

# HAAS

Financial  
Services Inc.

CENTER FOR FINANCIAL GERONTOLOGY

# Money Monitor

JUNE 2009



## Inflation

The U.S. Bureau of Labor Statistics (BLS) defines inflation as the general upward price movement of goods and services in an economy. To the individual consumer on the street, inflation translates into a loss of purchasing power for both

income and assets. The first class stamp that cost three cents in 1955 costs forty-four cents in 2009. If your income and investments do not keep up with and/or exceed inflation rates, your standard of living will suffer.

The Consumer Price Index for All Urban Consumers (CPI-U) is the most common measure for inflation reported by the national media. It reflects changes in the prices paid by urban consumers for a representative basket of goods and services. The CPI-U increased an average of 2.98% per year from 1998 to 2008. Although the CPI-U actually decreased in March and April 2009, the various government stimulus packages seem to have stoked the fires of inflation again as we move into the future.

Inflation rates at 3.00% or under are generally considered manageable by most economists. However, a closer look into the components of the CPI-U reveals some very interesting statistics for individuals approaching or in retirement. **Medical Care, Energy and Food** usually exceed the average CPI-U inflation rate. In particular, for the retiree population, staying healthy, staying warm and eating tend to be a higher priority than other goods and services. Can you imagine being on a fixed income for thirty years in retirement and paying an increasing amount every year for health care, gasoline, heat and groceries without a cost of living increase?

Ultimately, there is little an individual consumer can do to stop inflation. Therefore, the goal of the consumer

should be to earn a rate of return that exceeds inflation. If we look at historical investment returns, stocks have consistently exceeded the rate of inflation over extended periods of time. Last year's painful losses (and possibly losses yet to come this year) would seem to challenge that maxim but, until proven otherwise, a percentage of retiree investments in stocks is still needed to offset increases in inflation. The emphasis on investment choices may change from US to foreign and emerging markets but stocks will likely remain part of an investing strategy.

Other investment categories such as savings accounts and CDs may be part of a short term solution for immediate cash needs but are not the answer in the long run to address the inflation problem. My solution to hedge against inflation and ensure a productive retirement is to include a portfolio of stocks, bonds, commodities, real estate and precious metals in the mix. An additional key component is to keep losses in check by active investment management. This long term investment strategy compliments the comprehensive financial planning approach we use at Haas Financial: risk management, tax planning, retirement planning and estate planning make up other areas we provide guidance in.

To see how inflation has affected our lives in 2009, let's take a nostalgic look back to some comments from 1955:

## JIM'S JOURNAL

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'I'll tell you one thing, if things keep going the way they are, it's going to be impossible to buy a week's groceries for \$20.00.'

'Have you seen the new cars coming out next year? It won't be long before \$2,000 will only buy a used one.'



*An aerial image of Levittown, New York— the first suburb. It was built from 1947 to 1951. Can you believe the “cape cod” model cost \$8,000 then? That's nearly \$72,500 in today's dollars!*

'If cigarettes keep going up in price, I'm going to quit. A quarter a pack is ridiculous.'

'If they raise the minimum wage to \$1.00, nobody will be able to hire outside help anymore at the store.'

'When I first started driving, who would have thought gas would someday cost 29 cents a gallon. Guess we'd be better off leaving the car in the garage.'

'It's too bad things are so tough nowadays. I see where a few married women are having to work to make ends meet.'

'Thank goodness I won't live to see the day when the Government takes half our income in taxes. I sometimes wonder if we are electing the best people to Congress.'

'There is no sense going to Lincoln or Omaha anymore for a weekend, it costs nearly \$15.00 a night to stay in a hotel.'

'No one can afford to get sick anymore, at \$35.00 a day in the hospital it's too rich for my blood.'

If they think I'll pay 50 cents for a haircut, forget it.'

Those were the days my friends...

## Office Birthdays!

The summer is a great time for celebrations; and what better reason to celebrate than a birthday? Haas Financial has plenty of summer birthdays coming up, and two that have already passed. Happy birthday to:

**Don:** May 18

**Mark:** May 31

**Rusty:** June 23

**Greg:** July 18



## GREG'S INSIGHT

### 401(K) Rollovers

Current conditions in the job market force working people to face many uncertainties. Every day more and more companies go under. With the future of the “big 3” still in question, the current job market may give those of us living in Michigan a decidedly bleak outlook. Unfortunately, we all know too many people who have lost their job. I’m sure we all question if we will be the next person to be let go. This is just the start of our worries. The loss of income that results from losing a job, weather it be a few months or a few years, has a major impact on our financial futures. One question that we need to answer is this; what happens to my retirement savings if I lose my job or my company goes bankrupt?

