



# THE AMERICAN INVESTOR

A SOPHISTICATED APPROACH TO BUILDING WEALTH

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**BIG PICTURE**



## Do You Have Enough Disability Coverage?

A well-paid professional in the midst of a productive career has much to lose if he or she suffers an injury or illness and is unable to work. Unfortunately, benefits paid from an employer's group disability plan, workers' compensation, or Social Security probably won't come close to replacing a six-figure income. **Page 3**

## The Cost of Caregiving

A woman who leaves the workforce to care for an aging parent sacrifices an average of \$324,044 in wages, pension, and Social Security benefits, according to a recent study. A man in the same situation could lose \$283,716.

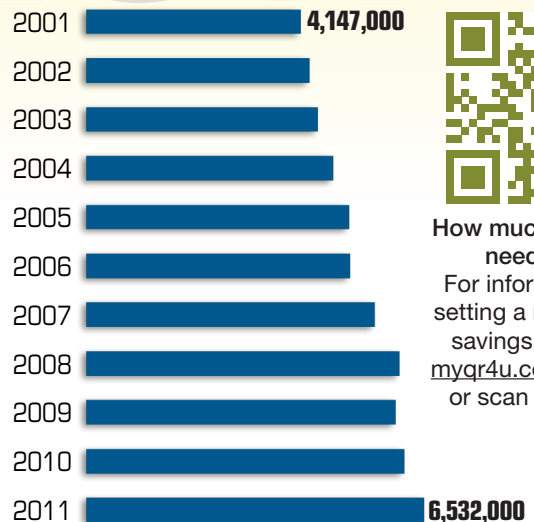


Source: *Journal of Financial Planning*, August 2011

## Filling the Employment Gap

Over the last decade, the U.S. population age 65 and older grew by 15.1%, compared with 0.6% for those 18 to 44. The number of Americans age 65 and older who are still working increased by 58%.

### Number of workers age 65 and older



How much will you need to save?  
 For information on setting a retirement savings goal, visit [myqr4u.com/12345](http://myqr4u.com/12345) or scan this code.

Sources: U.S. Census Bureau, 2011; U.S. Bureau of Labor Statistics, 2011

Practical Insights For Your Financial Goals



## MARKET VIEWS

# Eyeing Changes in China

## Slower Growth Could Potentially Affect the Rest of the World

China's economy grew 10% to 11% annually over the last decade, and for a while it was largely assumed that the world's second-largest economy would continue to expand at lightning speed.<sup>1</sup> Because economic weakness in the United States and Europe could potentially reduce demand for Chinese exports, some economists have lowered their forecasts for China's gross domestic product (GDP) growth to under 9% in 2012.<sup>2</sup>

Government attempts to control inflation have also resulted in some significant policy shifts. Here's a look at the risk factors that could tame Chinese GDP growth, as well as the potential effect of a slowdown on U.S. and other economies.

### Fighting Inflation

A prolonged period of low interest rates and a \$585 billion economic stimulus enacted by the Chinese government in the wake of the 2008 financial crisis may have sparked price increases that escalated in 2011.<sup>3</sup> China's inflation rate rose to a three-year high of 6.5% in July 2011, and food prices in particular spiked nearly 15% over the previous year.<sup>4</sup>

The Chinese government has acted to help control inflation and cool the overheated housing market. Interest rates were increased multiple times in 2011, and officials allowed the yuan to rise slowly in value against the U.S. dollar. In addition, new government rules placed stricter down payment and lending requirements on homebuyers.<sup>5</sup>

### Rebalancing Efforts

Factory wages surged 69% between 2005 and 2010. A rapidly aging society and strict family-planning policies have resulted in a shrinking workforce. This lack of supply is expected to push up wages in the coming years.<sup>6</sup>

In its current five-year plan, the Chinese government's goal is to make the national economy more consumer-driven and less reliant on exports and investment. Higher wages for workers and basic social insurance for elderly citizens are two elements of the plan to increase the spending power of Chinese consumers.<sup>7-8</sup>

### What Could Happen

Some economists have pointed to the risk that tighter credit and monetary policies could cause a steep correction in the housing market that might dampen China's growth prospects. Significantly lower Chinese GDP growth might also have a slowing effect on many other national economies, but China's major trading partners in the Asia-Pacific region and elsewhere would probably feel it the most.<sup>9</sup>

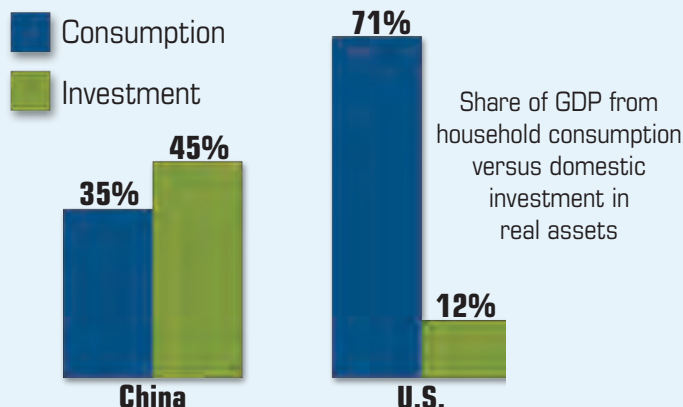
Certain Chinese economic policies may ultimately help American companies and workers become more competitive in the global economy. Higher-paid Chinese workers could make it more cost-effective for U.S. companies to hire in the United States — and a larger Chinese middle class could become a lucrative market for American products.

Although China's economy may still be the world's second largest, it may expand more slowly in the coming years. And regardless of how the Chinese economy performs, if the yuan continues to rise against the dollar, it could boost U.S. exports and help reduce the trade deficit.

*Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility. Shares, when sold, may be worth more or less than their original cost.*

- 1) *The Wall Street Journal*, August 11, 2011
- 2) *The Wall Street Journal*, August 26, 2011
- 3, 5, 9) *Smart Money*, March 2, 2011
- 4) *The Wall Street Journal*, August 9, 2011
- 6) *The Economist*, May 12, 2011
- 7) *The Wall Street Journal*, August 20, 2011
- 8) *Time.com*, August 31, 2011

## Drivers of GDP Growth



Sources: *The Wall Street Journal*, August 25, 2011; U.S. Bureau of Economic Analysis, 2011

# Do You Have Enough Disability Coverage?

## Group Policy Benefits May Come Up Short

A disabling illness or injury can occur without notice, and statistics show that nearly one in five people will be sidelined for at least a year during their careers.<sup>1</sup> States often require employers to provide short-term disability coverage, but many don't extend coverage beyond a few weeks or months. In fact, less than half of U.S. companies paid for long-term disability insurance coverage in 2009.<sup>2</sup>

Even when businesses include disability income insurance in their benefits packages, typical limitations can make group policies inadequate. A well-paid professional in the midst of a productive career generally has much to lose if he or she experiences a disability and is unable to work.

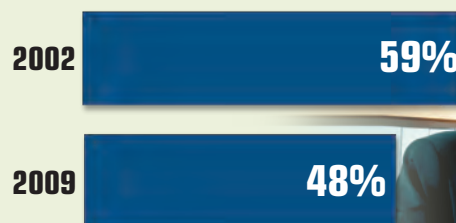
Disability benefits paid from an employer's group plan, workers' compensation, or Social Security probably won't come close to replacing a six-figure income. Individuals with higher incomes may want to expand their disability coverage to help ensure that their incomes, assets, and lifestyles are not left vulnerable.

### Potential Problems with Group Coverage

Workers may want to purchase an individual disability income policy if they are self-employed or their employers do not offer coverage — or if they would like to supplement an insufficient group plan. Companies that pay for long-term coverage tend to provide policies that replace only 50% to 60% of income.

### Employer-Provided Benefits Under the Knife

Percentage of U.S. businesses that pay for long-term disability coverage for employees



Source: *Money*, June 2011

There are other reasons why it might not be wise to rely on group benefits alone. If the employer contributes to the premium, the benefits are taxable to the beneficiary, and bonuses are typically not considered when the worker's base earnings are calculated.

### Options for Broader Protection

Unlike the case with group policies, benefits from an individual policy are generally tax-free as long as the policy holder pays the premiums. Other features that may apply only to individual policies could make them especially beneficial to professionals with special skills and to those who work in high-paying fields.

Group plans may end payments when the disabled worker's condition improves enough for him or her to

work at *any* job, even if the salary is significantly less than what was earned before the disability. With an individual disability policy, you might prefer one that pays benefits if you cannot perform your "own occupation." Residual coverage may help you replace lost income if you can only work part-time or at a lower-paying job after you return to work.

Other riders may allow you to add coverage without additional underwriting as your income increases, or to convert your policy to a long-term-care policy after you reach a certain age.

Unfortunately, entire families must often suffer the consequences of a breadwinner's disability. Owning an individual disability income insurance policy built to suit your personal situation may help you avoid life-altering coverage gaps.

# Retirement Plans for Small Businesses

## Safe Harbor 401(k) Plans May Help Owners and Employees Save More

With standard 401(k) plans, the amount that a company's owners or highly compensated employees can contribute is often restricted by how much other employees contribute to the plan, making such plans a less effective savings vehicle for many small businesses. However, with the more flexible *safe harbor* option, owners may be able to make larger contributions for themselves (as employee and employer) in exchange for making tax-deductible contributions or "matches" for employees.

In addition, the annual IRS nondiscrimination testing that normally applies to standard 401(k) plans is eliminated from safe harbor plans, which typically makes them easier and less expensive for small businesses to maintain.

To help shelter more of your income from taxes, and possibly help your employees do the same, compare the benefits and limitations of safe harbor 401(k) plans to other retirement plans to determine which one could best meet your company's needs.

### Key Differences Between Retirement Plans

	Safe Harbor 401(k)	SIMPLE IRA	SEP-IRA
<b>Who can contribute?</b>	Employee and employer	Employee and employer	Employer only
<b>2012 maximum employee contribution</b>	\$17,000; \$5,500 catch-up for those age 50 or older	\$11,500; \$2,500 catch-up for those age 50 or older	If non-SEP contributions are allowed, regular IRA contributions can be made.*
<b>Employer contribution rules</b>	Required match: minimum 100% of each participant's first 3% of salary plus 50% of next 2% of salary, or a non-elective contribution equal to 3% of salary for all eligible employees. Match, profit share, or other contribution up to 100% of employee's compensation is allowed; \$50,000 cap for 2012 (from both sources).	Required match: 100% on the first 3% of participant's contributions or 2% of all eligible employee salaries.	Contributions are not required to be made every year. If the plan is funded, employer must contribute the same percentage of compensation for all eligible employees. Annual contributions limited to 25% of employee's earnings; \$50,000 cap for 2012.

\*Regular IRA contribution limit in 2012 is \$5,000 (\$6,000 for those age 50 or older). Distributions from employer-sponsored retirement plans are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to an additional 10% federal income tax penalty, with certain exceptions such as the plan participant's death, disability, or separation from the employer at age 55 or older. Withdrawals prior to age 59½ from a SIMPLE IRA during the first two years of participation may be subject to a 25% penalty; 10% thereafter.

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*How would a lengthy disability affect your personal or business finances? Together, we can develop a strategy to help protect your income and your family.*

