

Scott Burns



Explaining Today's Complex Economic
Issues In Everyday Language



Universal Press Syndicate®

an Andrews McMeel Universal company

Dear Editor:

Can a financial columnist in these tough economic times actually improve your readers' standard of living?

Scott Burns has been giving solid advice on weathering financial ups and downs since 1977. He's addressed 401(k) plans: Buy long-term Treasury bonds if you are near retirement and Roth IRAs if you aren't. For those soon to be retired, consider paying down a mortgage when and if inflation is reined in. Another tip: Repay Social Security benefits received in the past and reapply for higher benefits.

Are there any "safe havens" for your money? And just where is our country heading financially?

Scott Burns has those answers and is an authority readers can trust.

Scott has the background and knowledge to dispense clearly written, expert financial advice. He was educated at MIT, served as the lead business columnist for The Dallas Morning News for years, and is a well-respected syndicated columnist and author.

Each week, Scott delivers insight and advice in two 650-word columns: One is an essay format, and the other is a reader-driven Q&A format.

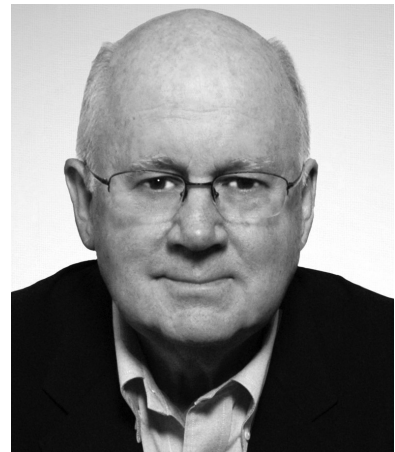
Give your readers what they're looking for -- answers to today's vexing financial concerns from Scott Burns.

Greg Melvin,
Editor

Scott Burns

Personal Finance Columnist

Scott Burns' column was nationally syndicated by Universal Press Syndicate in late 1980, making it one of the longest running syndicated features. It can be read on Money Central at MSN.com, one of the three largest financial Web sites. The combination of newspaper and online distribution makes Burns one of the five most widely read financial writers in America, according to *The Dallas Morning News*.



Burns' career as a newspaper columnist began at the Boston Herald in 1977 where he was also the financial editor. He retired from *The Dallas Morning News* in 2006 after 22 years as its personal finance columnist but has yet to spend a single day as retiree. Instead, he started AssetBuilder, an internet-based registered investment adviser that provides risk-measured portfolios with industry challenging pricing. He says it's fun to actually manage money as well as write about it. He uses a disciplined index-fund based approach.

Burns' articles have appeared in a variety of national and regional magazines. He has also published four books: *Squeeze It Till The Eagle Grins* (1972), *Home, Inc.*, *The Hidden Wealth and Power of the American Household* (1975) and *The Coming Generational Storm* (2004) co-authored with Boston University economist Laurence J. Kotlikoff. The book was endorsed by four Nobel laureates and has been published in multiple translations. *Spend Till The End, an innovative re-visioning of financial planning*, was published by Simon & Shuster in June 2008 and is co-authored with economist Laurence J. Kotlikoff.

Burns also co-authored a policy research paper for the National Center for Policy Analysis, "Reinventing Retirement Income in America." The paper examines the problems of 401k plans and proposes a variety of reforms.

Other media experience includes radio, television, speaking engagements and seminars. His business experience includes work with a major management consulting firm. His corporate experience includes six years as a director (and three years as audit chairman) of a publicly traded manufacturing company.

Burns graduated from the Massachusetts Institute of Technology with a degree in Humanities and Biology (1962). He also studied writing with poet Archibald MacLeish at Harvard.

For columns, go to uexpress.com.

