.healthcarebluebook.com), which provides the “fair” price for numerous services in your area. This price is the amount that many providers accept from insurance companies, and it is usually much less than the stated charges billed to consumers. If you are uninsured or have a high deductible, you can use data from this site to bargain a price that is closer to the insurer’s negotiated price.

FAIR Health president Robin Gelburd says those with high-deductible health plans often visit her site to compare the costs of in-network and out-of-network care for specific procedures. They’re also using the data to review physician charges—which Gelbud says can lead to discussions with a doctor about less costly alternative treatments and drugs.

Maine is in the forefront of 18 states that offer or
plan to offer public pricing databases containing medical, pharmacy and sometimes dental information from commercial health plans, Medicare and Medicaid. The Maine HealthCost database lets residents find average prices charged by providers statewide for 30 common procedures, such as mammograms, hernia repairs and hip replacements. The site also shows the average payments made by health plans for the procedures. Maine plans to expand the number of procedures to 300 and offer data on medical quality as well. “As people are responsible for more out-of-pocket costs, they are looking for resources to help them,” Harrington says.

After a bad colonoscopy experience, Poppy Arford, 58, of Brunswick went to Maine HealthCost and discovered her provider charged nearly double the amount the lowest-priced facility near her charged. “I felt like a fool,” she says, after seeing that her procedure was “significantly more expensive and the quality of care wasn’t significantly higher.” She pledges to check the site before getting care in the future.

Although demand for health care price data appears to be gaining steam, most consumers are not as comfortable as Glaser is in talking to their doctors about prices or challenging providers on cost. They’re more likely to use the data to compare prices on screenings and imaging procedures, pharmacies and insurance coverage, and to ask about generic drugs, says Douglas Ghertner, president of Change Healthcare, a Brentwood, Tenn., company that helps employers and health plans provide price information to consumers.

Ghertner says it’s difficult for many patients to compare shop for surgeries because “cost is not the only issue.” To find the best physician or hospital at the best price, you need to be able to pair price with quality data at other sites.

You may try to use hospital pricing data along with available data on hospital quality. Hospital Compare (www.hospitalcompare.hhs.gov) is a free federal tool that compares hospitals by such quality measures as death rates for certain medical conditions, readmissions and the overuse of imaging. Another site with hospital data is WhyNotTheBest.org, which was created by the Commonwealth Fund, a health care foundation.

Other price-related health care sites include ConsumerHealthRatings.com, which offers links to groups and studies that provide price comparisons and quality ratings, and GoodRX.com, a free tool that allows consumers to find prices and discounts for thousands of prescription drugs at more than 70,000 local and mail-order pharmacies.

**MANAGING YOUR FINANCES**

**Web Retirement Tools For 401(k)s Fall Short**

If you participate in a 401(k), you’ve probably been urged to use retirement-planning tools on your plan’s Web site. These souped-up calculators tend to spit out colorful bar charts illustrating your savings adequacy—or inadequacy. But if you’re relying on them to keep your retirement plan on track, you may be disappointed.

In a recent study of Web tools offered to participants by major 401(k) providers, financial-services research firm Corporate Insight found some big gaps in their calculations. Less than one-third of the tools, for example, asked participants about their projected expenses in retirement. Ideally, the tools would prompt participants to think about expenses for housing, food and health care, says Drew Maresca, head of retirement research at Corporate Insight.

The tools generally did not account for how a person’s asset allocation might change over time, Corporate Insight found. Only 15% of the tools prompted participants to develop a preretirement budget. Less than half of the tools suggested a course of action, and almost all that did said “very, very general things like, ‘you should increase your contributions,’” Maresca says. “In an ideal world, some personalized suggestions would be really nice.”

Fortunately, 401(k) participants can find a host of free online tools offering more tailored advice. For those looking to map out retirement spending, ESPlanner helps users calibrate their saving and spending levels to maintain their standard of living during retirement. The tool, which incorporates information about housing costs and other expenses, is available at http://basic.esplanner.com.

For budgeting help, Mint.com helps calculate spending in various categories and illustrates the impact of spending decisions on future balances. It also allows users to track progress toward savings goals.

Investors wondering how future asset-allocation changes might impact their financial health can get a quick assessment from the T. Rowe Price retirement-income calculator at www.troweprice.com/ric. The tool also offers worksheets for tallying specific retirement expenses and retirement income from pensions, rental income and other sources.
MANAGING YOUR FINANCES

Inheriting an IRA Poses Hazards for Heirs

It’s easy to be distracted when a loved one dies, but you need to keep your wits about you if you’re inheriting an IRA. Surviving spouses have some leeway, but nonspouse heirs must tread carefully. Make a mistake, and you could trigger a huge tax bill and lose your opportunity for a lifetime of tax-deferred growth. “There are a lot of little traps,” says Jeffrey Levine, IRA technical consultant for Ed Slott and Co., which provides IRA advice. Here are some common pitfalls for nonspouse beneficiaries.

