CHAMBERS
FINANCIAL GROUP

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Making Up for Retirement Shortfalls

Given the backdrop of economic uncertainty and the rise in both life expectancy and medical costs, prospects look difficult for those facing retirement shortfalls. Fortunately, a financial advisor can show you how pulling these key levers can help your retirement nest egg last.

Work Longer: Working longer is one of the easier solutions for those facing retirement shortfalls, allowing you to contribute to your savings for a few more years.

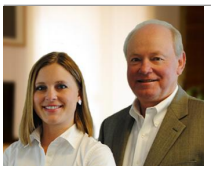
Reduce Spending During Accumulation Years: One of the best ways to save more is to spend less. Setting explicit goals with a financial advisor, having a clear understanding of your net worth, and carefully tracking expenses are essential to reducing your spending.

Reduce Planned Expenses in Retirement: Your retirement nest egg may last longer if expenses, such as home costs during retirement years, are reduced.

Optimize Your Asset Allocation: As you near retirement, a portfolio that is too conservative can be just as risky as one that is too aggressive. Retirement can be a 30-year prospect, long enough to consider a specific allocation to stocks, which, although they are more volatile, offer higher return potential over time.

Delay Taking Social Security: If you're healthy and expect to live long, waiting until age 70 to receive Social Security benefits can result in a higher payout.

Returns and principal invested in stocks are not guaranteed. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses, and that investing in securities always involves risk of loss. Please consult with a financial professional for advice specific to your situation.



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Chambers Financial Group is a comprehensive financial services firm that was founded in 1984 with the goal of assisting our clientele with a holistic financial view in mind. We integrate many of the financial areas in your life, including investment planning, portfolio management, retirement planning, estate and tax planning.

We are an independent family practice dedicated to providing objective, responsible financial planning assistance to a broad range of clients. Our objective is to help our clients live the life they wish to, both now and in the future. Our clients' success is our success.

We believe in building long-term relationships with our clients. We believe in the value of building trust and confidence with long range plans to achieve your financial goals. We give unbiased, honest advice and believe patience along with discipline is crucial in the achievement of defined investment goals.

How Can Grandparents Help with College Costs?

If your grandchildren are fortunate enough to have you chip in with their college costs, there are a few things you need to be aware of before you start writing checks.

The most straightforward way for a nonparent to help a student pay for college is with a cash gift. Gift tax rules in 2013 allow any individual to give another individual up to $14,000 per year ($28,000 from a couple) without the gift counting against the lifetime estate tax exemption. A problem with this approach is that your contribution will be taken into consideration when the student applies for need-based financial aid. Cash given directly to a student the year before he or she applies may be considered student income, reducing need-based aid by as much as 50% of the amount given. Furthermore, money held in the student's name is treated as a student asset, reducing aid by another 20%. Cash given to the parents also counts against financial aid, albeit at a much lower rate of up to 5.64%. To potentially avoid any financial aid impact with a cash gift, keep in mind that the Free Application for Federal Student Aid takes into account income from the prior year in determining need-based aid. Hence, consider giving the money when you know the student will not be applying for aid next year.

Another approach is to offer to help pay back the student's loans. By waiting until the student is done with school, you avoid financial aid concerns and help ease his or her debt burden as the student enters the workforce. This strategy may be particularly useful for students with subsidized loans, which don't begin to accrue interest until after graduation.

Grandparents may also open a 529 college-savings account in the name of a student. One of the advantages of this approach for the account owner (the grandparent) is that many states offer income tax deductions on 529 contributions, though you must typically make the contribution to your home state's plan in order to earn the deduction. Another benefit is that the IRS allows a five-year acceleration of the gift tax exclusion for such contributions, allowing an individual to contribute as much as $70,000 in a single year to a 529 in a student's name. A disadvantage to this approach is that distributions from a 529 owned by someone other than the student or his or her parents are counted as student income and may reduce the amount of need-based financial aid available by $0.50 for every dollar distribution. Waiting to use 529 distributions from a grandparent-owned account until the student's final year is one way to avoid this problem.

One final option that some grandparents might consider is paying tuition directly to the university on the student's behalf. This has special appeal for those who want to give large amounts but who are worried about gift tax consequences. The good news is that payments made directly to the university to cover tuition are exempt from the gift tax, although additional costs such as room and board are not. Unfortunately, direct tuition payments may be counted as either income against the student's financial aid allocation (reducing it by 50%), or as a financial resource available to the student (reducing financial aid dollar-for-dollar). Hence, this only makes sense for students who are not concerned about need-based aid or if the payment is made during the final year of school.