HOME PREPAREDNESS AND THE \$50 BILLION STRAW

Scott Burns

By now, having watched your house fall in value, your 401(k) plan slide toward nothingness, your job security disappear, your benefits fade, the complete failure of business management, the disastrous failure of regulatory control, the finger-pointing of the political parties, the shameful desire of a state governor to sell a Senate seat and the revelation of an epic \$50 billion fraud, none of us could be blamed if we wanted to move to Montana and shun the company of human beings. Having written a newspaper column for more than 30 years, I thought I was pretty tough-minded. But today, watching our dysfunctional institutions, I feel something like the shock and horror a parent must feel when he discovers that a beloved son or daughter is actually a serial killer. I don't understand the recklessness, the greed, the dishonesty. I don't fathom the unrelenting self-aggrandizement of the politicians, the executives, the lenders big and small, or the investment bankers. I'm quite sure you don't, either. So here's the big question. *What can we do to feel safe again?*

Should we push the politicians for fundamental reform?

No way. They simply aren't qualified to provide it. Neither party has shown any willingness to stop promising benefits that have to be paid for by our children and grandchildren. (BEGIN ITALS)Their(END ITALS) Ponzi scheme, more politely known as Social Security and

Medicare, is far larger than the alleged fraud of Bernard Madoff.

The tough answer is that we have to change. The moment we ask the politicians, regardless of party, we're disempowering ourselves and empowering them.

That is the opposite of what we need to do.

We need to make the politicians and business leaders get concerned about what they can do to regain our trust, our vote, and our business. We need to operate from a position of strength and self-reliance, not weakness. We need to become the kind of citizens that Thomas Jefferson thought we were. It won't be easy, but here are some of the basic steps. Think of them as resolutions for 2009 and later.

-- Go cash. We can't pressure the politicians if we're as debt-strapped as they've made the country. We need to do *whatever it takes* to eliminate the menace of credit card debt. We should make it a goal to pay all of our bills in full monthly and build enough equity in our homes that we can self-finance most outsized expenses. That means the end of a debt-driven consumer society.

Our belt-tightening (read: lower standard of living) may last as long as five years.

The lending industry won't like this. We may owe them money, but we don't owe them any consideration. The bankers -- investment and lending -- should consider themselves fortunate not to be tarred, feathered and run out of town.

-- Be prepared. It's not just

a Boy Scout motto. Most of us suffer from a misplaced trust that the world is a place of civility and continuity. It isn't. We need to keep a cash reserve large enough that we don't worry at every economic hiccup. As a practical matter, even if your cash reserve earns zero interest, it can produce an outsized return in smart, day-to-day purchases of used and bankruptcy sale goods. -- Train yourself in self-reliance. Most Americans would be endangered if they lost their income for a month, their electricity for a week, or their access to a supermarket or gas station for a few days. We rediscover this in every major snowstorm or hurricane. We simply don't think about being able to sustain ourselves in our homes in the event of utility failures or worse.

It's time we did.

If you don't know where to start, let me suggest "Just in Case: How to Be Self-Sufficient When the Unexpected Happens" (Storey Publishing, \$17). Written by Kathy Harrison, the book covers the basics of emergency preparedness for staying at home, or having to leave home quickly, in an easy 230 pages. Another book, Jack A. Spigarelli's "Crisis Preparedness Handbook: A Comprehensive Guide to Home Storage and Physical Survival" (Cross-Current Publishing, \$20), goes further. It includes a brief section on firearms and ammunition. Both are available on Amazon.com.

Next week: Fearless Forecasts, 2009



Universal Press
Syndicate®

an Andrews McMeel Universal company
1130 Walnut, Kansas City, MO 64106-2109
816.581.7500

SAMPLES ONLY

NOT FOR RELEASE

© 2009 Universal Press Syndicate

FOR SOME, PAYING OFF A MORTGAGE IS A GREAT 'INVESTMENT'

Scott Burns

Q: Our youngest child graduated from college last year. Since then we have been able to save a bit more money. By June 2009 we will have 42 months left on our mortgage with 6.8 percent interest. The payoff is projected at about \$40,000. Should we pay off the mortgage at that time, or ride out the remaining few years? -- L.B., by e-mail

A: You didn't say where you lived or what your real estate taxes are, but there is a good chance that you will receive no tax benefits from your mortgage interest payments because all of your deductions may be less than the standard deduction. This year (2009), the standard deduction is \$11,400 for a couple and \$5,700 for a single-person household. Until your itemized deductions exceed the standard deduction, you won't save any taxes.

