



Why a Rollover IRA may make sense

by Brian M. Clouden

When you leave an employer to start a new job or to retire, you have to deal with change and the stress that goes along with it. With everything you have to think about, deciding what to do with your accumulated retirement savings is probably the last thing on your mind. But it's one decision you can't afford to put off.

You have several options to choose from and it's important that you know the facts before you make a decision. Here are four retirement account options:

Option #1 is to take the cash. The advantage to this option is you get your money right away. The disadvantages are that you have to pay taxes (federal and state) in the year you cashed it in and pay a 10% early withdrawal penalty (if you are under age 59 ½). This could net you only 50 to 60% of your money, depending on your tax bracket. Deciding to take the cash could have devastating long term effects on your financial plan.

Option #2 is to transfer the money to your new employers plan. The advantage here is that you don't pay penalties or taxes. The disadvantages of this action are that your new employer may not accept money from another plan, or you may not be eligible to participate in your new employers plan until you have completed a year of service. Additionally, your new employers plan may have limited investment options.

Option #3 is to leave your money in your old employers plan. This is a very common action. Many times when a person does not have all the data they need to make a decision, they decide to do nothing. The advantage here is that it requires no action, and you don't pay penalties or taxes. The disadvantages are that there may be limited investment options and the comfort level you may or may not have keeping ties to a former employer.

Option #4 is to roll the money into a Rollover IRA. There are many advantages to an IRA rollover. Investment selection is number one. There are 7,000 to 8,000 mutual funds on the planet, giving you many more options than the ones in your company plan. IRA's also allow you to put money in individual stocks and bonds, REIT's, CD's, insurance company annuities (variable and fixed), money market accounts and many other options. It is also a way of making your life easier by consolidating assets in one retirement account. Additionally, you have the ability to have contingent beneficiaries on IRA accounts which may not be available in a company plan and beneficiaries have the option to use a Stretch IRA.

Our goal is not only to have our clients in the best and most suitable investments, it is to make life easier by having a financial plan as organized as possible. If you or someone you know needs more information on a Rollover IRA, please give the office a call. See you at your next appointment.



How to deal with Debt

by Shawn P. McLaughlin

Debt. The word itself strikes fear into most people. Many of us have experienced the almost hopeless feeling of having to pay back loans that we have taken. Most of us have a mortgage, a car loan (or two!), credit cards and various other loans. One of the questions that I am most often asked by my clients is "What is the best way to pay down my debts and be debt free in the least amount of time?" Well, to those of you who have wondered the same thing grab a pencil, a piece of paper and the statements of all your debts.

I am going to share a simple, but very effective formula that will help you pay off your debts as quickly as possible without having to win the lottery! Let us pretend that Mr. Smith has come into my office and is looking for advice dealing with his debts. He tells me that he has a mortgage on which he pays \$1,000 per month. The interest rate on this loan is 5% and the minimum payment is \$950. He has a car loan on which he pays \$300 per month (which is the minimum) and the rate on this loan is 8%. Mr. Smith also has two credit cards; a Visa (pays \$100 per month, minimum is \$50 and the rate is 12%) and a Master Card (pays \$200 per month, minimum is \$100 and the rate is 10%). Notice that I have not mentioned the amount that he owes on the above debt. *What keeps people in debt is the interest rate on the loan, not the amount of money they owe!*

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A personal message from Joe

Dear Valued Client,

As I write this article, the Dow is down 214 points to approximately 11,205. I have already had a few worry calls as we've had a few down days. What's the problem with this picture? You're absolutely correct...it's losing sight of long term investment objectives.

Markets are notorious for bouncing around. Once one gets out of the market, when does one get back in? So now we're caught in the trap of timing the market - going to cash and then, in the future trying to time the market again and buy back in when the market is low. Problem is that I have been in the business going on my 4th decade and I have never seen ANYONE who can do this with any consistency! Markets over time generally go up!! The key is being there when they do!! So you're much better off to stick with your long-term investment objectives and stay the course. We watch various investments and valuation models constantly. The most successful valuation model I've ever studied now shows the market approximately 30% undervalued. Why sell into this low valuation (likely lower prices to real market value) level??



Corporate earnings, over-all, are strong. Interest rates are generally low. Over-all projections are positive. So it simply does not make sense to react to some negative, irresponsible press to take you off of your long-term objectives.

