# Pettinga Insights and Outlook

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## Bleak Picture

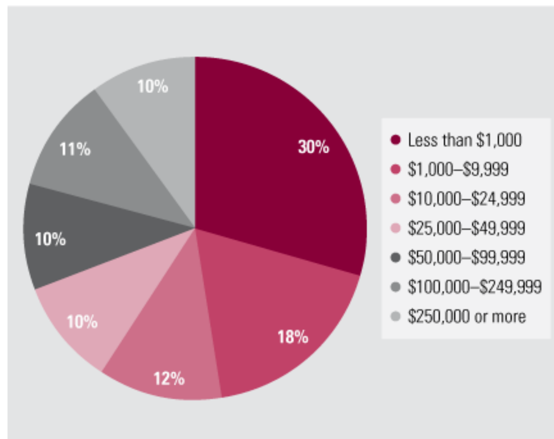
Get A Comprehensive Retirement Analysis Today!

- Pettinga Financial Advisors is committed to providing our clients with all the information they need to make smart financial decisions.
- Ask us about what we can do to provide you with the kind of analysis that details what your retirement might look like.

The Employee Benefit Research Institute (EBRI) is an organization founded in 1978 with the mission of encouraging and contributing to the development of sound employee-benefit programs. Every year, the EBRI publishes a retirement confidence survey. The 2012 survey interviewed 1,003 workers and 259 retirees in order to find out their confidence in being able to meet retirement financial goals.

Unfortunately, the survey results look pretty bleak this year. For example, as the image illustrates, 30% of workers report having saved less than $1,000, and 18% report retirement savings in the $1,000–$9,999 range. Overall, more than half of workers have less than $25,000 saved, at a time when people start questioning if $1 million will be sufficient for a safe retirement. Take a minute and see if you recognize yourself in this picture.

### Total Savings and Investments Reported by Workers




Source: EBRI 2012 Retirement Confidence Survey, No. 369, March 2012. Savings reported not including value of primary residence or defined-benefit plans. Percentages may not add up to 100% because of rounding.

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Get there.

### Our Firm

Pettinga Financial Advisors, LLC is an independent, fee-only financial services firm serving clients across the nation from our office in Evansville, Indiana.

We offer a no-obligation introductory meeting to interested persons and institutions to determine if we can add value to their individual situation.

Because you receive our services on a fee-only basis, you pay no sales commissions for our investment counsel. Nor do you deal with sales people tied to transaction commissions. Instead, you enjoy a personal relationship with a knowledgeable, unbiased advisor.

Your personal financial advisor focuses on the future you envision and commits to helping you Get There.

Pettinga Financial Advisors, LLC is a proud member of Focus Financial Partners.

# Monthly Market Commentary

January saw a mixed bag of economic news for both bulls and bears to feast on—negative GDP report, positive employment adjustments, and a good long-term housing trend overshadowed by inventory shortages of homes, new or used, in the short-term. Morningstar economists believe that the market's positive reaction to the seemingly bearish but actually bullish GDP report was the correct interpretation. However, bad weather, the bad GDP report, the temporary shortage of home inventories, and the increased payroll tax and tax refund delays will likely weigh on upcoming economic reports.

GDP: The first estimate of GDP indicated that the economy shrank 0.1% in the fourth quarter of 2012, compared with growth of 3.1% in the third quarter. Consumption, business investment, and housing components of GDP all did better than expected, while government and inventories were the main detractors. While the negative GDP number was shocking, closer examination suggested that government bill payers and overly cautious businesses were largely to blame for an otherwise excellent report.

Employment: January employment grew at a satisfactory pace, with 157,000 jobs added. More importantly, significant annual revisions showed exceptionally strong employment growth in the fourth quarter of 2012. Construction and retail were standout performers after the adjustments, while most other categories did not show meaningful changes. Employment growth for the whole of 2012 averaged 181,000 per month, up from 153,000 per month prior to the upward revisions. Unfortunately, the U.S. economy has still only just recovered 5.5 million of the 8.7 million jobs lost during the recession. The unemployment rate in January inched upwards to 7.9% from 7.8% the month before.

Housing: Housing starts soared in December, coming in at 954,000 units compared with just 851,000 units the previous month. The good news is the growth was geographically dispersed and included nice improvements in both single-family homes and apartments; the bad news is that current housing starts are still well below 50-year averages (about 1.5 million units). On the other hand, new-home sales in December came in at 369,000 units sold compared with the recovery record of 398,000 in November. In case you were wondering why there is such a huge variance between housing starts and new-home sales, the biggest difference is that new-home sales only reflect single-family homes while housing starts include a range of single-family homes to giant multifamily apartment buildings. Since the bottom of the housing crash, non-single family home starts have more than quadrupled, while single-family starts were up an impressive but more modest 66%.

