

Kiplinger's RETIREMENT REPORT

Your Guide to a Richer Retirement

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Get a Jump-Start on Your 2011 Tax Bill

THE RITES of summer: lawn chairs, sun-screen, ice tea, fireworks, tax returns ... What?! Yep, tax returns. “Now is a great time to do planning for 2011,” says Kathy Pickering, executive director of H&R Block’s Tax Institute. “You have half a year left to make some adjustments.”

CHRIS SHARP

By getting a jump-start on your tax planning, you can employ a number of strategies that will trim your tribute to Uncle Sam. Perhaps you can position your investment portfolio to reap capital-gains breaks. Or you can arrange for home improvements that are medically necessary—and tax-deductible.

Your first tax chore is to check the bottom line of your 2010 return to see if you should change your tax withholding or revise your estimated tax payments. The average refund for 2010 rose to a record \$2,900. If you got a big refund, don’t consider it a bonus. Instead consider cutting back on what you’re paying the government for the rest of 2011. If you owed a bunch of money, maybe you should up your withholding.

If you’re not employed or if you work for yourself, adjust your estimated payments accordingly. Employees should file a new W-4 form to change the number of allowances. Our tax-withholding calculator (kiplinger.com/tools/withholding) can give you a good idea of how many allowances to claim based on your marital status, income and size of your refund. Or you can look at IRS Publication 919, *How Do I Adjust My Tax Withholding?* (www.irs.gov).

But don’t assume that you’ll owe the same tax in

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2011 that you did in 2010. For example, if you had to boost payments in 2010 to cover the bill on a big capital gain, you can pay in less for 2011.

Also, taxpayers who converted a traditional IRA to a Roth in 2010 may have decided to split the income-tax bill over 2011 and 2012. "People who fall into this category should consider making bigger estimated tax payments during this year, or if they are still working, they should have more withheld from their paycheck," says Bob Scharin, senior executive editor at Thomson Reuters, a provider of tax and business information.

Newly retired? Now that an employer is no longer withholding taxes from a paycheck, you must do your own calculations. Rather than make quarterly estimated payments, Pickering suggests that you ask your IRA custodian and the Social Security Administration to withhold taxes for you. "At least you won't have to come up with the tax payment," she says. Fill out IRS Form W-4P to withhold from an IRA and Form W-4V for Social Security withholding.

■ **Plan for the AMT.** Congress usually waits until the eleventh hour to temporarily raise the exemption for the alternative minimum tax. But when lawmakers extended the Bush tax cuts at the end of last year, they approved an exemption for 2011 as well as for 2010. That gives taxpayers, especially those who live in states with an income tax, extra time to engage in a bit of AMT strategizing.

Begin, says Melissa Labant, an expert in the tax division of the American Institute of Certified Public Accountants, by projecting your income and expenses for 2011 and 2012. Then figure out if you'll be subject to the AMT this year or the next.

Let's say it looks like you won't be subject to the AMT in 2011 but you may be in 2012. Because deducting state income taxes is not allowed under the alternative minimum tax, Labant says, send a check in December for the state-tax estimate that's due in Janu-

ary. "You will have the tax expense anyway," she says. "If you prepay it, you can take it as an itemized deduction in 2011." By doing so, you will reduce this year's tax tab (see "Make Moves Now to Escape AMT-Land," June).

■ **Capital ideas.** Check your 2010 tax records to see if you carried over any capital losses, perhaps from as far back as the market swoon in 2008. If so, recognizing those losses can effectively allow you to take tax-free capital gains on sales of appreciated securities. Capital losses offset capital gains dollar for dollar. "You can capture the gain, invest in another stock or mutual fund, and pay no capital-gains tax," says Jerry Love, a certified public accountant in Abilene, Tex.

Beware, however, that harvesting gains to take advantage of carryover losses could backfire if you're in the 10% or 15% tax bracket (married couples with taxable incomes of up to \$69,000 and individuals with incomes of up to \$34,500). Long-term capital gains that take you up to the top of the 15% bracket are taxed at 0% for 2011, so it would be a waste of a carryover loss to wipe them out. Of course, you should never make investment decisions solely based on tax considerations, but be sure you understand the tax ramifications before you sell.

As you review your portfolio, consider the tax efficiency of your investments. Income from different kinds of investments is taxed differently depending on whether you hold the investments in a taxable account, a tax-deferred traditional IRA or 401(k), or a tax-free Roth IRA or 401(k).

You may be able to hold down your overall tax tab by placing certain assets in certain types of accounts. For instance, taxable accounts should hold assets that will pay out little in taxable income, such as municipal bonds and index stock mutual funds. Meanwhile, by holding taxable bonds in your tax-deferred account, you hold off ordinary-income tax on the interest until you tap the account. A Roth account, where assets

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From the Editor

NEED CASH? Let your stocks give you a loan!" Sounds tempting, doesn't it? That's a typical pitch from promoters who are encouraging investors to pledge fully paid stock as collateral for a loan from unregistered lenders.

In a recent alert, the Financial Industry Regulatory Authority warned investors that these stock-based loan programs can be risky and costly. The lender could fail to return the stock even after the loan has been repaid, FINRA notes. The interest rates on these loans are often above 10%. And in some cases, the IRS could consider the transaction a taxable event.

FINRA, a self-regulatory broker group, says the programs are marketed by financial planners, accountants, brokers, insurance agents and investment advisers. Advisers sometimes offer the program so that their clients can raise the cash to buy other products they are selling, such as annuities, says FINRA.

It's best to walk away from these stock-based loan programs. If you're determined to proceed, check FINRA's BrokerCheck database at www.finra.org to verify the registration status of the lender or promoter. If the lender purports to be a bank, visit the Web site of the Federal Financial Institutions Examination Council (www.ffiiec.gov). You can also call FINRA at 240-386-4357.



Susan B. Garland, *Editor*

grow tax-free, is a terrific tax shelter for actively managed stock funds and growth stocks.

However, be careful when you adjust what is held where. While switching between investments is tax-free within an IRA or 401(k), for example, selling stocks to move cash into tax-free munis could trigger a tax bill in a taxable account.

■ **All things Roth.** Taxpayers who convert a traditional IRA to a Roth this year will not have the option to defer and split the tax bill, as they did last year. All taxes

on a conversion this year will be paid on the 2011 return. If a big conversion would push you into a higher tax bracket, you can limit the amount you convert so your taxable income doesn't exceed the top of your current bracket. You can convert more in 2012.

