



Beacon Financial Partners News

Brighter Financial Guidance

December, 2008

Beacon Financial Partners

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A Consumer Debt Repayment Strategy

Okay, maybe you're not drowning in consumer debt, but the water level is just too high and seems to be getting deeper. The interest charges are steep, and you know that if you start falling behind in your payments, the late fees will just add insult to injury and make your balances even higher. You'd like to get out of the situation you're in before you get soaked. What's the best way to go about it?

First, plug the hole

Are you still using credit? If so, attempting to get out of debt while you're still incurring more of it is like trying to bail out a boat that's still leaking.

Review your expenses and compare them to your income. If you're spending more than you're earning, you're probably using credit, even if only for the occasional "emergency." In order to bail out of debt, you'll first have to plug the leaks in your budget.

As you go about making your budget more seaworthy, look for ways to reduce your expenses to the point where you create a cash surplus. You can then use this surplus to accelerate your debt repayment. This is a key element to any strategy that accelerates repayment of consumer debt.

Line up your ducks

List all your unsecured debts (don't include your mortgage, student loan, and/or car loan); rank them from the one with the highest interest rate charged to the lowest. Hopefully, you're current with all of them (including the unlisted ones); if not, first direct any surplus to getting current.

Once all your debts are current, make the minimum payment on all of them and direct any surplus toward increasing the payment against the debt with the highest interest rate. As the minimum payments required on all your debts start to go down (as happens with credit cards), don't pay less on your total debt. Instead, make the minimum payments on all of them and keep shifting the "extra" to increasing the payment on the debt with the highest interest rate.

Take your best shot

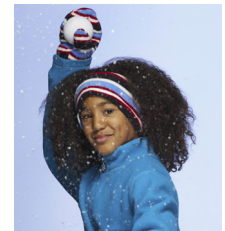
Once that debt with the highest interest rate is paid off, add the amount of the payment you were making toward it to what you're paying on the debt with the next highest interest rate. Once again, as the minimum payment requirements on other debts with lower interest rates decline further, put the "extra" created toward this highest-interest debt.

Because the amount you pay toward each debt increases in size as you move down the list of your debts, this repayment strategy is often referred to as snowballing.

An alternative approach

Some snowballing methods recommend that you pay off your debts starting with the smallest balance first, regardless of its interest rate, and also apply to this debt any surplus, while keeping your payments the same each month on all of the rest of your debts (regardless of their decreasing minimum requirements). While this approach offers the psychological satisfaction of paying off smaller debts quickly and paying extra against the principal on all your debts, it may not save you as much in total interest charges as the approach outlined above.

Attempting to get out of debt while you're still incurring more of it is like trying to bail out a boat that's still leaking.



Four Mistakes Women Make When Managing Money

Most of the time, you manage your money successfully, handling your day-to-day finances and saving and investing for the future. But nobody's perfect. Even if you've made some of the following money mistakes, there's plenty you can do to get your finances back on track.

Mistake #1: Ignoring your credit rating

One of the most common mistakes women make is not establishing a solid credit history. Having a good credit history will give you more--and often better--financial options. Lenders will review your credit history when deciding whether to extend you credit. If your credit history is good, you may be offered credit at more advantageous terms, potentially saving you hundreds or even thousands of dollars in interest. And here's some extra incentive: prospective employers or landlords may check your credit history before offering you a job or renting you a home. Here are some ways you can help keep your credit history healthy:

- Regularly check your credit history. You're entitled to a free credit report once a year from each of the three major credit reporting bureaus. To request your report, call 877-322-8228 or visit www.annualcreditreport.com.
- Don't cosign loans or sign joint credit applications without understanding the consequences. You will be legally obligated to repay the debt, and any late payments may hurt your credit rating.
- If you struggle with debt, don't wait to take action. Call your creditors. They may be better able to work with you before you get too far behind. Ignoring the situation will make things worse.

Mistake #2: Saving for your child's education--but not your own retirement

As a parent, you may feel it's your obligation to pay for all or part of your child's college education, and you may put off saving for retirement until you've done so. While it's natural to want to put your child's needs first, you don't want to sacrifice your own financial security. Your children have many options for financing college, and many years to pay for it. On the other hand, you can't borrow money for retirement, and with a limited number of years to save, it's hard to make up for lost time. Make saving for retirement your priority, and save for college when your budget allows.

