Capital Management Advisors, Inc.
Nicolina Stewart, CPA, PFS, CGMA, CLU, ChFC
President and CEO
5910 Post Blvd, Unit #110571
Bradenton, FL 34211
P: 941-320-1524
F: 941-296-7393
nstewart@cmaadvisors.net
www.cmaadvisors.net

Hello Everyone:

As we get close the end of the year, there are a lot of uncertainties in taxes, the economy and the government. This is a good time to take stock of what you have and have a solid review of your current portfolios, insurance policies, estate planning documents and tax situation.

It is necessary to know what you have before you can plan for your future. Let us know if we can help with your financial inventory, reviews and/or planning. That is what we love to do!

~Nikki

October 2012

CMA Monthly News

Take your financial hat off and give it to us.

Year-End Investment Planning and the Fiscal Cliffhanger

Investment planning at the end of 2012 revisits issues that have complicated the planning process for the last two years--tax cut extensions and spending cuts designed to reduce the U.S. budget deficit. Uncertainty about both and whether they will lead to what's been called a "fiscal cliff" in 2013 is likely to affect year-end investment planning yet again.

Despite the uncertainties--or perhaps because of them--it might be worth starting early to look at various "what-if" scenarios in case you need to make last-minute changes to your portfolio. Even though you may not be sure of exactly what will happen in 2013, here are some factors to keep in mind as you plot your year-end strategy.

Review timing of your investment sales

As of January 1, tax brackets are scheduled to return to their pre-2001 levels. That means the current six tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) are scheduled to become five (15%, 28%, 31%, 36%, and 39.6%). Also, absent further changes, the maximum tax rate on long-term capital gains, currently at 15%, will increase to 20% (10% for those in the 15% tax bracket); those in the 10% or 15% marginal income tax bracket, who now pay a 0% rate on capital gains, will lose that special rate. Finally, qualified dividends, now taxed at a maximum of 15%, will once again be taxed at ordinary income tax rates.

Another factor for high-income individuals in 2013 is a new 3.8% Medicare contribution tax on some or all of the net investment income of individuals with a modified adjusted gross income over $200,000 ($250,000 for married couples filing jointly, and $125,000 for couples filing separately).

Ordinarily, higher rates in 2013 might suggest taking profits in an investment before those higher rates go into effect. However, the November election could affect the scheduled expiration date of those tax cuts, or even whether they expire at all. As a result, it's especially important this year not to let tax considerations be the sole factor in any investment decision. If you're uncertain about a sale, remember that another way to minimize capital gains taxes is to harvest investment losses that may offset gains.

Consider the potential economic impact of 2013

The nonpartisan Congressional Budget Office has warned that the tax increases and the roughly $109 billion in spending cuts could hamper an already sluggish economic recovery. Also, a 2% reduction in the Social Security portion of the payroll tax is scheduled to expire in January, leaving consumers with less to spend. Though there has already been talk about revisiting the spending cuts and tax cut expirations, you might want to consider how your portfolio might be affected.

Some companies are highly sensitive to economic cycles; others offer products and services that people need regardless of how the economy is doing and generally suffer less from a downturn (though any industry or company can have its own challenges). Also, the spending cuts could disproportionately affect some specific industries, such as defense, and companies that rely heavily on government contracts.

Interest rates and European instability

Partly because of the Federal Reserve's monetary policy and partly because of the European debt situation, interest rates have been at historic lows in recent months. This has meant higher prices for U.S. Treasury bonds, because bond yields move in the opposite direction from bond prices. However, investors who have relied on Treasuries for income and now want to roll over the proceeds of maturing bonds might be disappointed with available rates, which the Federal Reserve expects to remain low well into 2014. If that's the case for you, you may need to explore supplemental sources of investment income, or reexamine your Treasury holdings to see whether they now represent too much of your portfolio.

Even if you decide to wait and see what happens at year-end, planning for multiple scenarios now could help improve any last-minute decisions.

See disclaimer on final page

How to Raise a Saver

Earmarking savings

To help your child learn how to manage money, encourage a 50-25-25 rule (or some variation) that earmarks 50% for immediate spending needs, 25% for the purchase of big-ticket items, and 25% for long-term savings.

As parents, we naturally want what's best for our kids. We want them to be polite, respectful, healthy, curious, and smart. And we hope that someday, they will grow into successful adults with independent, fulfilling lives. How best to accomplish this? Well, along with teaching the ABCs, 123s, and right from wrong, teaching your child the basics of financial literacy can help you raise a saver and lay the foundation for your child's bright financial future.

The early years, 3 to 7

Children this age may think that money magically appears from special machines whenever Mom or Dad pushes a few buttons, but there is one money concept they can understand. They know people need money to buy things--chances are they've tagged along with you to the grocery store a few times and watched you fill up your cart. Young children often model the behavior of their parents, so on these shopping trips, when you think your child is receptive, you might say things like "I can't buy this right now, I have to save more money and buy it next time" or "That's great these apples are a really good price today--I can buy more." These types of comments sink in and hopefully will get your child thinking about money and spending.