If you converted in 2010 and took the two-year tax deal, be careful not to sabotage it. If you withdraw any of the converted funds from the Roth in 2011, you will pay taxes on half of your 2010 conversion, as you planned—plus tax on the withdrawn amount, according to Ed Slott, an IRA expert and a certified public accountant from Rockville Centre, N.Y.

Let's say you're a 65-year-old who converted \$100,000 from a traditional IRA to a Roth in 2010, says Slott. You intended to report \$50,000 of conversion income in 2011 and \$50,000 in 2012. This year, however, you need to withdraw \$15,000 from the Roth to pay for some medical expenses. In 2011, you will pay income tax on \$65,000. The tax bill on the remaining \$35,000 of the conversion income would be due with your 2012 return.

You can reverse a 2010 Roth conversion by October 17 if you change your mind. "If your account is worth less today than it was when you converted, you may want to undo the transaction," says Labant.

From now until October, keep a close eye on your Roth balance. Maybe you're in the 25% tax bracket and you converted when the account was \$50,000. You'll owe \$12,500 in taxes, even if your account has dropped to \$40,000. If you undo the conversion, you won't pay tax on the money that has disappeared.

If you're converting this year, you can set up several Roths, one each for various asset types—say, for U.S. stocks, foreign stocks and bonds. That gives you the flexibility to undo just the Roth that is holding assets that fall in value. You can undo a 2011 Roth conversion up until October 15, 2012.

■ **Profit from your good deeds.** Once again, Congress is allowing individuals 70½ and older to take a tax-free distribution of up to \$100,000 from an IRA and donate it directly to charity. The donation can count toward a required minimum distribution, but the money must be transferred directly from the IRA to the charity. Contact your IRA custodian and the charities you choose for direction on conducting the transfer.

You won't get a deduction for the donation, but the withdrawal will not increase your taxable income. That sounds like a wash, but taxpayers who don't itemize—and thus can't take advantage of the charitable deduction—could benefit from this break. "The withdrawal

is not included in their taxable income,” says Scharin.

By reducing taxable income, the IRA-to-charity maneuver also could make it easier for some taxpayers to qualify for other breaks, such as lower or no taxes on Social Security benefits and the 0% rate on long-term capital gains for taxpayers in the 10% and 15% brackets. Also, since out-of-pocket medical expenses that exceed 7.5% of adjusted gross income are deductible, keeping an IRA payout out of AGI can boost the size of that write-off.

Planning to buy a new car this year? Don't expect too much of a break if you donate your old car to charity. In most cases, tax deductions for vehicle donations are limited to the amount the charity receives from a sale. To get the biggest break you can, Scharin says, ask several charities how they go about selling their donated cars. “If the charity sells at a quickie auction, you'll end up with a smaller deduction,” he says.

As you consider charitable contributions, remember that donating appreciated securities can give you double bang for your buck. Perhaps you bought 100 shares at \$20 and they are now worth \$40 a share. As long as you have held the stock for more than a year, your deduction is the \$4,000 market value, and neither you nor the charity has to pay the 15% capital-gains tax on the \$2,000 profit. That will save you an extra \$300 on your tax bill.

Don't donate shares that have fallen in value. Instead, sell them and give the proceeds to charity. Say you bought a stock for \$15,000, and the shares are now worth \$10,000. If you sell the shares and give the \$10,000 in proceeds to charity, you get the \$10,000 write-off, as well as a \$5,000 capital loss that you can use to offset any gains.

Keep track of what you're spending while you're performing charitable work. For instance, you can deduct the costs related to fund-raising events and the expenses of the ingredients for meals you make for the homeless. Keep a log of the number of miles you drive your car for charity; you can deduct 14 cents per mile (see IRS Publication 526, *Charitable Contributions*, for more information).

■ **Track your medical expenses.** With health costs being what they are, there's a good chance you could exceed the 7.5% income threshold for deducting medical expenses. (For the AMT, medical costs must exceed 10% of AGI to be deducted.) During the year, toss your receipts for unreimbursed medical expenses into a special folder. Besides doctor and hospital bills, you can deduct ambulance services, crutches, exercise

programs if recommended by a doctor for a specific condition, and a portion of long-term-care insurance premiums. (For more eligible expenses, read IRS Publication 502, *Medical and Dental Expenses*.)

Keep careful records of the cost of medically necessary home improvements. You can take a deduction for home improvements that exceed any added value to your home. Perhaps you'll install an elevator for medical purposes at a cost of \$10,000. If it increases the value of your house by \$6,000, you can count \$4,000 toward the 7.5% of AGI threshold. Make similar calculations for adding a wheelchair ramp, lowering counters or widening a doorway.

Don't forget to save records on your transportation costs to and from medical facilities. You can deduct the cost of taxis, trains, planes and parking fees. If you're driving your own car, you can deduct 19 cents a mile. You also can write off up to \$50 a night for lodging if seeking medical care requires you to be away from home overnight. The \$50 is per person, so if you travel with a spouse or adult child to get medical care, you can deduct \$100 a day.

■ **A healthy tax move.** You can trim your taxable income by maximizing contributions to tax-deferred retirement accounts or to a health savings account. One source of the cash: the extra money in your paycheck from this year's cut in the payroll tax for employees, to 4.2%, from 6.2%. That cut is scheduled to disappear in 2012.

Open a health savings account or maximize tax-advantaged contributions to the one you already have. An account must be paired with a high-deductible insurance policy that is considered “HSA compatible.” If you have employer-based coverage, you can make pre-tax contributions to the HSA. If you buy an individual insurance policy, you can deduct the contributions.

You can carry over the account balance from year to year, allowing the earnings to grow tax-free. You can withdraw cash tax-free in later years to pay for medical expenses. Before you're 65, money used to pay for non-eligible medical expenses is subject to income tax and a 20% penalty. After age 65, you can use HSA money for non-eligible expenses without a penalty, although you will pay tax on the withdrawal.

An HSA-compatible policy has a deductible of at least \$1,200 for self-only coverage or \$2,400 for family coverage. It also limits annual out-of-pocket costs. You can contribute up to \$4,050 if you're 55 and older or \$7,150 for a family (see “Save for Medical Costs With an HSA,” April). ■ —SUSAN B. GARLAND



INVESTING

Five Tech Stocks With Solid Records

WHEN IT COMES to investing in technology stocks, don't be distracted by Groupon, LinkedIn and other Internet flavors of the moment. The smartest move for conservative investors is to look to tech companies with years of earnings history and solid records of dividend growth.