Manufacturing: Although U.S. manufacturing isn't generally important enough to move the economic needle at this stage of the recovery, news in the last week of January was surprisingly and uniformly positive. Morningstar economists believe that given continued strong consumer purchases and improvements in China, a rebounding manufacturing sector should come as no surprise. However, the most recent GDP report does suggest that the manufacturers badly misgauged consumer demand in late 2012, and had shrunk inventories when they probably should have been expanding them. Outside the U.S., manufacturing in China and Europe has recently improved as well, with January's data indicating 24- and 10-month highs, respectively.

Auto: Excellent auto sales in January (15.28 million units) also proved to be encouraging news for the economy, with year-over-year sales up 14%. This number came very close to the highest month of 2012, which was November (15.5 million units), although November's number was aided by restocking after Hurricane Sandy.

# What the Tax Deal Means for Your Portfolio Plan

The tax deal passed on January 1st, 2013 included something for everyone to revile: Tax hawks decried higher taxes on the wealthy, while many on the left rued that Bush-era tax cuts were made permanent. In any case, the newfound certainty in tax rates makes matters of investment, estate, and tax planning significantly easier.

Higher Rates for High Earners: Higher income, dividend, and capital gains taxes will kick in for those individuals earning more than $400,000 and married filers earning more than $450,000. Starting in 2013, those high earners will pay a top tax rate of 39.6% on ordinary income and 20% on both dividends and long-term capital gains. For individuals in the aforementioned higher income tax bands for 2013 and beyond, many best practices for tax management like maximizing contributions to tax-sheltered accounts (IRAs and 401(k)s) while placing assets with high year-to-year income production in tax-sheltered vehicles may make more sense.

Conversions from Traditional 401(k)s to Roth 401(k)s: The fiscal cliff deal now allows all employees with traditional 401(k) balances to convert them to Roth 401(k)s, provided their 401(k) plan allows for such a conversion and includes a Roth 401(k) feature. Before, the Small Business Jobs and Credit Act of 2010 enabled only a limited subset of individuals (those who have left or retired from their former employers, are age 59 1/2, or are disabled or dead) to do so. Because in-plan conversions allow workers to pay taxes on their balances at today's tax rates in exchange for tax-free withdrawals during retirement, such a maneuver may make the most sense for those who have reason to believe their tax rates will be higher in the future.

Long-Term Care Provision: Originally a component of the landmark 2010 health-care reform law, the Community Living Assistance Services and Supports (CLASS) Act was designed to create a national insurance pool, offered through employers, to help workers pay for long-term care. The recently passed budget agreement finally repealed the CLASS Act. However, there have been dramatic increases in long-term care insurance premiums, owing to both low interest rates and misguided actuarial assumptions. In the face of these headwinds, would-be long-term care insurance purchasers can (1) skinny down long-term care insurance buy, purchasing a policy that provides a baseline of long-term protection but has a longer elimination period (that is, higher deductible) or a lower dollar limit on the amount of benefit, or (2) younger folks might consider delaying their purchases in the hope that higher interest rates will help tamp down premiums in the future. However, this could result in higher premiums as you age, or the possibility of developing a health condition that could make insurance costly.

Alternative Minimum Tax (AMT): With this new deal, Congress put in place an inflation-adjusted exemption amount for the alternative minimum tax. Had Congress failed to take action, an estimated 28 million new taxpayers would have been subject to the AMT for the 2012 tax year, according to IRS estimates. It is important to note that a host of factors affect a taxpayer's vulnerability to the AMT, both on the tax deductions, exemptions, and credits side as well as on the income side of the ledger, and those items change from year to year.

Estate Tax: Although the estate tax exemption was set to drop to $1 million in 2013 and the estate tax was set to rise to 55%, the estate tax exemption will remain $5.12 million per individual, and the top estate tax rate will increase to 40% from 35% in 2013. However, regardless of the status of the estate tax, everyone needs to mind basic estate-planning matters, including properly drafted beneficiary designations, guardianships for minor children, and powers of attorney for financial and health-care matters.

# What's the Number?

Do You Know Your Number?

▸ Let us help you prepare your personal financial plan today!

"The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings," published by the Employee Benefit Research Institute in March 2012, includes the following highlights.

1) Only 14% of Americans are very confident they will have enough money to live comfortably in retirement. 42% of Americans identify job uncertainty as the most pressing financial issue facing Americans today.

2) 60% of workers report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000.

3) 37% of workers in 2012 said they expected to retire after age 65, up from 11% in 1991. 62% of workers and 37% of retirees consider their current level of debt to be a problem.

4) 56% of workers report they and/or their spouse have not tried to calculate how much money they will need to have saved by the time they retire so that they can live comfortably in retirement.

5) 16% of workers and 11% of retirees are very confident that their investments will grow in value. But 67% of workers state that they are a little or a lot behind schedule when asked to evaluate their progress in planning and saving for retirement.

6) 24% of retirees are very confident about having enough money to cover medical expenses in retirement, and 18% of retirees are very confident about having enough money to pay for long-term care in retirement.



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Pettinga Financial Advisors
519 Main Street
Suite 100
Evansville, Indiana 47708