Jane Walstedt: Now I'd like to ask Paulette Lewis, the Women's Bureau Regional Administrator in Atlanta, Georgia, to introduce or third speaker. Paulette...

Paulette Lewis: Thank you, Jane. I'd like to introduce to you Ms. Lisa Featherngill. Ms. Featherngill is the Director of Financial and Estate Planning for the Winston-Salem and Palm Beach offices of Calibre. She is responsible for the delivery of customized estate and financial planning services to Calibre clients.

Ms. Featherngill has provided tax and financial planning services to affluent clients and families for more than 20 years.

Prior to joining Calibre Ms. Featherngill was the managing director of a boutique wealth management firm in Richmond, Virginia. She previously held the position of Regional Managing Director for Wachovia’s Financial Planning Group and spent the first 11 years of her career with Arthur Andersen, where she was a senior manager in the Washington, DC metro area Personal Financial Planning and Family Wealth Planning practices.

Ms. Featherngill received her BS degree in Accounting from George Mason University. She is a Certified Public Accountant with a designation as a Personal Financial Specialist and a Certified Financial Planner® professional.

She is a member of the American Institute of CPAs, where she sits on the PFS Credential Committee. Welcome, Ms. Featherngill.

Jane Walstedt: Lisa?
Lisa Featherngill: Sorry. I had it on mute. Thank you, Paulette. I'd like to take the discussion and really piggyback off of some of the ideas that Paulette -- I'm sorry--that Nancy mentioned, specifically around savings and investing.

So let's say that you've gotten to the point where you are starting to save some money--and Nancy said, you know, make it fun.

Well one of the ways to make it fun is to look at how to invest the money. And what…so I'd like to talk a little bit about how do you build an investment strategy.

Well the very first thing I suggest that people do is after they've taken the financial inventory and they have those statements still out, take those statements and build a spreadsheet, look at each statement and look at how the investments are allocated between cash, fixed income and equities.

And you may even break that down further. For example, the equities might look at domestic versus foreign. And you could even break that down further by in the foreign you might look at emerging market versus large market international equity.

So go ahead and start to break down each of those statements into the current asset allocation. And then combine all of those and look at how your total portfolio is currently allocated.

I would say a lot of people's asset allocation is just…is the accumulation of a lot of different investment decisions. And what I want to suggest to you is that the asset allocation should be your investment strategy. You should look at it from the top down and say here's where I feel comfortable having the portfolio invested.
Should it be 60% stocks and 40% cash and fixed income or should it be 70/30? Wherever it’s going to be it’s going to be a matter of personal taste. And factors that go into that include the length of time you have to invest the money, not just to retirement, but are you going to need the money for some goal within the next five or ten years?

A lot of family history, believe it or not, goes into your attitude about money. If your parents were very leery of the stock market, a lot of that type of attitude really tends to run deep into the children as well.

So think about there's a lot of good resources online for helping do some calculations. What I like to tell people is don't look at the maximum return on a portfolio; look at the maximum loss.

Because what I found--particularly in the years like 2008, 2002, 2001--is that people's risks tolerance is very different in a down market than it is in an up market.

So start with that, with the asset allocation strategy, and let that be your guiding investment strategy as you go forward. So if you know that you want 70% to be in equities, and you're getting ready to invest some 401(k) money, let that be your guide. Okay?

The next thing I'd like to talk about is some ways, some vehicles for investing. And I'd like to start with talking about retirement plans, because that's probably for most people the most accessible and the most economic… economically feasible.

I love 401(k) plans. And the reason is because you're forced to dollar cost average [see the definition of dollar cost averaging in the glossary on the WiSeUp Website under “Learning”]. So if you contribute to your 401(k) plan
each pay period, in essence what you're doing is you're making an investment every two weeks or once a month.

And what that does is it allows you to buy into the market when it's up and when it's down. And over time that should average out. But you're not taking a bet by investing money all at one time.