In the years leading up to the 2000 technology bubble burst, if a company paid a dividend, says Howard Silverblatt, senior index analyst at Standard & Poor's, the assumption was that "you had nothing better to do with your money." Today, 58.6% of the S&P 500's tech sector (based on market capitalization) pay dividends, with a respectable average yield of 1.8%. What's more, these stocks have the ability to increase their dividends: Tech stocks in the index hold 18.8% of their market value in cash.

To avoid pricey and speculative stocks, you should start your search by keeping to established companies with strong business records. Your best bet is a stock that trades at a discount. In early June, Standard & Poor's 500-stock index was selling at 12.9 times the consensus estimate of 2011 earnings. Also, pick a tech stock with good dividend growth, especially if the issue yields less than the 2.0% yield (per-share dividend divided by per-share price) for all companies in the S&P 500. If you're getting a lower yield, good dividend growth could keep you ahead of the market.

Here are five stocks that are suitable for a retiree's

portfolio. Prices and related data are as of June 9.

Automatic Data Processing (symbol ADP, recent price \$53) is the U.S.'s biggest payroll processor. It also offers human resources management and computer services for vehicle and boat dealers. Increased employment and better car sales augur well for the company.

ADP is financially strong with more than \$1.6 billion in cash at the end of March. The company has raised its dividend for 36 consecutive years, at an annual rate of about 18% over the past five years, and yields 2.7%. ADP sells at 20.9 times estimated 2011 earnings, a premium it deserves given its strong record.

Harris (HRS, \$46) provides communications systems for the military, civilian government operations and commercial users worldwide. The company's military products include secure radios used by soldiers in the field. Harris also develops information systems used in air traffic control and census database management. Harris stock sells at a modest 9.3 times estimated 2011 earnings. It yields 2.2% from a dividend that has been boosted more than 30% annually over the past five years.

Intel (INTC, \$22) is a major producer of integrated circuits. The company recently announced a revolutionary three-dimensional transistor structure that will increase the speed and capacity of integrated circuits. Intel shares offer one of the best yields in technology at 3.8%. In May, the company announced its second dividend increase in six months. Since 2003, it has boosted dividends at a 33% annual rate. The shares sell at less than ten times estimated 2011 earnings.

IBM (IBM, \$165) gets about half of its sales from computer services, which should mean a steadier revenue stream. Earlier this year, IBM's Watson artificial intelligence system defeated two top human champions on *Jeopardy!* Watson is being modified as a diagnostic tool in the growing health-care field.

Although IBM yields a modest 1.8%, the company has paid a dividend since 1916 and increased it almost 22% annually since 2003. Shares sell at 12.5 times estimated 2011 earnings.

Linear Technology (LLTC, \$32) makes chips that translate real experiences—such as temperature, pressure, light and sound—into digital information. As more of our world is monitored and controlled by electronics, markets for Linear's products should grow.

The stock yields 3.0% from a dividend that has been increased for 19 consecutive years and at a rate of almost 25% annually over the past five years. Shares sell at 12.9 times estimated 2011 earnings. **K** —JOSEPH LISANTI

Payout Funds May Fail to Deliver Real Income

MUTUAL FUNDS offering attractive periodic payouts seem hard to resist in this period of paltry interest rates. But income-oriented investors considering such funds need to take a close look under the hood to determine if that reliable income engine is about to run out of gas.

Many funds purporting to offer steady distributions sputtered amid rocky markets in recent years, either slicing their payouts or abandoning them. Some products were aimed squarely at people in or near retirement and pitched as tools to help replace salary income.

All mutual funds are required to distribute income and capital gains to shareholders at least once a year. Investors often reinvest these distributions. But payout-oriented funds are structured to provide investors with a predictable stream of income.

Loss of income isn't the only potential fallout from distribution disruptions. In closed-end funds, which trade throughout the day on exchanges and often appeal to income-hungry investors, a payout reduction can mean a sharp drop in the fund's share price as shareholders dump shares that no longer offer an attractive yield. In such cases, a distribution cut can be "a dangerous situation" for shareholders, says Cecilia Gondor, executive vice-president at investment advisory firm Thomas J. Herzfeld Advisors.

While investors can't always predict distribution cuts, they can pay attention to a few key factors that underscore the stability—or fragility—of a fund's distributions. That involves considering the investment strategy and total returns that are backing up the yield. "Making sure you understand the components of the distribution, rather than just the distribution on its face, is important," says Cara Esser, an analyst at investment-research firm Morningstar.

■ **What's the source?** Funds offering regular distributions often cover payouts with income from their investments or capital gains on the sale of fund holdings. But if those sources aren't sufficient to fund payouts, the funds may simply return investors' own money in

the form of a distribution. Such a "return of capital" can whittle away at fund assets, leaving a smaller asset base to generate growth and fund future distributions.

Consider Baron Retirement Income fund, which was designed to pay annual payouts of at least 4% of net assets per share. From its launch in mid 2008 through the end of that year, all of the 40-cent-per-share payout was a return of capital.

In 2009, distributions fell to 25 cents per share, and return of capital accounted for roughly half of the payout. The following year, the fund changed its name to Baron Focused Growth and ended the payout plan.

Before you invest, check fund annual reports to see what portion of distributions is generated by investment gains and income, and what portion comes from return of capital. A brief use of return of capital isn't necessarily grounds for rejecting a fund. But a fund that consistently hands back investors' principal may

be headed for unpleasant payout surprises.

■ **Smoothing the ride.** Some payout-oriented funds have systems for reducing the volatility of their distributions, even during a bumpy market. The three Vanguard Managed Payout funds, for example, invest in a mix of stocks, bonds, commodities and other assets. They are designed to make monthly distributions while preserving or increasing the value of shareholders' investments over the long haul. Instead of distributing a set percentage of net assets, the funds' payout formula is based on the past three years' worth of performance. That mechanism "is there to smooth out the ups and downs" in the market, says John Ameriks, head of investment counseling and research at Vanguard.

Because the Vanguard funds were launched in the brutal market of 2008, their initial payouts consisted of return of capital, and distributions were trimmed back in 2009 and 2010. Last year most of the payouts came from income and capital gains, and this year the funds' payouts increased by roughly 1% to 2%.

■ **Inflated share prices.** Assessing the health of distributions is particularly important for investors considering closed-end funds, which have a fixed number



of shares that typically trade on an exchange. Funds offering juicy payouts often trade at a hefty premium to their net asset value (NAV), meaning investors are paying more than the value of the fund's holdings.

A distribution cut means that “the fund is vulnerable to losing that premium and going to a discount in a very short period of time,” says Herzfeld Advisors’ Gondor. That would mean a sharp drop in the share price, and investors selling the shares would receive less than the value of the underlying fund holdings.