■ Failing to take required distributions. Owners of traditional IRAs must start taking required minimum distributions when they turn 70½. Nonspouse beneficiaries of any age who want to “stretch” the IRA over their own life expectancies must start RMDs the year following the year the owner died. Heirs will have to pay tax on distributions of deductible contributions and earnings from a traditional IRA.

Also, while Roth IRA owners never have to take RMDs, nonspouse beneficiaries must. However, withdrawals from an inherited Roth IRA are still tax free.

Not taking an RMD results in a 50% penalty on the amount that should have been withdrawn for the year. If you miss an RMD, you may avoid the penalty by emptying the account within five years of the owner’s death. “However, depending on the size of the IRA and the age of the beneficiary, it might be smarter to pay the penalty than to liquidate the account simply to avoid the penalty,” says Twila Slesnick, author of IRAs, 401(k)s & Other Retirement Plans (Nolo, $35).

Note, if the owner died after starting RMDs but had not yet taken the RMD for the year in which he or she died, the nonspouse beneficiary must take that RMD.

■ Titling the account improperly. Nonspouse beneficiaries cannot roll an inherited IRA into their own IRA. Instead, a separate account must be set up with a title that includes the decedent’s name and the fact that the account is for a beneficiary, says Levine. For example, the account could be retitled to “John Doe (deceased December 12, 2012) IRA for the benefit of Jane Doe.” If the account is split among beneficiaries, each new IRA must be properly retitled. And once the IRA is retitled, don’t forget to name successor beneficiaries.

■ Not dividing the IRA among heirs. Be sure to advise your beneficiaries to split the IRA, especially if they have a wide age difference. If the account is not split, the age of the oldest beneficiary will be used to calculate RMDs, which will shorten the number of years the money can grow tax deferred.

Say the beneficiaries are a 75-year-old sister, a 50-year-old son and a 20-year-old grandchild. If the account remains whole, all the heirs will have to calculate their RMDs based on the 75-year-old’s life expectancy. Instead, if the account is split by December 31 of the year following the year the owner dies, each beneficiary can use his or her own life expectancy to take RMDs—and can choose how to invest the money. “The distribution depends on age—the younger the beneficiaries are, the less they have to take out,” says Mike Piershale, president of Piershale Financial Group, in Crystal Lake, Ill.

■ Ignoring non-person beneficiaries. IRAs with multiple beneficiaries that include a charity or other non-person entity must pay out that entity’s share by September 30 of the year following the owner’s death. If that share isn’t paid out and the account hasn’t been split, the rest of the beneficiaries can’t take withdrawals over their life expectancies. They will have to empty the account within five years if the owner died before his required beginning date for taking distributions. If the owner died after that date, the beneficiaries must take annual RMDs based on the deceased’s life expectancy, as noted in IRS tables.

If a trust is a beneficiary, send a copy of the trust to the IRA custodian by October 31 of the year following the year the owner died. Otherwise, the trust is considered a non-designated beneficiary and the same payout rules that applied in the previous scenario with the charity will kick in. K —RACHEL L. SHEEDY
TECHNOLOGY

Say Hello to Hulu and Cut Your Cable Costs

It may be time to cut the cord—the cable cord, that is. You don’t have to be tech savvy to get rid of your pay TV and switch to low-cost Internet-based streaming video. Even if you don’t dump cable entirely, you can cut your bills on expensive multi-channel packages. Last year, my wife and I halved our monthly cable bill by switching to streaming video.

With streaming video, you watch movies and popular TV shows over the Internet whenever you want. You’ll still need a high-speed connection through your cable or phone company. With the right types of connections, you can stream video on your TV, as well as on your computer, tablet and smart phone. And it’s relatively easy to set up—even for a technophobe well into his sixties as I am.

There are dozens of Internet streaming services, but for the largest selections of movies and TV programs, choose Amazon Prime, Hulu Plus or Netflix. “They are definitely the big three,” says Perkin di Grazia, Internet media analyst at SNL Kagan, a provider of media industry data and analysis.

Netflix is the biggest service with more than 30 million customers worldwide. SNL Kagan estimates Netflix has 10,000 movies and 50,000 TV episodes. Unlimited commercial-free streaming costs $7.99 a month, with a free 30-day trial.

Amazon Prime offers more than 30,000 commercial-free movies and TV episodes for $79 a year. You can get a one-month free trial.

Hulu Plus ($7.99 a month, one-week free trial) offers 3,600 movies as well as 60,000 episodes from 2,300 TV series. You can stream TV episodes the day after they are broadcast on networks including ABC, Comedy Central, Fox, NBC and PBS. The service includes older CBS programs, but not current ones. Programs and movies contain commercials; network news programs aren’t available.

Before signing up, you can search the Amazon and Hulu Web sites to see what content they offer. Netflix doesn’t currently offer such a feature, but you can find Netflix content on Instant Watch Database (www.instantwatchdb.com), an unofficial Netflix search engine.