Once children can identify coins and dollar bills, give them a piggy bank or clear plastic jar to keep any money they earn or receive as gifts. Tell them they can buy something they want once they save a certain amount (make sure the item/price is appropriate and within short-term financial reach). Taping a picture of the item on the bank can provide a visual goal. Of course, children need a way to earn some money. Consider giving your child a weekly allowance and/or payment for small jobs around the house. Some parents tie an allowance to chores; others expect chores as part of everyday family life, but pay extra for "super" chores. The overall goal is to get your child excited about seeing the coins and dollar bills pile up.

The middle years, 8 to 12

These years are the sweet spot to lay a solid financial foundation. Children this age are more financially and materially aware--they have a general idea of what things cost (at least the things they want), they see (and covet) the possessions their friends have, they're bombarded by advertising, they get asked what they'd like for their birthday, and they often have a say in the new clothes and school supplies they get every year. And they aren't shy about pointing out the other items they want--electronics, sports equipment, room decor. It's enough to make any parent shudder.

The first thing to do? Explain the difference between "needs" and "wants." Continue to give your child an allowance, and encourage a 50-25-25 rule (or some variation) that earmarks 50% for immediate spending needs, 25% for the purchase of big-ticket items, and 25% for long-term savings. Consider matching a portion of that last 25% so your child is more motivated to save. Open a bank savings account for your child's long-term savings, and explain how interest and compounding works.

Help your child set financial goals, both short-term (a skateboard or sweatshirt) and long-term (a laptop). When it comes to spending, explain--and model--the concepts of delayed gratification, prioritizing purchases, and making tradeoffs. Help your child learn to get the most value for his or her money by selecting quality merchandise, comparison shopping, waiting for sales, and discouraging impulse buying. Let your child see that you, too, can't buy everything you want all the time.

Introduce the concept of budgeting by explaining how your family's budget works. Without going into detailed numbers, explain how income you receive from your job must be used to pay for needs like food, housing, utilities, and clothing, and how any money left over is set aside for emergency savings, long-term savings, and for "wants" like trips to the movies, restaurants, and new toys and gadgets.

The teen years

Children this age often seem to be ever-growing financial sinkholes--$10 here, $20 there, a laptop, sports equipment, an instrument, school trips, gas for the car, not to mention looming college expenses. Build on the saving, goal-setting, and budgeting lessons from earlier years. Be more specific about what things cost in your family's budget, and explain that in addition to paying day-to-day expenses and saving for college, you're saving for your own retirement.

When your child is old enough, encourage him or her to get a job to help pay for some typical high-school expenses and to start building a nest egg. Teach your child how to use an ATM/debit card, balance a checkbook, and wisely manage credit--skills they'll need in college. Finally, you can introduce your child to more advanced financial concepts, such as stocks, bonds, IRAs, and diversifying investments, by looking at teen-oriented investing books and financial websites.

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Four Retirement Planning Mistakes to Avoid

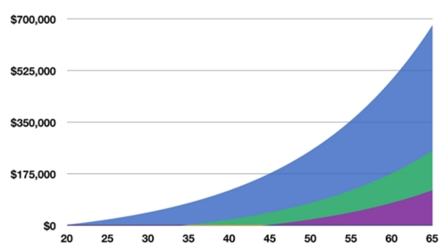
Because retirement may be many years away, it's easy to put off planning for it. The longer you wait, however, the harder it is to make up the difference later. That's because the sooner you start saving, the more time your investments have to grow.

We all recognize the importance of planning and saving for retirement, but too many of us fall victim to one or more common mistakes. Here are four easily avoidable mistakes that could prevent you from reaching your retirement goals.

1. Putting off planning and saving

Because retirement may be many years away, it's easy to put off planning for it. The longer you wait, however, the harder it is to make up the difference later. That's because the sooner you start saving, the more time your investments have to grow.

The chart below shows how much you could save by age 65 if you contribute $3,000 annually, starting at ages 20 ($679,500), 35 ($254,400), and 45 ($120,000). As you can see, a few years can make a big difference in how much you'll accumulate.



Note: *Assumes 6% annual growth, no tax, and reinvestment of all earnings. This is a hypothetical example and is not intended to reflect the actual performance of any investment.*

Don't make the mistake of promising yourself that you'll start saving for retirement as soon as you've bought a house or that new car, or after you've fully financed your child's education--it's important that you start saving as much as you can, as soon as you can.

2. Underestimating how much retirement income you'll need

One of the biggest retirement planning mistakes you can make is to underestimate the amount you'll need to accumulate by the time you retire. It's often repeated that you'll need 70% to 80% of your preretirement income after you retire. However, depending on your lifestyle and individual circumstances, it's not inconceivable that you may need to replace 100% or more of your preretirement income.

With the future of Social Security uncertain, and fewer and fewer people covered by traditional pension plans these days, your individual savings are more important than ever. Keep in mind that because people are living longer, healthier lives, your retirement dollars may need to last a long time. The average 65-year-old American can currently expect to live another 19.2 years (Source: National Vital Statistics Report, Volume 60, Number 4, January 2012). However, that's the average--many can expect to live longer, some much longer, lives.