In some cases, investors are paying inflated prices just to have their money handed back to them over time. The Cornerstone Total Return fund, for example, as of mid May, had a distribution rate of 14% and traded at a roughly 50% premium to the value of its holdings. What’s more, almost all of the fund’s distributions in recent years consisted of return of capital. “This is a pattern that over time is going to be destructive to shareholders,” says Morningstar’s Esser. Cornerstone declined to comment on the fund’s distributions.

To assess closed-end fund distributions, type the name or ticker symbol in the quote box at Morningstar.com and click the “distribution” tab. You’ll see what portion of distributions come from income, capital gains and return of capital. Also check the NAV performance by clicking the “performance” tab. If you see a large return of capital and a declining NAV, the fund is likely not earning enough to cover its distributions.

■ **Passing the smell test.** If a closed-end fund’s distribution rate seems out of line with long-term expected total returns for its investment strategy, those payouts may not be sustainable. Take Eaton Vance Tax-Managed Global Diversified Equity Income fund, which invests in stocks and sells options to generate additional income. As of October 2009 its NAV distribution rate was roughly 15%, so investors were getting about 15 cents for every dollar of fund assets. “It would be nice” if such a strategy could consistently produce 15% returns, says Mariana Bush, closed-end fund analyst at Wells Fargo Advisors. But, she says, is it very realistic? “I would say it’s not an extremely high likelihood.”

Indeed, the fund slashed distributions by nearly 20% in early 2010 and another 26% early this year. Jonathan Isaac, head of product management at Eaton Vance, acknowledges that the distribution rate was high, but that rosier expectations for stock market returns predominated when that higher distribution rate was set. Those expectations, he says, were “to some extent shattered by what happened in 2008 and early 2009.” **K** —ELEANOR LAISE

MANAGING YOUR FINANCES

Check Up On Your Pension Benefits

IF YOU’RE due a pension, here’s a bad-news, good-news ruling from the U.S. Supreme Court.

First the bad news: In mid May, the justices ruled that employees can’t necessarily depend on their employer’s summary plan description. The summary, which is given to all employees, is the short, plain-English document that describes how benefits are calculated. But the Court held that if there are discrepancies between the summary and the plan, the plan is the controlling document. So to really know what the pension plan promises, you need to review the plan itself. More on that later.

Now the good news: You can sue for monetary damages if you can prove you suffered “actual harm” by relying on misleading statements in the summary, the justices ruled. The justices sent the case back to a lower court to decide if damages are justified.

The case, *Cigna vs. Amara*, was brought by employees who argued that, despite a company claim that switching a traditional pension to a cash-balance plan in 1998 would provide “an overall improvement” in benefits, the change effectively reduced benefits for older, longtime employees.

If your company freezes, terminates or changes the terms of your pension plan, ask your employer for your individualized benefits statement that outlines total benefits earned and the vested accrued benefit. Also request the actual plan document. The plan document can run 50 or more pages.

You can try to plug your numbers—salary, years of employment and so forth—into the formula in the plan. If you have problems with the calculations, ask your human resources department or plan administrator to show you how your benefits are calculated.

If you’re really concerned, you can ask an actuary to review all your documents. You can get up to four hours of free help from a volunteer with the American Academy of Actuaries’ Pension Assistance List program (www.actuary.org/palprogram.asp).

Or get in touch with the federal Administration on Aging’s Pension Counseling and Information Program (www.aoa.gov, click “Elder Rights Protection”). The program has projects in 29 states. **K**

Help Grandkids Secure Their Financial Future



IT'S ALWAYS nice to help your grandkids financially. And it's even nicer if you or your grandkid can reap a tax break for your generosity. Here are three strategies to help your grandkids prepare for the future.

■ **Contribute to a Roth IRA.** Children of any age can open a Roth as long as they have earned income from a job, even if it's a babysitting gig. Minors may contribute up to the amount of their earned income for the year, with a \$5,000 maximum in 2011.

The child doesn't have to make the contribution from his or her earnings. As long as your grandkid earns the income, you can make the contributions to the account, although you don't get a tax break. However, the child can withdraw the contributions at any time without having to pay taxes or penalties.

Rick Rodgers, a certified financial planner in Lancaster, Pa., encourages clients to match IRA contributions for children as soon as they start working. "It helps teach them the important lesson of learning how to save," he says.

Chuck and Mary Hansen of Mount Joy, Pa., both 68, are matching the Roth IRA contributions of their daughters, who are in their mid thirties. The Hansens want to help them make the most of the tax benefits early without having them wait for an inheritance. "If they got the money years down the road, they've passed the opportunity to put it into tax-effective vehicles each year," Chuck says.

Only a handful of IRA administrators will open a Roth for kids. TD Ameritrade offers IRAs for minors

with no investment minimums or annual fees. The IRA can invest in anything available in TD Ameritrade's brokerage accounts. Charles Schwab allows minors to open a Roth IRA with no fees and a minimum balance of \$100. And Scottrade doesn't charge an annual fee or setup costs for kid Roths, but requires a minimum investment of \$500 for new accounts.

■ **Give from cash flow.** Rodgers also helps clients figure out how to pay for some expenses for their grandchildren from their retirement income. The Hansens plan to pay for part of their four grandkids' college costs. But instead of investing the money in a college-savings account, they're including those expenses as part of their yearly retirement spending calculations. That way, they have the flexibility to use their money for their own expenses if they need the cash.

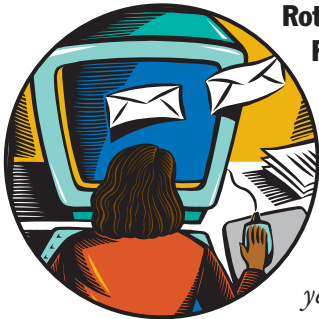
The Hansens can use the money to make direct payments for a grandchild's tuition or medical expenses, without having the payments count toward the \$13,000 annual gift-tax limit (\$26,000 for a couple). They also intend to convert their traditional IRAs to Roths over the next few years, so their children and grandchildren can inherit the money without having to pay taxes on the withdrawals.

■ **Master the 529 rules.** Grandparents can open a state 529 college-savings plan, which provides tax-free money for college costs. About half the states offer state income-tax breaks for 529 contributions, but you usually need to contribute to your own state's plan to qualify. Five states—Arizona, Kansas, Maine, Missouri and Pennsylvania—allow a deduction for contributions made to any state's plan.

Some states allow anyone—say, a grandparent—to deduct a contribution to a plan owned by someone else, such as the parent. But others allow only the account owner to take a deduction. In those states, it can pay for grandparents to open their own account for the child, even if the parents already have one. Look up your state's rules at www.savingforcollege.com.