As a follow-up to Brian's great article on why you should roll your employer sponsored plan over to an IRA once retired (especially if you are 59½ or older), I had a case recently where a client's Dad passed away and left his entire 401(k) to his daughter (over ½ million). Dad was a widower with an only child. Because it was not in an IRA account, the daughter had to take the distribution according to the 401(k)'s plan document. She had to take a lump-sum distribution and pay taxes on the entire ½ million all in one tax year!! That's \$200,000 in taxes right down the drain. Had this been rolled into a IRA before the father had passed, the daughter could have

deferred paying taxes on this lump-sum over her lifetime, avoiding the \$200,000 hit. So please be sure to schedule in if you are retired and your pension monies are still with your former employer (pension, profit-sharing plan, 401(k), etc...) to avoid such a potential huge tax consequence.

Also, if you have any debt, pay particular attention to Shawn's terrific article on debt reduction. He hit the nail on the head and that's exactly the quickest way to get debt free.

Again, if you haven't been in for an appointment in the last year or so, please call or email (info@sgroifinancial.com) the firm to schedule in ASAP.

Thanks for all of the wonderful support!! Enjoy the summer and THANK YOU SABRES!!!!

A handwritten signature in black ink, appearing to read "Joe". The signature is written in a cursive, flowing style with a large loop at the end.



Sgroi Financial Employees go to School

By Jennifer L. Jurek CFP®

Last fall, I had the pleasure of teaching a financial planning class to the administrative staff here at Sgroi Financial. The course, "The Registered Paraplanner Professional Education Program," is offered through the College for Financial Planning in Denver, Colorado. The course is designed for sales assistants and frontline personnel in the financial planning industry. It helps participants gain a better understanding of fundamental concepts and terminology used in financial planning.

Basically, a Registered Paraplanner is what a paralegal is to a lawyer. The designation allows the staff to have a better understanding of what the financial planners do for their clients. Although the assistants are not allowed to give advice or make investment recommendations to clients, the knowledge they gain allows them to take on more responsibilities, allowing the planner to focus on meeting with clients.

The course reviews the five basic disciplines of financial planning including, Financial Planning and Insurance, Investments, Tax Planning, Retirement Planning, and Estate Planning. The program consisted of 30 hours of classroom instruction, followed by a very difficult final exam. In order for the student to receive the official Registered Paraplanner designation, the individuals also had to sign a Code of Ethics declaration form which sets the standards of acceptable professional conduct.

Congratulations to the following girls for earning the professional designation as Registered Paraplanners:

Sandy Turchiarelli, Service Manager and Assistant to Joe Sgroi

Leah Dukat, Director of Client Scheduling & Updates and Assistant to Joe Sgroi

Erika Vranjes, Director of Insurance Benefits

Mary Radder, Director of Client Services and Assistant to Patrick Sgroi

Cassie Graves, Assistant to Jeff Hahn

Nina Zagarrigo, Assistant to John Clouden

Kim Cuevas-Park, Scheduling Officer

Special recognition also goes to Erika Vranjes and Cassie Graves for recently passing their NYS Life Insurance exam. Also, we wish Sandy Turchiarelli and Leah Dukat luck as they prepare to take their Series 6, mutual fund license exam.

The firm has spent thousands of dollars on the Paraplanner program and for various state licenses for individuals. This truly shows the commitment Joe has in "investing" in his people and providing the best possible service to our clients!

Fun Facts

("fun" is being used very loosely here)

