PPC Monthly Newsletter

Preferred Planning Concepts, LLC
Dominic Cimino
Ken Lydecker
Dave Nicholson
2800 S. River Road, # 240
Des Plaines, IL 60018
T: 847.375.0505
therese@ppcplanning.com
www.PPCPlanning.com

HAVE YOU TAKEN OUR SURVEY?
We're interested in learning more about **where you stand in terms of your economic outlook.** Please take a moment to visit our website and **take our short 5-question survey.** You'll find a link on our homepage at **www.ppcplanning.com.**

April 2013

Preferred Planning Concepts, LLC
Comprehensive Financial Services for Individuals, Professionals and Businesses

April, A Month of New Beginnings

The month of April bloomed into existence just as two major religious holidays, Easter and Passover, closed out the month of March. These two spiritual events symbolize the concepts of a fresh start, a rebirth, and personal liberation. As the spring season truly starts to blossom, we hope that whatever personal reflection you have done has left you with a clearer understanding of the steps that need to be taken in order for you to achieve whatever goals are at the epicenter of your life.

On the financial and investment front, there are many analysts and experts who remain staunchly upbeat and bullish about the stock market's ascendance despite the slow economic improvement. In firm opposition to their bullishness are others steadfastly rooted in their belief that the ongoing rise in the stock market is one that is inherently Federal Reserve policy driven, or one that has taken hold as a result of there being few options for investors to consider in other investment marketplaces. The bulls relish the fact that the backstopping of the economy via the trillions that have been borrowed and printed by the U.S. Government has ultimately led to the stock market once again reaching all-time highs.

The bears, on the other hand, have major difficulty believing that a person or country can truly borrow their way out of a recession, and that ultimately a "day of reckoning awaits." Each week we have seen articles in print and online that expound on both positions, all of which can likely leave you, as the investor, scratching your head and wondering what exactly to do.

Since no one knows for sure which way things will play out, the truly smart thing for you to consider doing is to put aside the oratory and verbiage you have echoing in your brain, and instead focus simply on what is important to you, and what is going on inside your heart, head, and stomach. It is your life, your money, and your future. Therefore, you need to decide what direction to take so that your own financial liberation or rebirth can occur on your terms, and not those of others.

Risk is different to many people. Some can endure it, while others need to run from it. In our practice, we have consistently sought to have clients use the personalized "retirement cash flow analysis" we prepare for them as the basis for making investment allocation decisions. We believe that knowing whether you are on track, ahead of schedule, or behind schedule in terms of reaching your goals puts you in a better position to evaluate what level of financial risk you can afford to take, or need to take.

If we haven't done this analysis for you, please call us to arrange a time to meet to discuss it. In the end, we hope to help you have your spiritual, personal, family, physical, career, and financial goals be in harmony.

Lastly, since spring is now upon us with temperatures on the rise, make sure you take time out to "stop and smell the roses."

Understanding the New Medicare Tax on Unearned Income

Health-care reform legislation passed in 2010 included a new additional 0.9% Medicare tax on wages, compensation, and self-employment income over certain thresholds. This new tax also took effect on January 1, 2013. The 0.9% tax does not apply to income subject to the NIIT. So while you may be subject to both taxes, the taxes do not apply to the same types of income.

Health-care reform legislation enacted in 2010 included a new 3.8% Medicare tax on the unearned income of certain high-income individuals. The new tax, known as the unearned income Medicare contribution tax, or the net investment income tax (NIIT), took effect on January 1, 2013.

Who must pay the new tax?

The NIIT applies to individuals who have "net investment income," and who have modified adjusted gross income (MAGI) that exceeds certain levels (see the chart below). (Estates and trusts are also subject to the new law, although slightly different rules apply). In general, nonresident aliens are not subject to the new tax.

Filing Status	MAGI over ...
Single/Head of household	$200,000
Married filing jointly/ Qualifying widow(er)	$250,000
Married filing separately	$125,000

What is MAGI?

For most taxpayers, MAGI is simply adjusted gross income (AGI), increased by the amount of any foreign earned income exclusion.

AGI is your gross income (e.g., wages, salaries, tips, interest, dividends, business income or loss, capital gains or losses, IRA and retirement plan distributions, rental and royalty income, farm income and loss, unemployment compensation, alimony, taxable Social Security benefits), reduced by certain "above-the-line" deductions (see page one of IRS Form 1040 for a complete list of adjustments).

Note that AGI (and therefore MAGI) is determined *before* taking into account any standard or itemized deductions or personal exemptions. Note also that deductible contributions to IRAs and pretax contributions to employer retirement plans will lower your MAGI.

What is investment income?

In general, investment income includes interest, dividends, rental and royalty income, taxable nonqualified annuity income, certain passive business income, and capital gains--for example, gains (to the extent not otherwise offset by losses) from the sale of stocks, bonds, and mutual funds; capital gains distributions from mutual funds; gains from the sale of interests in partnerships and S corporations (to the extent you were a passive owner), and gains from the sale of investment real estate (including gains from the sale of a second home that's not a primary residence).