Contributing to a 529 can also get you around the gift-tax rules while shifting money out of your estate. You can make five years' worth of 529 contributions in one year—\$65,000 per child (\$130,000 from a married couple per child) without triggering the gift tax. But you can't give money to that person again within the next five years. **K** —KIMBERLY LANKFORD

Your Questions Answered



Roth IRA Heirs and the Five-Year Holding Period

I am 69, and I plan to convert a traditional IRA into a Roth IRA. This will be the first Roth IRA that I will own. If I die before I've met the five-year holding period, will the money be tax-free for my heirs?

If you've held a Roth for less than five years at the time of your death, your beneficiaries only need to hold it the remainder of the five years for the earnings to qualify for tax-free treatment, according to Twila Slesnick, co-author of *IRAs, 401(k)s & Other Retirement Plans* (Nolo, \$35). Your beneficiaries can withdraw contributions at any time tax-free.

Your beneficiaries must take required minimum distributions from the Roth. Under IRS rules, contributions to a Roth are considered to be withdrawn first and earnings last, so your heirs would be taking their RMDs tax-free. By the time they've withdrawn all the contributions, the five-year holding period would likely be over, so they could then withdraw the earnings tax-free.

No Taxes When Grandkids Get Custodial Accounts

I have Uniform Gifts to Minors Act (UGMA) accounts for my grandchildren. What are the tax implications when I transfer the money to them?

UGMA and similar UTMA (Uniform Transfers to Minors Act) accounts are actually owned by the children. As the custodian, you control the assets. The control shifts to your grandchildren between age 18 and 21, depending on the state. No tax bill is triggered at that time. Remember, taxes are paid annually on UGMA income. If there are appreciated securities in the account, your grandchildren will owe capital-gains tax when they sell the securities. If you die before the accounts are turned over, the value will go into your taxable estate, even though your grandkids will continue to own the accounts. If federal taxes could be an issue for your estate (the tax applies only to estates worth more than \$5 million), you could keep the

UGMA assets out of the estate by naming a different custodian.

IRA Contributions If You Have a 401(k)

I contribute to a 401(k) at work. Can I also contribute to a traditional IRA?

You can if you meet the income requirements. If your modified adjusted gross income is \$56,000 or less, you can contribute up to \$5,000 (\$6,000 if you'll be at least 50 by the end of the year) to an IRA in 2011. The maximum contribution gradually declines as income rises between \$56,000 and \$66,000. If your modified AGI exceeds \$66,000, you can't make an IRA contribution. If you are married filing jointly, you can make a full contribution if your income is \$90,000 or less and a partial contribution if your income is between \$90,000 and \$110,000.

First Required Minimum Distribution at 79

I am 79 and about to retire. Do I have a required minimum distribution from my 401(k) for 2011? And if I do, can I prorate it for the number of months when I will no longer be working?

Once you retire, the waiver of required minimum distributions after age 70½ for those still on the job disappears, so you'll need to take a distribution for 2011. Base it on your plan-account balance on December 31, 2010. You cannot prorate your RMD. Even if you retire on the last day of the year, you must take an RMD for the entire year. Because it's your first required minimum distribution, you have until April 1, 2012, to take your 2011 RMD, but you must take your 2012 RMD by December 31, 2012.


Collect a Survivor Benefit as Early as 60

I am a 60-year-old widower. If I claim a Social Security survivor benefit now, based on my late wife's earnings record, I will get \$1,048 a month. That's 28.5% less than I'd get if I waited until age 66. If I wait until 70 and then claim my own benefit, I will get \$1,152. I am in poor health, and my work as a real estate agent fluctuates. I think I am better off collecting the survivor benefit now because I need the income. What do you think?

You probably are better off collecting benefits now, especially since you need the income. One caveat: If you collect Social Security benefits before your full retirement age, you will be subject to an earnings limit, which is \$14,160 in 2011. If you earn more than that, you will lose \$1 in benefits for every \$2 you earn over the limit. **K**

Information to Act On

ECONOMY



■ **Price hikes.** Consumers will pay about 3% more for goods and services in 2011, compared with an increase of 1.5% last year. In the past three months, prices rose by 7% or more annualized for airfares, new and used cars and trucks, and medicines. Meat and poultry are up 7.6%, and dairy products rose 6.3% over the past year.

■ **Energy costs.** The price of energy will remain steady from now to September. Crude oil, now \$100 per barrel, will range from \$95 to \$105 by September. A gallon of gasoline will drop to between \$3.60 and \$3.75, from \$3.81 now. Heating oil will also drop to between \$3.85 and \$3.95 per gallon, from \$4 per gallon. At 9.9 cents per kilowatt, electricity will rise to between 10 cents and 10.4 cents.

INVESTING

■ **Fraud guide.** The Securities and Exchange Commission's Office of Investor Education and Advocacy has released a publication, *Stopping Affinity Fraud in Your*

Community. Affinity fraud involves investment scams that target a particular group, such as seniors, ethnic communities or religious groups. Download the free guide at www.investor.gov (click "Publications").

CONSUMER INFORMATION

■ **Adviser background.** BrightScope, which rates retirement plans, has launched BrightScope Advisor Pages. The site culled publicly available information on financial advisers and published the information in a free database accessible on BrightScope.com.



SOCIAL SECURITY

■ **Benefits tool.** A new online tool helps you figure out when to start retiree, spousal, survivor or other types of Social Security benefits. Maximize My Social Security (www.maximizemy-socialsecurity.com) takes into account the earnings test, the government pension offset and other factors. The tool costs \$40 for an annual license and was developed by Laurence Kotlikoff, a Boston University economist.

TAX TIP

Vacation Home Reality Check

If you shelled out a fortune to rent a home at your favorite summer spot, you may be thinking that now's the time to buy a place and let others pay you for the privilege of using it. With prices down and mortgage rates at rock bottom, you might find a great deal. Just don't count on a lot of help from Uncle Sam.

You'll get to write off legitimate expenses (interest, taxes, maintenance, utilities, insurance and depreciation, for example) against your rental income, but strict rules limit writing off losses. You can't deduct losses at all if you use your Shangri-La more than 14 days during the year or more than 10% of the total number of days it's rented. However, days you spend at the vacation home doing maintenance don't count as personal use.

Even if you limit use, you can't deduct more than \$25,000 in losses in any year and that allowance gradually disappears as adjusted gross income rises between \$100,000 and \$150,000.