The nice thing about 401(k) plans also is that if you get into a bind...let's say you lose your job, you have the ability to make hardship withdrawals if you roll it over to an IRA, or let's say you're still employed but you put money into that 401(k) plan and you’re going to buy a house and you're thinking that you would only need 10% down but now the bank is saying you need 20%, well you could borrow money from your 401(k), pay it back to yourself with interest, and let that be a source of funds for you.

A lot of what I hear these days is “What about this Roth, the Roth 401(k), the Roth IRA? Should I use that?”

The Roth just came about, oh I want to say, around 2001. And it's now...well as of next year it will be required by most employers to offer a Roth 401(k) in addition to the regular 401(k).

In essence what a Roth is, is you're making an after-tax contribution. The beauty of a Roth is that that money accumulates at...it accumulates, and you never pay tax again.

Now you have to meet a couple of requirements. For example, the money has to stay in there for five years, and there are a couple of other things. But those...there are rules that are easy to work with.
So in essence what you're doing is you're paying tax now to never pay tax on the earnings on that money again in the future. So that's why planners really like the Roth 401(k) and the Roth IRA.

With that said, if you're considering putting money into the 401(k), and you're wondering should I put it into the regular 401(k) or the Roth 401(k), typically I'd put it into the regular [traditional or safe harbor] 401(k) up to the amount that you can put in pretax, which is I want to say $16,500 in 2009 plus an extra $5,000 [in 2008 and $5,500 in 2009] if you're over age 50.

If you hit the maximum on the pretax, then look at the Roth option.

Likewise, if you've taken care of your 401(k) and now let's say you either don't have a Roth option in your 401(k) or you just want to put something into your own IRA, look at a Roth IRA. In fact, I want to give you some comparisons between a Roth IRA and a traditional IRA.

For either one, the maximum you can put in is $5,000 a year. That's a 2009 figure. And it's an extra $1,000 if you're over age 50.

If you are covered by a company, your employer's retirement plan, you can deduct the contribution to a traditional IRA -- that's the one where you get a tax deduction -- only if your income is below $53,000 if you're single. [Editor’s Note: Your deduction for contributions is reduced if your modified adjusted gross income is more than $53,000 but less than $63,000 for a single individual or head of household. See Internal Revenue Service Publication 590.]

If you are - if you're covered by your company’s retirement plan and you put money into a Roth IRA, or let me put it differently, if you're covered by your
company's retirement plan, you can put money into a Roth IRA if your [modified adjusted gross] income is less than $116,000 if you’re single.

So there's a higher…you can make more money and still put…make a contribution to the Roth IRA.

If you are not covered by a company plan and you have wages, you can put money into a traditional IRA and get the current deduction.

So again why, you know, why do I get all excited about the Roth IRA and the Roth 401(k)? Well, you know, there is the issue that you never pay tax on the earnings again. But I'm going to tell you something that's not going to make sense intuitively. And that's this:

If you were to today either put $10,000 into a traditional 401(k), you’d have $10,000 going in because you're not going to pay tax on it or you could take that $10,000, pay tax and put the money into the Roth 401(k)… so I’m going to use a 35% bracket.

So you have $6,500 going in instead of $10,000. And let's say that it builds at 8% a year for the next 20 years. You pay taxes on the traditional 401(k). And again, let's assume it's at the 35% rate, but you don't pay any taxes on your distribution from the Roth, you still have the same amount left over.

So you started with $10,000 in the 401(k). It grew to $46,000. You paid $16,000 in tax. I'm rounding this a little bit. You ended up with $30,300.

And the Roth you put $6500 in. It grew to $30,296. That's the actual number. You never pay tax and you've got the same amount left over as if you had put the money into the 401(k) and then paid tax at the end.
So why does this...you know, so why do I like the Roth so much? Well, for a couple of reasons. Let's focus on the IRA for a second. Let's say you can put in $5,000 into the...into a traditional IRA or you could put $3,000 into a Roth IRA. I think it's a whole lot easier to put $3,000 into an investment than it is to put $5,000 into an investment, especially if it's not coming off the top of your paycheck.