Gains from the sale of a primary residence may also be subject to the tax, but only to the extent the gain exceeds the amount you can exclude from gross income for regular income tax purposes. For example, the first $250,000 ($500,000 in the case of a married couple) of gain recognized on the sale of a principal residence is generally excluded for regular income tax purposes, and is therefore also excluded from the NIIT.

Investment income does not include wages, unemployment compensation, operating income from a nonpassive business, interest on tax exempt bonds, veterans benefits, or distributions from IRAs and most retirement plans (e.g., 401(k)s, profit-sharing plans, defined benefit plans, ESOPs, 403(b) plans, SIMPLE plans, SEPs, and 457(b) plans).

Net investment income is your investment income reduced by certain expenses properly allocable to the income--for example, investment advisory and brokerage fees, investment interest expenses, expenses related to rental and royalty income, and state and local income taxes.

How is the tax calculated?

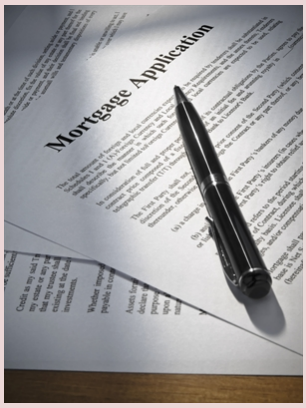
The tax is equal to 3.8% of the lesser of (a) your net investment income, or (b) your MAGI in excess of the statutory dollar amount that applies to you based on your tax filing status. So, effectively, you'll be subject to the additional 3.8% tax only if your MAGI exceeds the dollar thresholds listed in the chart above.

Example: *Sybil, who is single, has wages of $180,000 and $15,000 of dividends and capital gains. Sybil's MAGI is $195,000, which is less than the $200,000 statutory threshold. Sybil is not subject to the NIIT.*

Example: *Mary and Matthew have $180,000 of wages. They also received $90,000 from a passive partnership interest, which is considered net investment income. Their MAGI is $270,000, which exceeds the threshold for married taxpayers filing jointly by $20,000. The NIIT is based on the lesser of $20,000 (the amount by which their MAGI exceeds the $250,000 threshold) or $90,000 (their net investment income). Mary and Matthew owe NIIT of $760 ($20,000 x 3.8%).*

Note: *The NIIT is subject to the estimated tax rules. You may need to adjust your income tax withholding or estimated payments to avoid underpayment penalties.*

Financial Tips for Obtaining a Mortgage Loan



You're entitled to a free copy of your credit report once a year from each of the three major credit reporting agencies. Visit www.annualcreditreport.com for more information.

In January 2013, the Consumer Financial Protection Bureau released a new mortgage regulation, which sets forth stricter underwriting requirements for mortgage lenders. The regulation requires lenders to ensure a borrower's ability to repay a loan by taking a variety of underwriting precautions, including verifying income and assets and increasing debt-to-income ratios.

The regulation implements sections of the 2010 Dodd-Frank Act, and is aimed at protecting consumers by providing for a standardization of the mortgage loan underwriting process. However, some mortgage-industry experts fear there's a chance that the regulation may end up making obtaining a mortgage loan more difficult than it has been in the past. And while lenders have until January 2014 for final compliance with the regulation, some have already begun to tighten up their mortgage lending requirements. As a result, you may want to consider the following tips when applying for a mortgage loan.

Clean up your credit report

A borrower's credit history is the cornerstone to any lender's underwriting process. As a result, it's important to make sure that your credit report is in good shape before you apply for a mortgage loan. Your credit report contains information about your past and present credit transactions and is used by mortgage lenders to evaluate your creditworthiness. A positive credit history will not only make it easier to obtain a mortgage loan, but can also result in a lender offering you a lower interest rate.

You should review your credit report and check it for any inaccuracies. If necessary, you may need to take steps to improve your credit history. To establish a good track record with creditors, make sure you always pay your monthly bills on time. In addition, try to avoid having too many credit inquiries on your report, which are made every time you apply for new credit.

Improve your debt-to-income ratio

In the past, lenders looked for borrowers to have a debt-to-income ratio of no greater than 36%. The new mortgage regulation suggests that borrowers have a debt-to-income ratio that is less than or equal to 43%. That means you should be spending no more than 43% of your gross monthly income on longer-term debt payments. If you find that your debt-to-income ratio is too high, there are a couple of steps you can take to lower it.

Your first step should be to look at your long-term debt payments. These include student loans, credit cards, and car payments--any loans that won't be repaid within a year. Try to make it a priority to pay down your long-term debts as quickly as possible. This may require you to review your budget and make adjustments. If you are having trouble coming up with the extra money, take a look at your discretionary spending. By cutting back on discretionary expenses (e.g., going out to eat or to the movies), you may be surprised at how quickly you can free up money to put towards paying down your debt.

Another way to improve your debt-to-income ratio is to increase your income. Perhaps you can earn extra income by taking a second job or performing part-time consulting work in your chosen profession or field of expertise. If you are married and either you or your spouse is currently not working, you or your spouse may want to consider the possibility of reentering the workforce.