FAMILY

■ **Financial support.** Fifty-nine percent of parents are providing or have provided financial support to adult children when they are no longer in school, according to the National Endowment for Financial Education. Providing housing, insurance coverage and spending money, as well as helping with living expenses and transportation costs, were the top methods of support.

HEALTH CARE

■ **HSA money.** Thirty-six percent of health savings account holders at Fidelity Investments use more than 90% of their annual HSA contribution on qualified medical expense reimbursements. About 40% of account holders use between 10% and 90% of their contribution and carry over the rest, and 24% use less than 10%.

■ **Recession impact.** The percentage of workers who had employment-based health benefits decreased to 52% in 2009, from 53.2% in 2008, a 2.4% drop and the sharpest one-year decline ever, according to the Employee Benefit Research Institute. EBRI also noted that 2009 was the first time in recent history that fewer than 60% of individuals under age 65 had health benefits through their job.

■ **Military retirees.** Working-age retirees from military service will see a slight increase in their health-care costs after Congress approves a plan to charge \$30 a year more for individuals and \$60 more for families. The new annual rates will be \$260 and \$520. Any future premium increase will be tied to the military's cost-of-living adjustment.

RETIREMENT SAVINGS

■ **Money worries.** More than half of older workers are not confident they will have enough money to live comfortably in retirement, according to an AARP Public Policy Institute survey. Of those collecting Social Security, 67% say they did so earlier than they had planned. About 55% say they are shoring up their savings by working part-time in retirement, delaying retirement, saving more or shifting to safer investments.

■ **Goals.** Setting a savings goal makes people more engaged in retirement planning, according to a survey of plan participants by Diversified, a plan administrator. About 29% set a retirement income goal in the past year, up from 21% the previous year. Meanwhile, 41% increased the amount they were saving, up from 38%.

■ **Losing faith.** Only 19% of workers with a defined-benefit plan are very confident that they will receive their pension in retirement, according to consulting firm Mercer. That's down from 24% in 2008. Meanwhile, 11% are not at all confident.

RETIREMENT LIVING

■ **Free guidebooks.** The Hartford offers two guidebooks on aging in place. *Modern Ideas* offers design tips to modify your home, and *Simple Solutions* looks at products that help with such problems as hearing and vision loss. Download the guidebooks free at www.thehartford.com/lifetime.



TRAVEL

■ **New airline rules.** Come August, airlines will be required to reimburse bag-check fees if luggage is lost. The amount airlines must pay to passengers who are involuntarily bumped will rise to a maximum of \$1,300, from a maximum of \$800. The rules also will require taxes and fees to be more clearly displayed in advertised fares and will limit the amount of time international flights can sit on the tarmac to four hours.

The Compass Preferred Client® Program

Enjoy a higher level of service on our updated website: compassbank.com/go/preferred

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Sell Your Business to Fund Retirement



WHEN YOU'RE playing the starring role in your own small business, it can be hard to imagine how the show will go on without you. But aging small-business owners have a lot of good reasons to start planning today for a graceful exit. That means considering what it might take to sell your business and what price you need to get to fund a secure retirement.

If you're like many older entrepreneurs, you may be behind in readying your business for sale. Although 53% of baby-boomer owners intend to exit their businesses in the next decade, nearly 90% of them don't have a written plan to achieve that goal, according to a 2008 survey by White Horse Advisors, a financial advisory firm in Atlanta. Given that many of these business owners have most of their net worth tied up in their firms, the lack of a formal exit plan "creates a pretty dire outlook for retirement for entrepreneurs," says Richard Jackim, managing director at New York City-based mergers and acquisitions firm MidCap Advisors.

There are several reasons to plan for the sale of your business well before your desired retirement date. It can take anywhere from several months to several years to complete a sale, and many buyers will want the seller to stick around for a year or more to smooth the transition. "You don't just hit a certain age and say, 'Now I'm going to sell,'" says Tom Deans, who in recent years helped sell a plastics manufacturing business founded by his father and is now a Toronto-based public speaker on business-succession planning.

Although he and his father decided to sell the business in 2002, Deans says, the sale didn't happen until

early 2007. It took another four years to receive the full proceeds of the sale.

The ever-evolving tax code is another reason to start your planning early. Today's long-term capital-gains tax rate of 15% is scheduled to rise to 20% in 2013. And as a result of last year's health-care reform law, higher earners in 2013 may face an additional 3.8% tax on capital gains.

Preparing Your Firm for the Sales Block

The first step small-business owners can take toward a smooth transition to retirement is to run the numbers. Advisers at Bernstein Global Wealth Management suggest that small-business owners think about their "core capital" requirements, or the amount they need to take out of their business to be highly confident of covering lifetime spending needs, adjusted for inflation. That amount depends on the client's age, spending rate and portfolio risk level. For example, a 65-year-old couple with a portfolio of 60% stocks and 40% bonds will need \$3.2 million if they plan to spend \$100,000 annually in retirement, according to Bernstein's calculations.

The amount you need for retirement, of course, may be nowhere near the amount your business can bring in a sale. Low-cost online tools, such as the Valuation Report from BizBuySell.com, can be a starting point for determining how much your business is worth. But many advisers also suggest that you get a professional valuation from a qualified appraiser. You can search for a business-valuation expert accredited by the American Society of Appraisers at www.asabv.org.

Once you know your retirement needs and the worth of your business, you may have more options than you imagined. If it appears that a sale would bring more than enough to cover retirement needs, for example, you might consider giving some shares of the business to family members.

This is a great time to consider such a gift, advisers say. Individuals can currently give away up to \$5 million over a lifetime (above the annual \$13,000 exclusion) without triggering gift taxes, up from \$1 million last year. And when you're giving away shares of a small business, you can often value them at a discount, effectively boosting the amount you transfer tax-free, says Brian Wodar, director of wealth management research at Bernstein. Such discounts may be justified, for

example, when the shares don't represent a controlling interest in the business and are difficult to trade.

If it appears that the sale won't bring you the amount you need for retirement, consider the best ways to boost the business's value. If your business is really all about you—say, a consulting business built on your expertise—it may have little value to a potential buyer, and you might simply aim to maximize profits for a few years and save as much as you can before shutting it down, says MidCap Advisors' Jackim.

In other cases, you can focus on boosting the parts of the business that can easily carry over to a new owner, says Patrick Ungashick, chief executive officer of White Horse Advisors. That can mean diversifying your customer base and building a quality management team so that the business doesn't depend on you.