Tax law is ever-changing and can be quite complex. It is highly recommended that you consult with a financial or tax professional with any tax-related questions or concerns. An investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities before investing. More information about municipal fund securities is available in the issuer's official statement, and the official statement should be read carefully before investing. 529 plans are tax-deferred college savings vehicles. Any unqualified distribution of earnings will be subject to ordinary income tax and subject to a 10% federal penalty tax.

The Best Investments for Your IRA

Stocks or Bonds: Which Are Better?

Conventional wisdom holds that investors should hold bonds in tax-protected vehicles like IRAs and stocks in their taxable accounts. Intuitively, that makes sense. After all, bonds throw off a lot of taxable income, which is taxed at rates as high as 35%. Meanwhile, stocks typically generate much less income, and that dividend income is taxed at a much lower rate—generally 15%. (Long-term capital gains from stocks enjoy the same rate.)

In this instance, however, the conventional wisdom has limitations. Stocks generally produce higher returns than bonds, and thanks to the magic of compounding, the differences in performance really add up over time. That's why the return from stocks can generate a much higher tax burden than bonds over the long haul. If you're a long way from retirement, it might make more sense to hold stocks in your IRA (and bonds if you are close to retiring).

Not All Investments Are Equal

So you've got a while until you retire, and you've decided that stocks are the right choice for your IRA. That decision only gets you so far. For an IRA, not all stock investments are created equal. For example, index funds' popularity has soared over the past decade, thanks in no small part to these offerings' often rock-bottom costs as well as the fact that so many active stock-pickers routinely lag their benchmarks. Such funds may also have the benefit of very good tax efficiency, because managers of large-cap index funds tend to buy and sell infrequently. In the same vein, actively-managed funds with very low turnover often don't generate a lot of taxable gains, either. Either fund type would work well as an IRA holding. However, to the extent that you own funds that do generate a lot of taxable capital gains, it makes sense to hold them in an IRA or other tax-sheltered account. In so doing, you take maximum advantage of the IRA's key attribute: tax-deferred (traditional IRA) or tax-free (Roth IRA) compounding.

As for bonds, municipal bonds don't belong in an IRA; such funds generate income that's exempt from federal and in some cases state income tax, and their yields are generally lower than taxable bonds as a result. Meanwhile, high-yield bonds are better contenders—they generate heaps of income, but IRA investors don't have to pay tax on those distributions. Alternative asset classes may also make ideal IRA candidates. REIT funds, for example, pay out heaps of income from their underlying real-estate holdings, and none of it is tax-advantaged; thus, to the extent that you own such an offering, you'll want to be sure to stash it in an IRA or other tax-sheltered vehicle.

Keep the Big Picture in Mind

How you split your portfolio between stocks and bonds should be based on your risk tolerance and time horizon, not what makes sense from a tax perspective. Your goal isn't necessarily to avoid taxes, but to maximize after-tax returns. Be sure to consult with a financial advisor or tax professional for the latest rules and regulations.

Past performance is no guarantee of future results. Stocks and REITs are not guaranteed and have been more volatile than bonds. REITs typically provide high dividends plus the potential for moderate, long-term capital appreciation. A REIT must distribute at least 90% of its taxable income to shareholders annually. Real estate investment options are subject to certain risks, such as risks associated with general and local economic conditions, interest rate fluctuation, credit risks, liquidity risks and corporate structure. High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds. Municipal bonds may be subject to the alternative minimum tax (AMT) and state and local taxes, and federal taxes would apply to any capital gains distributions.

How Safe Is Your Life Insurance Policy?

So you've finally sat down with your financial advisor and answered important questions, such as do you need life insurance, how big of a policy do you need, and what type makes the most sense for you. One thing you don't want to happen after purchasing your life insurance policy is to find out the company that sold you the policy has run into financial trouble. If your insurer went out of business, not only would you be uninsured, but you would also have to reapply for a new policy at a potentially more expensive rate due to your age and health.

Fortunately, there is a system in place to ensure that policies remain in force even after the issuing companies become insolvent. All 50 states, plus the District of Columbia and Puerto Rico, have life and health insurance guaranty associations that step in to make sure that policyholders aren't left holding the bag if their insurance company becomes insolvent. In nearly all states, the limits of coverage are $300,000 for life insurance death benefits and $100,000 for the net cash value of the policy. Some states even have limits as high as $500,000 for both. Coverage is provided by the guaranty association in the state in which the policyholder resides, even if he or she purchased the policy elsewhere.

For customers who hold policies worth more than their state guaranty limits, one option is to buy multiple policies within those limits from different companies to reach the desired total amount. So, instead of buying a $1 million policy from a single company, you could buy $250,000 policies from four different companies. The downside is that not only is this somewhat inconvenient, but it also might result in paying more than you would for a single policy because of the additional fees involved, not to mention different premium rates. Consult your financial advisor to explore all your options.

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