Increase the size of your down payment

While it is possible to obtain a mortgage with a minimal down payment--for example, Federal Housing Administration (FHA) mortgages require down payments of as little as 3.5% of the home's purchase price--a larger down payment will usually assure you a more attractive mortgage loan. In addition to requiring private mortgage insurance (PMI), lenders generally offer lower loan limits and higher interest rates to borrowers who have a down payment of less than 20% of a home's purchase price.

If you find that you don't have enough for a down payment, you may want to consider holding off on purchasing a home to give you time to increase your down payment fund. In the meantime, you can invest your down payment in a low-risk, interest-bearing account such as a money market deposit account.

Or, consider looking into alternative ways to fund your down payment, such as:

- Converting/liquidating assets to cash.
- Using gifts.
- Borrowing from a cash value life insurance policy or employer-sponsored retirement plan. (Keep in mind, however, that if you take a loan against your cash value, the death benefit available to your survivors will be reduced by the amount of the loan. In addition, policy loans may reduce available cash value and can cause your policy to lapse. Finally, you could face tax consequences if you surrender the policy with an outstanding loan against it.)

Preferred Planning Concepts, LLC
Dominic Cimino
Ken Lydecker
Dave Nicholson
2800 S. River Road, # 240
Des Plaines, IL 60018
T: 847.375.0505
therese@ppcplanning.com
www.PPCPlanning.com

What is pet insurance?

For many, a pet is a full-fledged member of the family. And just as health-care costs for human family members have risen over the years, so has the cost of veterinary care. It's probably not surprising, then, that pet insurance has gone in a fairly short period of time from relative obscurity to something that more and more people are considering.

With pet insurance, you pay premiums to a pet insurance provider; in return, the provider agrees to pay for some of your pet's medical costs, according to the specific terms and limits detailed in the policy agreement. How much you pay in premiums and the coverage you receive vary widely by provider, and depend on factors that include breed and age.

If you are considering pet insurance, it's important to request quotes from several providers (a list of 12 pet insurance providers, along with some helpful information, is available at www.avma.org, the website of the American Veterinary Medical Association). After obtaining quotes from multiple providers, look carefully at the coverage details offered by each company.

With pet insurance, costs associated with "wellness" care (e.g., regular office visits and vaccinations) generally aren't covered. Pre-existing conditions are also generally excluded. Some providers also exclude certain hereditary or common conditions--for example, many pet insurance providers exclude coverage for hip dysplasia, a disease often associated with larger dog breeds.

In addition to comparing coverages, make sure that you understand your out-of-pocket responsibilities. You may be responsible for a co-payment. You're probably also responsible for a specified deductible amount before a policy will make any payment. And once you've satisfied any deductible, a policy is likely to pay only a certain percentage of covered costs. So, for example, you might have a policy that pays 80% of covered costs after you satisfy the policy deductible. Some providers also cap benefits on a per-illness, annual, or lifetime basis.

One final note--with your health insurance, your provider probably bills your insurance directly. That's generally not the case with pet insurance. Typically, you pay all costs up front, and then you submit claims to the pet insurance provider for reimbursement.

Is pet insurance worth the cost?

The last thing you want is to have to forgo lifesaving treatment for your pet sometime down the road because you simply don't have the money to pay for it. But that's a situation many pet owners eventually face. Pet insurance can provide some peace of mind, but is it worth the cost? That's a tough question to answer.

Let's say that you have a two-year-old Labrador retriever. You get quotes from all the major pet insurance providers, and after carefully comparing coverages and details, you decide on a policy that will pay 80% of covered costs after you satisfy an annual $250 deductible. Your cost for the policy is $40 each month. In most years, you don't have any reimbursable claims--just routine visits or claims that don't exceed the deductible. After six years, your lovable Lab swallows a sock, things go horribly wrong, and he needs surgery at a cost of $4,000. Good thing you purchased the insurance, right?

Remember, you have a $250 deductible, so you will have to cover that yourself. And, the insurance policy will only reimburse you for 80% of the remaining $3,750, or $3,000. Consider this: If, instead of purchasing the pet insurance policy, you set aside $40 each month into an account earning 3%, you would have a little over $3,000--the same amount you would receive from the insurance policy--saved by the time the operation was needed. Of course, this example assumes that you have the discipline to set money aside each month. And, of course, if the great sock catastrophe happened in year two instead of year six, the insurance might seem like a wise purchase.

The bottom line is that pet insurance companies are in business to make a profit, and that is how they set their rates. By purchasing a pet insurance policy, you're shifting some of the potential financial risk from you to the insurance provider, and you are paying for that as part of your premiums. That doesn't mean purchasing pet insurance is a bad decision; you just have to consider the numbers carefully. At the same time, you have to factor in that it's not all about the numbers--you may believe now that there's a limit to what you will spend to treat a pet, but if and when that time comes, emotions often have a tendency to trump logic.

Preferred Planning Concepts, LLC
Comprehensive Financial Services for Individuals, Professionals and Businesses