That approach worked for Barbara Miller, 56, of Highland Park, Ill. Miller says she "was very hands on, involved in every decision" at Allied Health Professionals, the business she started 25 years ago. So as she was trying to sell the business over the past couple years, she tried to ensure that it could operate without her. She hired a couple of new employees to do back-office work and recruiting for the business, which provides therapists on a contract basis to hospitals and rehabilitation centers. She sold the business last year.

Because selling a business can be time-consuming, consider working with a business broker or a mergers and acquisitions adviser. A business broker can be a good choice if your business is worth \$2 million or less. These brokers charge commissions of about 6% to 12% of the sale price. Look for brokers who are accredited by the International Business Brokers Association (www.ibba.org), and ask for references from clients and buyers that the broker has worked with in the past.

For larger businesses, an M&A adviser will take a more customized approach, marketing the business to targeted buyers, such as hedge funds and private equity firms. In addition to requesting references, ask for details on deals the adviser has completed in your industry and the types of buyers involved. These advisers often charge commissions that decrease with the size of the transaction, say 5% on the first \$1 million, declining to 1% on \$20 million.

And don't overlook the professional help you can get free. SCORE, a nonprofit group focused on educating entrepreneurs, has a network of experienced business people who volunteer as mentors. You can search for a mentor with expertise in exit planning at www.score.org. **K** —ELEANOR LAISE

MANAGING YOUR FINANCES

Online Financial Advice for Any Budget

EVEN IF YOU have a sizable portfolio, you may not want to pay a financial adviser to manage your investments. Fees can run 1% to 2% of the amount an adviser manages. Perhaps you're just looking for someone who could help choose the right investments, review your financial plan or provide a quick answer to a single financial question. There's a service out there for you.

Garrett Planning Network (www.garrettplanningnetwork.com) offers the services of 300 independent fee-only advisers nationwide. You can get hourly advice on the phone or in person. There are no minimum income or net worth requirements. You can use this service for a one-time engagement, or the planner can establish and review your financial plan and make investment recommendations. Price: \$180 to \$240 per hour.

My Financial Advice (www.myfinancialadvice.com) provides hourly advice by phone or online. Select your topic ranging from retirement planning to debt management, and then choose a financial planner who is standing by to answer your question. It's great for one-shot questions and second opinions. Price: \$150 per hour; simple questions can be answered for less.

Smart 401k (www.smart401k.com) offers personalized investment advice on mutual funds available in any employer-based retirement plan. You'll receive quarterly updates, and you can discuss your questions with investment advisers over the phone or in live online chats. Price: \$200 per year.

Financial Engines (www.financialengines.com) suggests investments for all of an individual's retirement accounts, including guidance on employee stock options, for \$150 a year. Investment advice that also includes non-retirement accounts costs \$300 a year. Communications are online.

Flat Fee Portfolios (www.flatfeeportfolios.com) recommends preselected portfolios to fit different investment styles and risk levels using mutual funds and exchange-traded funds. The service provides semiannual reviews for accounts holding \$250,000 or more, and annual reviews for smaller accounts. This route is appropriate for those with a lump sum to invest, perhaps from an inheritance. Price: \$199 a month (\$129 a month for accounts under \$250,000). **K** —MARY BETH FRANKLIN

Will Your Life Insurer Pay Promised Benefits?

FOR YEARS, you've dutifully paid life-insurance premiums in hopes of providing security for your family after you're gone. But ensuring that loved ones enjoy those benefits in the future requires careful preparation today. That's particularly true now that sweeping investigations are raising questions about whether life-insurance beneficiaries are receiving all the money they're due.

Insurance regulators in a number of states are examining life insurers' possible failure to pay death benefits to beneficiaries, even in cases where the companies knew of the death of the policyholder. Regulators are also questioning whether companies failed to turn over unclaimed death benefits to the states as required under unclaimed property laws.

Industry representatives say insurers are holding up their end of the bargain. "The fact is, life insurers pay on average \$1.6 billion to policyholders, beneficiaries and retirees every day, a clear demonstration that life insurers are fulfilling their promises," says Whit Cornman, spokesman for the American Council of Life Insurers.

■ **Policyholders.** You can improve the odds that your insurers and loved ones can find each other when you're gone. One place to begin: Start talking. While many people are reluctant to tell family members that they have a life-insurance policy, "my advice to insured people is don't leave beneficiaries in the dark," says Steven Weisbart, senior vice-president at the Insurance Information Institute. "If you don't tell them anything, they're not going to get anything, and the whole point of buying insurance is down the tubes."

Be specific when naming beneficiaries, giving the Social Security number, relationship to you and address, Weisbart says. Update the information if beneficiaries change their names or if you change beneficiaries.

Keep the insurer informed of any changes in your mailing address and phone numbers, and ask for an annual policy statement. The statement can help you keep track of changes in the com-

pany's name, headquarters or contact information—and help the company keep track of you.

People who no longer owe premiums—perhaps because their policies were purchased with a single premium or limited number of payments—can fall through the cracks. "A person can stop paying premiums and within several years after that, the company has no idea where the person is," says Joseph Belth, editor of *The Insurance Forum* newsletter.

Keep a copy of your policy at home and another with a relative, lawyer or accountant. Compile a list of all death benefits that might be available to your beneficiaries, including those linked to former employers, professional associations and credit-card accounts.

■ **Beneficiaries.** You may need to do some detective work to track down all the benefits you're owed. If you have the policy itself, check the application, which should be attached. The application should list all other policies owned at the time it was made.

If you believe you're the beneficiary of a policy but have little information, state insurance departments may help. You can get contact information for these departments through the National Association of Insurance Commissioners' "life insurance company location system" (<https://eapps.naic.org/orphanedpolicy>). The insurance departments should have records of insurance-company mergers and name changes, and they can help identify insurers that might have written the policy. You can then contact those insurers.

For benefits that may have been turned over to the state as unclaimed property, check MissingMoney.com. Also, check with the National Association of Unclaimed Property Administrators (www.unclaimed.org).

If you've exhausted free sources of information, consider MIB Solutions' Policy Locator Service (www.policylocator.com). For \$75, the service searches for life-insurance applications dating back to December 1996. It provides contact information for insurers that accepted applications from the individual. You can then contact those companies and ask about any policies written on the deceased. **K**

—ELEANOR LAISE





ESTATE PLANNING

Avoid the Pitfalls With Inherited IRAs

THERE'S A LOT to like about inheriting an IRA, but the gift does come with strings attached. Beneficiaries, especially those who are not the surviving spouse, can easily lose big tax advantages if they do not take the proper steps soon after the death of the parent or other benefactor.