Many couples start running out of itemized deductions right at your life stage -- when the last kid is out of the nest. So here is your task. Add up your itemized deductions. If the total is less than \$11,400, paying off your mortgage is a slam-dunk investment. You'll save the mortgage interest. In effect, you'll earn 6.8 percent. You'll also eliminate the monthly mortgage payment, which will make it easy to increase your tax-deductible 401(k) contributions. And you won't have to pay income taxes on the piddling amount of interest you'll earn on the \$40,000.

Q: We cashed out an annuity. The interest on it was \$76,000. Our gross income

from other sources was about \$45,000. We are retired and use the standard deduction. How will this affect the taxes on our Social Security? -- J.O., by e-mail

A: The answer depends on how much you have in Social Security benefits. Suppose, for instance, that you and your wife receive \$24,000 a year in benefits. Then you can have \$20,000 in other income before triggering the taxation of your Social Security benefits. The next \$12,000 of other income will cause \$6,000 of Social Security benefits to be added to your taxable income. And the next \$12,000 of other income will cause another \$10,200 of benefits to be added to your taxable income. So \$44,000 of other income -- less than your \$45,000 -- will cause you to have to pay taxes on \$16,200 of Social Security benefits.

That's the bad news.

The good news is that your regular income -- that \$45,000 -- gets you through the Social Security gantlet. You're done. That big annuity interest check is on the other side of the gantlet because you've already been hit by the taxation of benefits.

As I've pointed out in many columns, what's unfair about this is that if that \$45,000 of other income comes from retirement savings such as IRAs and 401(k) plans, you're a victim of our crazy-maker government. Congress encourages you to save with retirement plans, but first it sets a tax trap to punish you when you retire.

Q: I am trying to determine the best place to invest my

401(k) money after being laid off from my job. My accountant suggested a real estate dental building investment that offers a 7 percent to possibly 10 percent return. The investment would be handled through an IRA, so the taxes are deferred. What is your opinion of this type of an investment? -- R.W., by e-mail

A: I hope you're either kidding or have misunderstood your accountant. If neither of those is the case, your accountant is -- let me put this delicately -- a self-serving nitwit. You've lost your job during what is likely to be one of the longest and deepest recessions in the last 50 years, and your accountant suggests a single, undiversified, risky and illiquid investment when the most important consideration is being liquid -- being able to get the cash necessary to buy food and pay your bills until you are employed again.

If you ask your accountant for more information on the investment, there is a strong chance you will learn that the selling and underwriting costs of the investment -- a portion of which goes to the accountant as a commission -- will be about 10 percent. That commission goes a long way toward explaining why this investment was proposed. It makes good sense to him because he'll benefit the day you make the investment. But it makes absolutely no sense for you.

My suggestion: Run, don't walk, away from this investment. And, while you are at it, find another accountant.



**Universal Press
Syndicate®**

an Andrews McMeel Universal company
1130 Walnut, Kansas City, MO 64106-2109
816.581.7500

SAMPLES ONLY
NOT FOR RELEASE
© 2009 Universal Press Syndicate

A MEDITATION ON MCDONALD'S

Scott Burns

McDonald's, 9 a.m. My coffee, as usual, is tasty and lawsuit hot. I look around and note that virtually everyone here at mid-morning is at least 60 years old. The kids and moms may come in the afternoon. They will certainly be here over the weekend.

But they are not here now.

This moment is for the geezer crowd. And I am now a full, dues-paid member of this group. There is no turning back. This morning I passed the last official age milestone most of us will experience.

My online bank balance showed a new deposit. It was the first automatic deposit of Social Security retirement benefits. I am now one of the 31,528,000 workers collecting retirement benefits. The deposit, \$2,620, was net of the \$96.40 premium for Medicare Part B. So the full benefit is \$2,716 a month.