Let me start with the good news, in the event you were to lose your job and/or your company goes into bankruptcy you will not lose your 401(k) savings. The Employee Retirement Income Security Act (ERISA) is federal law that mandates the minimum standards for 401(k) plans, and requires that companies’ assets are kept separate. This means two things; 1.) a company can never use funds that are set aside in the 401(k) plan under any circumstances, and 2.) in the event of a bankruptcy the court cannot touch the funds inside the 401(k) plan to pay creditors. Rest assured that your 401(k) savings will not be terminated along with your employment or your employer.

Knowing that your funds are there is one thing, but now you must decide what to do with the funds. If you are terminated from employment you have four options:

#### **Cashing Out**

Cashing out should be avoided. Because your 401(k) contributions were funded with pre-tax dollars, the savings grows tax deferred. When you take money out of the 401(k), your withdrawal is taxed as ordinary income. If this money is taken out before the age of 59 ½ you will be hit with an additional 10% tax penalty. The only time you should cash out money from your 401(k) is if you absolutely need it. In that case, it may be possible to avoid some of the tax penalty but, only if the money is first transferred to an IRA.

#### **Leave the 401(k) in Place**

This option is not preferred. As an active employee you were bound to that plan and the rules of the plan. If you keep your money in the plan, you lose flexibility as you can only select among the funds that are available in the plan.

If your company files for chapter 7 or will no longer exist, keeping the 401(k) will no longer be an option. Your pension plan will most likely be terminated, forcing you to find somewhere to move the money. It is important to submit the paperwork immediately to avoid lengthy delays in the transfer process.

#### **Transferring the 401(k)**

If you start another job after leaving the old one, you can transfer your 401(k) assets from the old employers plan to the new employers plan, provided the new employer has a 401(k) plan in place. If you transfer your funds, you are bound to the rules and investment options of the new plan. This limits your flexibility and could even be more costly to you. If you are considering a transfer, it is important to research the investment options, fee’s and expenses, and all other rules before you make your final decision. This may not be your best option.

### **Rollover to an IRA**

This option may be the most beneficial to you. An IRA gives you the most flexibility. With an IRA you have access to almost any investments that are out there today. An IRA also allows you and your financial advisor to properly structure your investment portfolio. A financial advisor will help you set-up a portfolio that matches your investment needs and risk tolerance, and monitor the performance of the investments so that changes can be made when necessary. In addition, an IRA may allow you to take some of your money for special situations. Examples are extreme health care costs, college tuition, or to prevent foreclosure on your home. Consult with a tax advisor for details.

When a company makes material changes to its 401(k) or pension plan, a “blackout” period could be enforced. During the blackout period, plan participants do not have access to their funds and are restricted from making any changes. If your employer is going out of business the blackout period could last up to a few months. In order to avoid a freeze on your account, start the rollover process immediately if you find out that you have lost your job, or your company will be closing their doors.

### **Special Note: Annual Privacy Notice**

One great thing about summer is the fourth of July. It is a day where we get to think back on what makes this country so great to live in. As Thomas Jefferson put it while drafting the Declaration of Independence, but a few of those rights are “Life, Liberty, and the pursuit of Happiness”. Another, equally important right is our right to privacy. Some of you may have received an updated information packet recently for Jim’s Money Management program. Soon, another informative notice will arrive at your doorstep regarding our privacy policy.

The idea behind the privacy policy is simple. As financial planners, we require access to a your personal information in order to offer the most detailed, accurate plan possible. This information is very specific, and very sensitive– it is not the sort of thing you would want being handed out to anyone who asked for it. It is our duty, then, to ensure that the information you give to us is used responsibly. Likewise, the information is kept on file so that when an issue arises, we can take care of it quickly. We take steps to make sure your information is secured. We do not share your information with outside agencies unless directed to do so by law.

While this sort of professional behavior should go without saying, we are still required to send the statement out to you on a yearly basis. If you’re interested, you can see Regulation S-P for more information on the topic.

Expect the notice to arrive in July.



## **SECURITIES OFFERED THROUGH HAAS FINANCIAL PRODUCTS INCORPORATED**

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