In order to estimate how much you'll need to accumulate, you'll need to estimate the expenses you're likely to incur in retirement. Do you intend to travel? Will your mortgage be paid off? Might you have significant health-care expenses not covered by insurance or Medicare? Try thinking about your current expenses, and how they might change between now and the time you retire.

3. Ignoring tax-favored retirement plans

Probably the best way to accumulate funds for retirement is to take advantage of IRAs and employer retirement plans like 401(k)s, 403(b)s, and 457(b)s. The reason these plans are so important is that they combine the power of compounding with the benefit of tax deferred (and in some cases, tax free) growth. For most people, it makes sense to maximize contributions to these plans, whether it's on a pre-tax or after-tax (Roth) basis.

If your employer's plan has matching contributions, make sure you contribute at least enough to get the full company match. It's essentially free money. (Some plans may require that you work a certain number of years before you're vested in (i.e., before you own) employer matching contributions. Check with your plan administrator.)

4. Investing too conservatively

When you retire, you'll have to rely on your accumulated assets for income. To ensure a consistent and reliable flow of income for the rest of your lifetime, you must provide some safety for your principal. It's common for individuals approaching retirement to shift a portion of their investment portfolio to more secure income-producing investments, like bonds.

Unfortunately, safety comes at the price of reduced growth potential and the risk of erosion of value due to inflation. Safety at the expense of growth can be a critical mistake for those trying to build an adequate retirement nest egg. On the other hand, if you invest too heavily in growth investments, your risk is heightened. A financial professional can help you strike a reasonable balance between safety and growth.

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Nicolina Stewart, CPA, PFS, CGMA, CLU, ChFC
President and CEO
5910 Post Blvd, Unit #110571
Bradenton, FL 34211
P: 941-320-1524
F: 941-296-7393
nstewart@cmaadvisors.net
www.cmaadvisors.net

Can I be reimbursed from my health-care FSA for over-the-counter medications?

A health-care flexible spending account (FSA) allows you to pay for certain qualified medical and dental expenses with pretax dollars. With a health-care FSA, you can contribute pretax earnings to the plan (usually through a salary reduction agreement with your employer) and submit qualifying expenses to the plan for reimbursement. If you tend to spend a lot of money on medical expenses that are not covered by your health plan, contributing to an employer-sponsored health-care FSA is a good way to help pay for these expenses.

Although over-the-counter (OTC) medications used to be reimbursable from a health-care FSA, the Patient Protection and Affordable Care Act of 2010 amended the definition of qualified medical expenses for health-care FSA reimbursement purposes. As a result, OTC medications (except for insulin and medications that are prescribed by a physician) are no longer eligible for reimbursement.

However, many OTC medications are also available by prescription. You may want to ask your doctor for a prescription for any OTC medications that you use on a regular basis (e.g., pain relievers and allergy medications). You'll need to submit the prescription along with a receipt to your FSA provider in order to get reimbursed. Some FSA providers offer forms that allow your doctor to write a prescription once for any of the OTC medications that you'll need throughout the year.

Currently, there is no legal limit on the amount that you can contribute to a health-care FSA. However, most employers do impose a cap on contributions (typically $3,000 to $5,000). And beginning in 2013, if a health-care FSA is part of a cafeteria plan, annual contributions will be capped at $2,500 (starting in 2014, that amount will be adjusted for inflation).

Finally, when participating in an FSA, it's important to remember that you cannot carry over any money you contribute from one plan year to the next--in other words, if you don't use it, you lose it. As a result, it's important to choose your contribution amount carefully so that you don't risk losing any contributions at the end of the plan year.

Should I participate in my employer's wellness program?

Living a healthier lifestyle can greatly improve one's overall well-being and reduce health-care expenses. As a result, many employers are offering wellness programs to their employees as a way to reduce absenteeism and lower the cost of employer-sponsored health care. According to a 2010 Bureau of Labor Statistics survey, one-third of U.S. private sector workers had access to an employer-sponsored wellness program.

For employers, wellness programs not only reduce health-care costs by promoting healthier living, but they also have been shown to boost employee productivity and morale. The types of wellness programs vary among employers, but they typically cover a variety of healthy living issues, such as:

- Smoking cessation
- Exercise/physical fitness
- Weight loss
- Nutrition education
- Health screenings/assessments

Some companies even provide healthy living education, resources, and incentive tracking through an online "wellness portal."

In addition to helping you live a healthier lifestyle, a wellness program may offer financial benefits. Currently, employers are permitted to offer wellness incentives (e.g., premium discounts, cash rewards) to employees of up to 20% of the cost of their health-care premium. And beginning in 2014, under the 2010 Patient Protection and Affordable Care Act, employers will be able to increase the incentive amount to 30% of the cost of the employee's premium.

Keep in mind that with certain types of wellness incentives, such as cash bonuses or gift certificates, the value of the reward may be treated as taxable wages and therefore may be subject to payroll taxes.