So it's easier to do is one thing. Second, you get the accumulation tax-free, and you never have to take distributions from a Roth IRA, which may sound like that's not a benefit. But you never know what life is going to look like at age 70½.

IRS says you have to take distributions from an IRA and from a traditional 401(k) plan. You don't have to do that with the Roth.

Further, if you put money into the Roth, and let's say you get into a bind and you have to take the money out, IRS says that the money that you take out is first deemed to be the money that you put in. So you don't have to pay tax on it.

So in essence you have the best of all worlds. You could let it grow there tax-free or you can take it out if you need it and not have to pay tax on it.

All right, I'm going to switch gears a little bit and talk about refinancing, because that's the other thing that I'm seeing quite a bit right now. And I want to give an example. And this is actually...this is an example that came up this week with a client.

Let's say you got a $250,000 mortgage, and you've called a couple of banks, and you've come down to two options. One of them is a 4½% interest rate. You have to pay 2 points.
The other option is a 5% interest rate, but you don't have to pay any points. What should you do?

Well I look at that as really being three options. You can pay the 4½%. If you can get the 4½% loan, pay the 2 points up front or you could get the 4½% loan and have them wrap the 2 points into the mortgage if you've got the equity. So that's options 1 and 2. And then the third option would be the 5% loan with no points.

Basically, if you're going to pay points up front, it's going to take you at least ten years to be in the same situation as if you had financed those points, especially with the interest rates as low as they are right now.

If you're comparing a loan with points versus a loan without points, it's basically going to take…the way to figure you break even is to look at the number of points. And let's say in this case you're looking at 2 points, okay? That 2 points is the same as 2%, which is the same as 200 basis points.

And you divide that by the difference in the loan--the loan rates, the loan interest rates.

So in one case we have a loan interest rate of 5% and in the other case it's 4½%. So we have a 50 basis point difference.

So you take your 200, you divide it by 50. That says in four years you're at about break even.

I've run the numbers. It's maybe a little bit more than four years, but at about four years you're break even, and at which point it'd be better to go with the lower interest rate loan.
But if you think that there's a good chance that you're going to refinance within the four years or you're going to move within the four years, you're better off not paying the points. I hope that makes sense to everybody, because I'm sure that's on a lot of people's radar screen right now.

I will tell you personally I just refinanced last Friday.

A couple other things that I would just have on your radar screen during these economic times.

One, make sure you don't withhold too much. Obviously you want to keep as much money as you can from each paycheck. You can do that while you're doing your taxes this year. A lot of the tax software has some built-in calculators to let you determine how much you should be withholding for 2009.

Look into education [tax] credit. If you're in school, your parents may be taking the credits, but make sure that as a family you take a look at this. If you have children in school you may qualify for education credits.

Nancy talked about taking your financial inventory. One thing I would also suggest is when you take that inventory and you make a list of all the debts and you start your plan about how you're going to attack that balance sheet in order to be debt free, start with those highest interest rate debts first. Obviously, it's intuitive. But sometimes it takes putting everything on paper to realize just what you're paying.

And then two other points really quickly.
One is if you didn't get an economic stimulus check in 2008, you may be eligible for one in 2009. And certain people are going to be eligible for one in 2009 anyway.

So when you go to file your taxes, look at the instruction book. It will have some information on that.

And the last point I want to make is that if you are considering a change in employment, probably the number one expense that could harm your balance sheet is medical expenses. So just be sure that you're covered and anybody in your family who is dependent on you is covered. And that's all I have.

Jane Walstedt: Thank you very much, Lisa. That's a lot of information to absorb. And I know we have to be careful with the tax consequences of some of these decisions around withdrawing money from our IRAs.

We were…I was just looking that up because we had some questions from our WiSeUp participants. And people might find it interesting to go on the WiSeUp Web site and look at those questions and answers.

And I know that you told us you could only stay with us till the hour. I'm going to extend this call if the other two speakers can stay with us because right now we only have 5 minutes for questions. And I'm pretty sure we're going to have more than 5 minutes worth of questions.