Mistake #3: Underestimating the need for life insurance

Like many women, you may not have enough life insurance. If you're staying home to raise your family or if you have a part-time job outside the home, you may think that you don't need it, based on your income. But you're contributing a lot to your family's finances, even if you're not the primary breadwinner. The services you provide for your family are invaluable. If you were to die, would your family members be able to afford college or continue to save for retirement? Would they have enough to cover ordinary living expenses? Life insurance can help protect your family's finances even after you're gone.

Mistake #4: Not planning for a long retirement

The good news is that retirement is likely to last 20 to 30 years, but that's also the bad news--if you're not prepared. Outliving your retirement income is one of the biggest risks you face. According to recent statistics, a woman who reaches age 65 can expect to live until at least age 85 (with many women living longer). (Source: National Center for Health Statistics, Volume 56, Number 16.) Yet because women typically spend less time in the workforce and may earn less than their male counterparts, their retirement savings and benefits are often shortchanged.

So what can you do to make sure you'll have enough income to last throughout retirement? Here are some suggestions:

- Set a realistic retirement savings goal, save as much as you can, and keep track of your progress.
- If you're married, plan for retirement with your spouse. It's especially important to account for your joint life expectancies and ensure that you have a steady stream of lifetime income.
- Find out how much you can expect to receive from Social Security, and what you can do to maximize your benefits.
- Consider buying long-term care insurance to help protect your retirement savings from the high cost of long-term care. And because women are often the primary caregivers for a loved one, consider coverage for family members as well.



Here's some incentive to plan for a long retirement. According to the U.S. Census Bureau, at age 85 and older, there are more than twice as many women in the population as men.

The ABCs of 1031 Like-Kind Exchanges

A like-kind exchange, sometimes called a 1031 exchange after the section of the Internal Revenue Code that governs these transactions, is the exchange of one business or investment property for another. Provided the property you receive is of a "like kind" to the property you transfer, and all other requirements are met, no gain or loss is recognized on the income deferred as a result of the exchange. This has made like-kind exchanges a popular technique for investors looking to defer the payment of taxes on capital gains. When it comes to like-kind exchanges, though, even the most straightforward transaction is complicated.

Simultaneous swaps

If there is a "basic" like-kind exchange, it takes the form of a simultaneous exchange. You transfer business or investment property to another party in return for similar property. For example, let's say you own a piece of land that has a basis of \$200,000 (your cost) and a fair market value of \$400,000. If you were to sell the property, you would recognize \$200,000 in gain. Instead of selling the land, however, you exchange it for a rental property owned by another individual. If all the conditions of IRC Section 1031 are met, you do not recognize any gain as a result of the exchange (recognition of any gain is deferred until you sell the rental property). If you receive cash in addition to the rental property, gain is recognized to the extent of the cash received.

Deferred exchanges

With a deferred exchange, you give up your original property before receiving the replacement property. During the time that you're looking for a replacement property, you can't touch the proceeds from your original property (taking control of cash or proceeds before the entire like-kind exchange is complete can disqualify the transaction). For this reason, deferred like-kind exchanges generally involve executing a written exchange agreement with a qualified intermediary or other exchange facilitator, such as a bank, trust company, or attorney, that you pay to handle the transaction. The intermediary, who may assist you in locating a replacement property, is responsible for keeping the proceeds from your original property separate in an escrow account until the exchange is complete.

In a deferred exchange, you have 45 days from the date that you relinquish your original

property to identify, in writing, potential replacement properties. You must then receive the replacement property and close the exchange within 180 days from the date you relinquish your original property, or by the due date of your tax return (including extensions) for the tax year in which you relinquished your original property, whichever is earlier.

Tenancy-in-common (TIC) exchanges

With a TIC exchange, you exchange real property, and as replacement property, you receive a partial ownership interest (you're a co-owner, specifically a tenant-in-common) in commercial real estate. For example, you might exchange a piece of land with a fair market value of \$400,000 for a 10% TIC ownership interest in a \$4 million commercial property. TIC interest offerings include partial ownership interests in manufacturing facilities, office buildings, and malls.

These exchanges are extremely complicated. In fact, for a TIC interest to even qualify as potential replacement property in a like-kind exchange, there are extensive conditions that must be met. Most TIC interests are sold as securities, and are not available to the general public. TIC interests are generally available only to individuals who qualify as "accredited" investors (basically, those with a net worth greater than \$1 million, or income of at least \$200,000--\$300,000 for a married couple--for the prior two years). TIC offerings are non-conventional investments, and while they might provide ownership opportunity in a larger property than you might otherwise be able to afford, they are not suitable for all investors. In addition to the significant fees and lack of liquidity generally associated with TIC exchanges, you'll typically have little or no day-to-day control over the TIC property.