Netflix is betting on original content, including new episodes of the cult hit Arrested Development and, starting in February, a political drama series called House of Cards, starring Kevin Spacey.

For streaming to your TV, you’ll need an Internet-ready TV or a digital media device. Many Blu-ray disc players stream Internet video, as do game players including PlayStation 3, Xbox 360 and Wii U. Check your device to make sure its software is compatible with the streaming service you want. Or you can buy a standalone box that streams from most services; Roku (full HD models start at $60) is a popular device. We used a Blu-ray player that was preloaded for several streaming services (we chose Netflix).

Watch Video on Your TV, Computer and Phone

All the media devices, except Blu-ray players, will work with most TVs. You connect the media device to your TV using the recommended cables.

You also need to link the device to your router, either with an Ethernet cable or wireless connection. With wireless, you can hook up multiple gadgets to the Internet, so you can stream video to a TV anywhere in the house plus your computer, tablet or smart phone.

You won’t be able to get all programs on streaming services. Sports fans, take note: You can get professional baseball and soccer games streamed, but local team blackout rules apply and you’ll have to pay a monthly fee. Live professional basketball and regular-season football games are not streamed.

The biggest sports events, including the Super Bowl and the World Series, are still on broadcast TV. To see them, subscribe to your cable company’s basic package or use a digital antenna. I kept my basic cable service. But with video streaming, my wife and I could watch all of the past seasons of AMC’s drama series Breaking Bad without having to pay extra for cable channels. K

—JOSEPH LISANTI
WHEN RETIRED entrepreneur B.J. Ridings, 64, found herself single later in life, she tried conventional methods to get back into the dating world—without much luck. “I’d been to those singles meetings years ago, and they were awkward and uncomfortable. Especially in my age group, you end up with 30 women and three really creepy men,” Ridings says.

With some nudging from her family and friends, Ridings decided to try online dating a couple of years ago. Her daughter helped her create a profile on OurTime.com (www.ourtime.com), a dating site for people over 50. Ridings dated casually and says she had fun meeting new people.

If you are single and don’t want to spend another Valentine’s Day alone, maybe you can find love online. Damona Hoffman, who runs the dating Web site DearMrsD.com, says online dating is a good way for older people to find companionship. “For senior daters, your life is already established,” she says. “Online dating is an opportunity to expand your social circle.”

Terri Orbuch, a relationship expert for OurTime.com, says the site has about one million members. “One in five new relationships start online, and one in six new marriages are between people who met on an online dating site,” says Orbuch, the author of Finding Love Again (Sourcebooks Casablanca, $15).

Ridings eventually found her match online. Last April, she received an e-mail from Dennis Guariglia, 65, a retired policeman. Guariglia, a widower, says he had not been on a date since 1972. He joined OurTime.com after a TV commercial sparked his interest.

Ridings and Guariglia corresponded via e-mail, text and telephone for two weeks. By the time they met for their first date, Ridings says they felt like they already knew each other. They now live together in Port St. Lucie, Fla. They both enjoy sports and politics, and they go dancing every Saturday night. “We’re a fabulous match. I’m the happiest woman alive,” Ridings says.

Seek Online—and Ye May Find
There are many online dating sites. OurTime.com is part of Match.com, which you can join separately. EHarmony.com connects individuals of all ages and offers advice for older daters.

Match.com is free to join, and you can buy a subscription to communicate with other members. You review profiles and choose the people you want to contact. With eHarmony.com, you create a profile and the site matches you with people based on your criteria.

There are also niche sites, such as JDate.com for Jewish singles and BlackPeopleMeet.com for African-American singles. “I always recommend people go on multiple sites,” Hoffman says.

Once you find sites you like, you need to create your profile. Laurie Davis, who runs the dating site eFlirtExpert.com, advises people to use profiles not just to share information but also to start conversations. For instance, she says, rather than just noting that you like to travel, “elaborate on the places you’ve been. Your match will not only get a sense of your lifestyle but can easily chat you up about an experience or destination.”

Photos should be current and look like you. That means no pictures from ten years or ten pounds ago. Don’t post only snapshots of yourself with grandchildren. “Children and family are great things to note in your profile, but focus on yourself in photos,” says Davis, author of Love @ First Click (Atria, $15).

Cast a wide net in your search. You have nothing to lose by messaging anyone you find attractive. But Davis says making that first move can be intimidating, particularly for older women. She advises not to “just sit back and wait for e-mails to roll in.”

Orbuch says using well-established dating sites is a “successful and safe way to meet a partner.” But daters should take precautions. She advises people not to disclose too much personal information, such as your last name or home address, in early e-mails. For your first meeting, plan a lunch or coffee date in a public place. Drive yourself to the first few meetings, and tell a friend where you are going. K —MEGHAN STREIT
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