If that \$2,716 a month strikes you as a hefty amount, it is. The average Social Security benefit check is about \$1,153 a month. The most you can pull if you've earned the wage-base maximum for your entire work life is \$2,172 a month. This year the wage-base maximum is \$106,400. Only one worker in 20 earns that much.

So how did I get the extra \$544 a month?

It was easy. *I delayed taking benefits.* Instead of taking them at 62, 65 or my full retirement age (65 years and 6 months), I waited until a few months after my 68th birthday.

This may be the only form of denial that pays dividends.

Simply ignore that you've become a geezer and, month by month, the government will raise your retirement benefits. The delay means that my wife will receive higher survivor benefits in the event that I am not immortal.

If this sounds familiar, I've written a lot about it. Delaying benefits is good personal finance. The optimal age to take benefits for a typical married couple is when the husband is age 68 or 69.

My wife, who was also a strong earner, started taking her benefits at 62. She now gets \$1,394 a month. So we've got \$4,110 a month coming in from Uncle Sam.

Why, with that much money I could be drinking coffee at Starbucks!

I find this worrisome.

It isn't that we haven't earned it. We have. We've worked and paid lots in employment taxes. And we've done it for many years. In addition, the benefits that high-income workers receive are proportionately smaller than the benefits lower-income workers receive. Workers who earn less than \$711 a month are credited at a 90 percent rate. Earnings over \$4,288 a month are credited at only a 15 percent rate. So we've paid proportionately more for the benefits we receive than most workers.

So why am I worried? Simple. It takes a lot of workers to support us.

Here's the math. To deliver our monthly benefit, someone has to have a taxable payroll of \$33,145 a month. Here at McDonald's that translates into lots of hourly workers. And lots of hours. According to payscale.com, for instance, the median hourly wage for workers with one to four years of experience at McDonald's is \$7.87 an hour. Let's call it \$8. Typical workers will have to clock about 4,143 hours a month to cover our retirement benefits.

A typical McDonald's has a crew of 50 workers. Most are hourly workers. Few work more than 30 hours a week because,

well, things like health benefits are expensive. So a typical worker would have to work 138 weeks, with no benefits, to provide the money my wife and I get, and spend, in a month.

We're an extreme case, of course. But if you do the math for a more typical retired couple with benefits of \$1,876 a month this year, it will still take the typical McDonald's worker 63 weeks to provide the money an average retired couple receives and spends in a single month.

Fortunately, McDonald's isn't the only employer in America. There are lots of companies out there. Some pay the big bucks. The difference is that many of those companies are shedding workers, not adding them. McDonald's shares, unlike most, are down only 5 percent since the October 2007 market peak. The S&P 500 index is down 46 percent.

There is a message here: Houston, we've got a problem.

ON THE WEB

-- Maximum Social Security benefit: www.ssa.gov/OACT/COLA/examplemax.html

-- Social Security full retirement age by year of birth: www.socialsecurity.gov/retire2/agereduction.htm

-- Wages at McDonald's: www.payscale.com/research/US/Employer=McDonald's_Corp/Hourly_Rate

-- Monthly benefits for the average retired couple: www.ssa.gov/pubs/10024.html

-- "Fine-Tuning the Social Security Benefits Decision" (1/29/06): http://assetbuilder.com/blogs/scott_burns/archive/2006/01/29/Fine_2D00_Tuning-the-Social-Security-Benefits-Decision.aspx



Universal Press
Syndicate®

an Andrews McMeel Universal company
1130 Walnut, Kansas City, MO 64106-2109
816.581.7500

SAMPLES ONLY
NOT FOR RELEASE
© 2009 Universal Press Syndicate

THE BENEFITS OF PAYING OFF A MORTGAGE

Scott Burns

Q: In a recent column you suggested paying off a mortgage. Of course, if the desired effect is peace of mind, I would agree. Many people would be well-served to pay off their mortgage. However, I am always amazed at the thinking process in calculating, for example, a 6.8 percent interest rate with regard to tax savings and possible earnings from other investments.

