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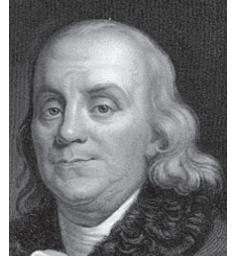
"The Latest News on Saving and Investing"

Second Quarter - 2008

Saving Money Better Than Earning

by Stephen J. Butler

Ben Franklin was apparently a big fan of nudity and wrote about the value of what he called "air baths." He's more commonly known, however, for being one of the earliest champions of the personal growth movement spouting aphorisms about getting to bed early, eating apples, and pointing out that "a penny saved is a penny earned."



In fact, a dollar saved today is actually equivalent to almost two dollars earned in these days of hyper-taxation with even more taxation to come. When it comes to taxes, most of us fail to consider the extent to which it should impact so much of our decision-making.

For openers, we fail to appreciate the concept of marginal tax brackets. With the median family income in the \$70,000-plus range, the average Californian is easily in a 35 percent tax bracket on the last few dollars of income when combining federal plus California marginal income taxes. If we are talking about job income, as opposed to retiree investment income like interest, then the marginal tax bracket is kicked up by another 10 percent because of Social Security and Medicare. Most workers (or retirees working part-time) who increase their income by \$1,000 will be lucky to have much more than \$550 of additional money to spend after total taxes of 45 percent on this last \$1,000 of income.

Alan Greenspan, a latter-day Ben Franklin, points out that when an issue is complex, it is useful to take it to the extreme. "If deficits didn't matter, and tax cuts unmatched by spending cuts were good public policy, then why not eliminate all taxes? ... as we have seen in developing countries, unbridled government borrowing and spending produce hyperinflation and economic devastation."

If the current deficit leads to hyperinflation, then incomes grow but with dollars that become less valuable. These additional dollars just bump more of everyone's income into the level that is taxed at these high marginal rates. This "stealth tax" generates more money for the government without requiring any change in the tax rate. In one form or another, then, increased taxes will be hitting us like a freight train.

When it comes to financial decision-making, it is critical to understand how taxes impact everything. A retired couple whose lifestyle leaves them a little strapped for cash may be tempted to take more investment risk to generate that last \$10,000 needed for homeowner association dues or other costs. It's important to understand that the additional gross income to meet that \$10,000 need might have to be as high as \$15,000 to \$18,000 to have the necessary \$10,000 left after paying taxes at the highest marginal rate on this money.

To generate that much more gross income, we may be having to take more risk --- or work more hours than we had anticipated at that part-time job. The temptation to invest in something that sounds "too good to be true" can be overwhelming in these situations.

It's also time to revisit mutual funds that invest in tax-free municipal bonds. At the moment, tax-free "muni's" are actually paying more than equivalent-maturity Treasury bills. Anyone in a high marginal tax bracket (retired couples with at least \$70,000 of income including Social Security) should consider the fact that if the last few dollars of income can be tax-free, thanks to muni-bond interest. The current yield on investment-grade muni's is 5.3 percent and this payout is the equivalent of almost twice as much pre-tax income generated by conventional taxable bonds. Vanguard's Limited Term Tax-Exempt is a good start, but I also like their High-Yield Tax-Free fund paying 5.4 percent even though it carries more risk.

The retiree cited above would find that saving \$10,000 somewhere in the budget would have been a more cost-effective approach than straining to generate an additional pre-tax \$15,000 or more.

Again, the lesson here is that financial decision-making is all about taxes. Given the political climate, there is no practical way that the influence will get anything other than stronger. We will all further appreciate that the best things in life are free. Anyone for an "air bath?"





Benefits TODAY

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Addition of HSA Administration to Benefit Dynamics' Suite of Services

by Michelle King, CFC Director of Marketing and Product Development



An increasing number of our clients are adding qualified High Deductible Health Plans (HDHP's) and Health Savings Accounts (HSA's) to their benefits package in an effort to control the rising cost of health insurance premiums. In many cases, employers are contributing to the HSA for those employees willing to take the risk of enrolling in a high deductible health plan, which helps the company save on premiums.

An HSA is often just a checking account established through a web-based product or a local bank. These arrangements typically provide little in the way of advice, instruction, investment choices, expense eligibility determination, or receipt storage.

Benefit Dynamics plans to offer an improved HSA product that will provide the same tax-free deposits, growth, and withdrawals as other HSA products on the market, but also include improved investment options, a "receipt vault," and confirmation on which expenses are eligible and those that may not be.

Once DataPath and RelayHealth have developed their coordinated product (see Strategic Partnership to Expedite Consumer Payments for Health Services), Benefit Dynamics will be able to intercept claim data being transmitted between the Health Care Provider and Insurance Carrier. The result is the ability to confirm available benefits for providers and improved use of a debit card to expedite payment and eliminate the need for additional paperwork.

While HDHP's may appear risky at first glance, the premium savings on dependent coverage can be greater than the deductible in many cases. The addition of employer contributions into an HSA means free money is available when medical services are needed.

We are excited to offer a dynamic solution in response to our client needs. As always, Benefit Dynamics will provide the same level of care and customized service our clients have come to expect from all of our products and services.

Strategic Partnership to Expedite Payments for Health Services

by Michelle King, CFC Director of Marketing and Product Development

At their annual user conference San Antonio, Texas this May, DataPath, the software provider used by Benefit Dynamics to administer employee benefit services, announced a strategic partnership with RelayHealth. RelayHealth offers connectivity services providing a network designed to streamline clinical, financial and administrative communication between patients, providers, payors, pharmacies, pharmaceutical manufacturers and financial institutions.

Utilizing RelayHealth's existing electronic interface infrastructure Benefit Dynamics will be able to dramatically increase the accuracy and efficiency of using Debit Cards in conjunction with the various types of Medical Expense Reimbursement Accounts we administer on behalf of our clients. The electronic interface provides details of the services provided, which determines eligibility and insurance payment amounts, including provider discounts and amounts applied toward a deductible. The information provided through this interface should significantly reduce the need to follow "card swipes" with supporting paperwork and potentially create a solution to proposed legislation that HSA (Health Savings Account) withdrawals be substantiated by a third party.

DataPath is the first benefit software solution provider to pioneer this connectivity and Benefit Dynamics is pleased to be among the first to offer this streamlined service. The new product is scheduled for release at the end of 2008.

For more information, please see the formal news release on our website at www.PensionDynamics.com