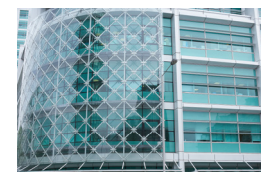
Final thoughts

It can't be overemphasized: like-kind exchanges are complicated, and there's simply no way to cover all the rules here. So, before you even consider a like-kind exchange, you should familiarize yourself with the details, including all tax aspects of an exchange. Note as well that special rules apply to exchanges between related parties.

A like-kind exchange can be a powerful strategy for investors and business owners, so it's worth understanding. But, if you're interested, make sure that you contact a qualified professional who can help you navigate the intricate rules that apply.

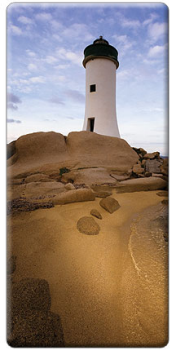
Like-kind property is property of the same nature, character, or class. Quality or grade does not matter. Most real estate will be like-kind to other real estate. For example, real property that is improved with a residential rental house is like-kind to vacant land. One exception for real estate is that property within the United States is not like-kind to property outside of the United States. Also, improvements that are conveyed without land are not of like kind to land.

**IRS Fact Sheet
FS-2008-18**



The like-kind exchange rules do not apply to:

- *Stock in trade or other property held primarily for sale*
- *Stocks, bonds, or notes*
- *Other securities or evidences of indebtedness or interest*
- *Interest in a partnership*
- *Certificates of trust or beneficial interests*
- *"Choses in action" (rights to recover money or property in a court proceeding)*



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Ask the Experts



Can I get an estimate of my child's financial aid eligibility before we officially apply for aid?

Yes. Last year, the U.S. Department of Education launched an online financial aid tool to help families better prepare for the cost of college. Called the FAFSA4caster, it's modeled on the government's official aid application, the FAFSA (Free Application for Federal Student Aid). The tool examines a family's financial data and estimates how much aid a student might expect to get. To use the tool, visit www.fafsa4caster.ed.gov.

To complete the FAFSA4caster, gather the following information for you and your child:

- Social Security numbers
- Federal tax information or tax returns, including W-2 information
- Information on savings, investments, and business and farm assets
- Records of any untaxed income (such as Social Security or welfare benefits)

To get as accurate an estimate as possible, you should answer all the questions on the tool, even if you have to estimate or guess.

Using the FAFSA4caster isn't exactly a quick process, but when you're ready to apply officially for federal aid, the FAFSA4caster will automatically transfer all of your data (that's password protected and saved securely) to your online FAFSA application, saving you the hassle of keying in all your information again. And, if your financial circumstances change, you'll get the opportunity to update any answers on the FAFSA that you originally submitted on the FAFSA4caster.

By providing an advance estimate of federal aid eligibility, the FAFSA4caster can help you forecast how much money you and/or your child may need to come up with to meet college costs--information that can also come in handy in the college selection process. By having an idea of the numbers ahead of time, you can help minimize unwelcome surprises.

When does my child need to submit financial aid applications?



The FAFSA is the federal government's financial aid application. It should be submitted as soon as possible after January 1 of your child's senior year in high school (and after every January 1 in any year your child is seeking aid). Several financial aid programs operate on a first-come, first-served basis, so getting your child's application in early increases his or her chances of securing aid.

Your FAFSA relies on the previous year's tax information. For example, a FAFSA filed in early 2009 would rely on information from your 2008 tax return. Because most parents have not yet completed their federal income tax return in January, one option is to complete an estimated tax return, which can then be used to complete the FAFSA, a practice the federal government considers acceptable.

You can fill out the FAFSA on paper or online at www.fafsa.ed.gov. A paper version takes

about four to six weeks to process; the online version takes only one week. The better route is the online application. Not only is the processing faster, but the form notifies you of inputting errors and does the math as you go along. Plus, if you've previously filled out the FAFSA4caster, the government's online financial aid tool, the online FAFSA will be automatically populated with your data.

Along with the FAFSA, some colleges require you to submit one or more additional financial aid forms to determine your child's eligibility for the college's own grants, loans, and scholarships. These colleges may have their own forms, or, more commonly, they require you to complete the College Board's PROFILE application. The PROFILE application can be submitted in the fall, before the FAFSA, but it's a good idea to check with individual colleges regarding their submission rules. Go to profileonline.collegeboard.com to file the PROFILE online.