Anyone who has looked at an amortization schedule would immediately see that one pays much more than 6.8 percent at the beginning of the loan and much less than 6.8 percent toward the end. Taking that into account, how can you advise homeowners to pay off those late-stage mortgages? It would be easy to earn a higher interest rate on the money that would be used to pay off the mortgage. -- S.S., Seattle

A: Many readers sent similar questions, so let's take a close look at home mortgages and understand them a little better.

An amortization table shows you how a direct-reduction mortgage works. Your initial monthly payment is mostly interest and a tiny bit of principal. Few people realize it, but in the first seven years of a typical 30-year mortgage, only about 10 percent of the amount owed is paid down. It takes about 20 years to pay off only half of a 30-year mortgage.

But the amount of principal paid increases year by year. In the last five years the role of principal and interest is reversed -- the monthly payment is mostly principal and very little interest.

Two things are important here.

First, no matter how small the interest payment is as portion of the payment, you are still paying at the interest rate of the loan. If your interest rate is 6.8 percent, it is 6.8 percent at the beginning of the loan and 6.8 percent at the end of the loan. The interest you pay is 6.8 percent of the amount outstanding in any given year. The *dollar* amount of interest you pay goes down because the dollar amount you owe has gone down. The interest *rate* you pay is constant throughout the life of the loan.

Earning that much interest on a typical investment isn't easy. Most riskless investments (CDs, Treasury obligations) currently earn less than 3 percent. For most people, most of the time, paying off a mortgage is a good way to earn a relatively high yield on their money with great safety.

Second, the payment structure of a mortgage is very important. Let's consider a 30-year mortgage at 5.5 percent. It would have a monthly payment of \$5.68 per \$1,000 originally borrowed. That's \$68.16 a year, or 6.8 percent of the original amount borrowed. By the 20th year, however, you're still paying \$68.16 a year -- but the debt has declined to \$500. So the payment is equal to 13.6 percent of the amount owed. In the 25th year of the mortgage, the principal amount owed is less than \$300, so your payment is more than 23 percent of the amount still owed. (Readers can get a better sense of this by visiting one of the Web sites that will calculate and present a mortgage amortization table such as bankrate.com.)

This is important. For one thing, it means that paying off a mortgage (or other loan)

will dramatically reduce your required monthly income. Equally important, it means any offsetting investment would have to be very safe and stable because you've got to be making huge withdrawals, relative to the amount invested, to make the payment. That's why the older a loan is, the more you benefit from paying it off.

Q: Each year I give my adult son \$11,000. Is it possible to subtract that amount from my taxable income? -- R.V., Las Vegas

A: Sorry, you can't do that. Gifts are entirely related to your estate. They are not related to your income. For 2009 you can give \$13,000 each to an unlimited number of recipients. The gifts may reduce your taxable estate, but you won't have to pay estate taxes on them. If you give more than \$13,000 per recipient, you will reduce the size of your estate tax exclusion. This year you can have an estate of \$3.5 million and not have a federal estate tax to pay.

Questions about personal finance and investments may be sent by e-mail to scott@scottburns.com. Please visit my Web site at www.scottburns.com to comment on any of my articles, find referenced Web links or to discuss personal finance topics on my forums. Questions of general interest will be answered in future columns and on the Web site.

Scott Burns is a principal of the Plano, Texas-based investment firm AssetBuilder Inc., a registered investment adviser. The opinions of this article do not necessarily reflect the views of AssetBuilder Inc. This information is distributed for education purposes, and it is not to be construed as an offer, solicitation, recommendation or endorsement of any particular security, product or service.



Universal Press
Syndicate®

an Andrews McMeel Universal company
1130 Walnut, Kansas City, MO 64106-2109
816.581.7500

SAMPLES ONLY
NOT FOR RELEASE
© 2009 Universal Press Syndicate

For samples and rates, contact:



**Universal Press
Syndicate®**

an Andrews McMeel Universal company
1130 Walnut Street, Kansas City, MO 64106

800-255-6734

816-581-7300

www.amuniversal.com/ups

For international sales information, contact:



Atlantic Syndication

a division of Universal Press Syndicate

816-581-7340

816-581-7366 (Fax)

sales@atlanticsyndication.com