- Of the \$2.5 trillion spent by our government in fiscal year 2005, 49% of the total was spent on Medicare, Medicaid, and Social Security (source: Treasury Department).
- Inflation was up 3.6% on a trailing one-year basis through the end of February 2006. Medical care was up 4%, while "energy" prices have increased 20.1% over the same period (source: DOL).
- 55% of large US Corporations (defined as those with 1,000 or more workers) have defined benefit (DB) pension plans today. Within 4 years, the percentage of large corporations offering a DB plan is projected to fall 36% (source: Benefitnews.com).
- An individual retiring in 2006 who is eligible for the maximum social security benefit will receive \$2,053 per month or \$24,636 per year (source: Social Security Administration).
- A 40 year old investing \$100 twice a month earning 7% will accumulate \$102,000 in a tax-deferred account by age 60. A 50 year old investing \$200 twice a month earning 7% will accumulate \$69,000 by age 60 (source: BTN Research).
- For the 10 years ending 1/31/06, large caps (as measured by the S&P 500) are up 9% per year, mid-caps (as measured by the S&P MidCap 400) are up 14.9% per year, and small caps (as measured by the Russell 2000) are up 10.2% per year (source: S&P, Russell).
- Through the end of February 2006, the S&P 500 is up 8.9% per year on a total return basis over the trailing 10 years (3/1/96 to 2/28/06) (source: S&P).
- The S&P 500 stock index has averaged 10.4% per year (total return) over the last 50 years (1956-2005). Inflation over the same half century is up 4.1% per year. Thus stocks have produced a real rate of return (above inflation) of 6.3% per year over the last 50 years (source: BTN Research, Department of Labor).
- The average sales price of an existing single family home increased 8.35% over the 12 months ending 1/31/06. The total return of the S&P 500 stock index increased 10.4% over the same 12 months (source: NAR, S&P, DOL).
- The average price of a new home sold in the USA in 2005 was \$292,000, an 84% increase in value over the last 10 years, equal to a 6.3% annual gain over the decade (source: Census Bureau).
- A child born in 2006 can anticipate paying \$86,000 for 4 years of college costs (covering tuition, room and board) at an average public college during the years 2024-2028, assuming just 3% inflation going forward. The projected expenses at an average private college would be \$206,000 (source: College Board, DOL).
- Over the last 25 years, the cost of tuition and fees at an average 4 year private college has increased 7.3% per year, more than double the 3.5% annual increase for inflation over the same time period (source: College Board, DOL).
- Bill Gates, the founder of Microsoft, is the richest person in the world. Gates, as 9% owner of Microsoft, received a quarterly dividend payment in March of \$88 million (source: Forbes).

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Working with the above information we first need to organize the debt by interest rate from highest to lowest as follows (do the same with your own debt):

Rate	Type	Payment	Minimum	Difference
12%	Visa	\$100	\$50	\$50
10%	Master Card	\$200	\$100	\$100
8%	Car	\$300	\$300	\$0
5%	Mortgage	\$1,000	\$950	\$50

From this information we can see that Mr. Smith is paying an extra \$200 per month on his debt. To maximize the impact of this \$200 he should apply it to the highest interest rate which is his Visa. Mr. Smith will pay \$250 (minimum payment + \$200) a month to his Visa and make the minimum payments on this other debt. Once the Visa is paid off then he applies the \$250 to the Master Card and pays \$350 a month until it is paid. He then takes the \$350 and applies to the car where he will pay \$650 a month until it is paid off. Lastly he will take the \$650 and apply it to his mortgage and pay \$1,600 until he owns his home.

Most of us try to pay as much as we can on our debts (more than the minimum payment) in an effort to pay it off more quickly. By using the above strategy and not incurring new debt one can be sure to pay off their debts in the fastest and most efficient manner. Many of us wish that we were born with a silver spoon, but those with great wealth never get to experience one of life's best feelings: making the last payment!

Property & Casualty

We are off to a good start with our affiliation with our Property and Casualty firm. A Property and Casualty firm is an insurance outlet for Auto, Home, Renters, and Business insurance which our office has not had in the past. Like our firm, this Property and Casualty firm is an independent broker working for you, with multiple carriers to best fit each individual's insurance needs. If you would like a free quote please call the office and ask for Devin Clouden, or bring your policies with you on your next appointment with your planner. For those of you that have already had us quote your Auto, Home, Renters or Business Insurance, we thank you and we hope you are happy with your new policy(s).

Great Job - Thanks to Jennifer Jurek, CFP®, our firm now has 7 Registered Paraplanners. I don't know of any financial planning firm in the country as dedicated to staff education and training as ours.
Congratulations to all!! Joe ☺

Programming Reminder

Every Thursday Sgroi Financial is featured as the "Financial Experts" on Channel 7's AM Buffalo with Linda Pellegrino between 10:30 and 11:00 AM

The Cost of Long Term Care Insurance

Age	Annual Premium
50	\$1,284
55	\$1,531
60	\$1,968
65	\$2,587
70	\$3,817
75	\$5,745

**Annual premium is based on 2005 minimum daily benefits of \$180 for nursing home care and \$90 for home care.

Group Benefits

With the ever increasing cost of health insurance, now is the time to let a broker work for you. As an independent broker Sgroi Financial, LLC can help you with this need. We are affiliated with the three major health insurance providers here in Western New York; along with multiple providers for other group benefits such as Dental, Disability (Short and Long term), Vision and Long Term Care. We are also very pleased that we have been able to bring on Joseph K. Thoman, Jr. as a consultant. Mr. Thoman has a wealth of knowledge in business operations and contract negotiations. If you own or work at a business that has 2 or more employees on the payroll and are interested in a consultation, please call the office and ask for Devin Clouden.