You can keep the money in the tax-deferred account and stretch out distributions—and tax payments—over a lifetime. You must take minimum distributions based on your life expectancy, but the rest of the account can grow tax-deferred.

Your first move when you are notified of your inheritance: Warn the IRA's custodian not to liquidate the account and write you a check. If that happens, you will pay tax on the entire account. "It's game-over then," says Rial Moulton, co-founder of Retirement & Tax Planning Specialists, in Spokane Valley, Wash.

■ **Split, retitle and withdraw.** If you are one of several beneficiaries, divide up the account. "Establish separate accounts so each can utilize their own single life expectancy," says Doug Zarookian, vice-president and New York branch manager for Charles Schwab.

You must split the account by December 31 of the year following the death of the IRA owner. If the IRA is not split, the size of the withdrawals will be based on the oldest beneficiary's life expectancy.

Say the primary beneficiaries of an IRA are a mother who is age 89 and children who are in their fifties. "Based on Mom's life expectancy, the IRA would have to be paid out rapidly," says Twila Slesnick, co-author of *IRAs, 401(k)s & Other Retirement Plans* (Nolo, \$35).

"It would be a disadvantage to the kids."

Nonspouse heirs cannot roll the money into their own IRA. You must open an account for an inherited IRA, and the title must include your name and the name of the person who left you the money. The inherited IRA should be named something like "John Doe's (deceased) IRA for benefit of Susan Doe."

Take special care if your parent named a charity as a beneficiary along with you and other beneficiaries. You must split off the charity's portion by September 30 of the year following the account owner's death. If you don't, the account must be emptied within five years after the owner's death.

A nonspouse heir's first required minimum distribution must be taken by December 31 of the year following the account owner's death. If you miss the deadline, the account must be paid out in five years. A beneficiary who inherits an IRA after the account owner began taking RMDs must take the owner's RMD in the year the owner died, if it was not already taken.

■ **Rules for spouse.** Spouses have more leeway than nonspouse heirs. They can either keep the inherited IRA in their deceased spouse's name or roll it into his or her own IRA.

For most spouses, especially younger ones, rolling the IRA into their own account makes sense because they can hold off on taking distributions until age 70½. However, a spouse who is younger than 59½ and taps the account will pay a 10% early-withdrawal penalty.

Younger spouses who need the money early would be better off keeping the money in the old IRA. "Once they attain 59½, they could roll it over to their own IRA," says Zarookian.

■ **Turning down the cash.** If an heir, usually a spouse, decides she doesn't need the money, she can "disclaim" the IRA. The money will then pass to the other beneficiaries, usually the children. A disclaimer must be filed within nine months after a benefactor's death.

Because the spouse is refusing the money, the disclaimed amount won't count toward the spouse's \$5 million federal estate-tax exemption. A spouse can disclaim a \$5 million IRA, pass it on to children who are listed as beneficiaries, and still leave them another \$5 million when she dies.

The younger the heirs are, the longer the money can grow. Consider a 20-year-old grandson who gets a disclaimed \$50,000 traditional IRA. By taking out the minimum each year and assuming a 6% average return, the IRA could grow to \$1.5 million over the heir's lifetime, Moulton says. **K** —RACHEL L. SHEEDY

Trim Food Bills With Digital Coupons

THINK OF the money you spend on groceries each month, and then imagine cutting that amount in half—or more. That's exactly what Elgin, Ill., grandmother of five Deborah Melchi did. The 58-year-old paralegal has slashed her grocery bills by 85%.

Melchi's secret: She started using coupons. "After the first couple months, I would balance the checkbook and think, 'Why do I have all this extra money?'" Melchi says. "I haven't paid for toothpaste, shower gel or any of that kind of stuff in over a year." In her biggest coup to date, she got \$400 worth of groceries for \$10.

Melchi is one of many shoppers who have joined the recent coupon craze, which has been fueled in part by reality TV show *Extreme Couponing*. The TLC program features people who shrink their grocery bills down to pennies by clipping coupons, scouring the Internet for discounts and shopping at multiple grocery stores. These extreme couponers often stockpile several years' worth of toilet paper or laundry detergent in their basements.

Fortunately, you can rack up savings without making couponing a full-time job or turning your home into a warehouse. Jill Cataldo, founder of Super-Couponing (www.supercouponing.com), estimates that she saves \$7,000 a year with coupons, and she helps other shoppers cut costs by conducting couponing workshops in person and on DVD. Cataldo, who lives in Huntley, Ill., says following some simple rules can significantly reduce your tab.

Tricks of the Trade

Not surprisingly, a product is usually at its highest price the week the store issues a coupon for that item, Cataldo says. Instead of using a store coupon the week it comes out, file away multiple copies to redeem the product when it goes on sale.

Also, many grocers permit you to "stack" manufacturer coupons on top of store coupons. You get extra savings when a store offers a double-coupon day—you can double up on both types of coupons.

For instance, you have a 50-cent store coupon for

peanut butter and a dollar manufacturer's coupon. On a double-coupon day, a \$3.50 jar of peanut butter will cost you 50 cents.

Luckily, many Web sites such as Coupons.com aggregate hundreds of manufacturer coupons in one place. After you install Coupons.com's printer program, you scroll through coupons for everything from oatmeal to shampoo, click on the ones you want, and then print them in one batch from your computer.

If you don't want to deal with paper coupons, Jeanette Pavini, Coupons.com's household savings expert, says you can link your grocery-store rewards card to your Coupons.com account. Your manufacturer coupons will then automatically be deducted from your bill at the register. To create

a Coupons.com account, you register with an e-mail address and create a member profile where you can add your grocery-store rewards cards.

Your age could get you good deals. Kroger, for example, gives shoppers over age 59 a 10% discount on all store-brand items. "Save coupons for when there's a store sale, go on a senior discount day, and you can get triple savings," Pavini says.

While most of us throw away receipts, clever couponers know that serious deals may be printed on the back of receipts. These coupons automatically print out at the register. They range from two-for-one deals to \$5 off your next purchase.

If you'd rather get the extreme savings without the work, many Web sites will do it for you. For \$5 a week, SavingsAngel.com (www.savingsangel.com) provides members with access to a database that matches store coupons and sales with national manufacturer coupons. You create your shopping list on SavingsAngel.com, and the site generates a list of all the coupons you need to get the maximum savings.

The site offers support via e-mail and phone, making it ideal for people who aren't Internet- or coupon-savvy. "The average shopper doesn't know a lot about couponing," says SavingsAngel.com's "Chief Executive Angel" Josh Elledge. "We're giving everybody the benefit of the couponing lifestyle." **K** —MEGHAN STREIT

