MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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Getting the Most from Social Security

Social Security has been at the forefront of the news over the past month with the release of the 2010 Annual Social Security Report. The report evaluates the long term viability of the program. At Mosaic, the two most commonly asked questions we get regarding Social Security are: does it matter when I take Social Security? And, should I count on Social Security in my financial plan? The answer is yes! We'll address both in this article.

Strategies to Maximize Your Benefits

Delay Taking Benefits: you have three options for electing when to take benefits; take it early (as early as age 62), wait until your "Full Retirement Age" (ranges from 65 – 67, depending on the year you were born), or wait even longer (to age 70). Electing to take Social Security early at age 62 reduces your normalized monthly benefit by 25 – 30%. Conversely, if you wait until age 70, your monthly benefit increases by 32%. How long you live will ultimately determine whether it's better to begin early at a reduced benefit or delay and receive larger monthly payments. For a top wage earner eligible for the maximum Social Security benefit, the breakeven between an early election at age 62 versus late election at age 70 is living past age 81. Your breakeven will depend on the benefit amount you're eligible for and whether you're looking to delay to or beyond "Full Retirement."

Utilize Spousal Payments: spouses are entitled to a Social Security payout of 100% of their own benefit, or 50% of their spouse's benefit, whichever is greater. Retired couples in which one spouse did not work or had low earnings have the most to gain from this provision.

The 62/70 Split: with this strategy, referred to as a 62/70 split, the lower earning spouse files early at age 62 to receive his or her own benefit. When the higher earner later files at his or her full retirement age, the lower earner can now claim the (assumably higher) 50% spousal benefit. Upon filing, the higher earner immedi-

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Making Your Portfolio Last a Lifetime

If you are retired, how do you decide how much to take from your portfolio each year? Do you simply withdraw and spend as expenses arise hoping that you won't run out of money before the end of your life? With 30 plus years between the beginning of retirement and your final day on this earth, things change. Markets go up and down and so does your spending. Some years you may buy a new car or take a once-in-a-lifetime world tour . In other years you may just stay at home. And, the prices of goods and services are also ever changing — going up a lot in some years but not so much in others.

At Mosaic, we've synthesized research done by respected professional colleagues and academics. We've developed a practical program that enables us (and you) to calculate the maximum amount that can be safely withdrawn from your portfolio each year with a high level of confidence that (1) your money will last throughout your lifetime; and (2) your total withdrawals will keep up with inflation. This program improves upon the 4% withdrawal rate rule-of-thumb and allows for greater withdrawals under certain circumstances.

Our withdrawal analysis considers the number of years you'll be relying on the portfolio, the expected

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What's Inside

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ately suspends his or her benefit payments until age 70. This allows the higher earner's own benefit to continue to accrue delayed retirement credits to age 70. The key to the strategy is that the higher earning spouse must file for benefits (and suspend payment) before the lower earning spouse can be eligible for the 50% spousal benefit.

Claim Twice: dual-earner couples who have reached their full retirement age can claim Social Security twice: first as a spouse and later using their own work record. A person may choose to sign up for only a spouse's benefits at their full retirement age and continue accruing delayed retirement credits on their own Social Security record. The worker may then file for benefits based on their own work at a later date and receive a higher monthly benefit due to delayed retirement credits. For example, a man planning to retire at age 70 could claim a spouse's benefit based on his wife's earnings at age 66 and then claim again based on his own working record when he exits the workforce at age 70. High-income couples with relatively equal earnings gain the most using this strategy.

Boost The Survivor's Benefit: widows and widowers are entitled to the higher earner's full retirement benefit. Surviving spouses can begin receiving Social Security benefits at age 60. Benefits are reduced by up to 28.5 percent if claimed before the recipient's full retirement age. The surviving member of a dual earner couple can also claim a reduced benefit on one working record and then switch to the other. For example, a woman could take a reduced widow's benefit at age 60 and then claim 100 percent of the retirement benefits based on her own working record when she reaches her full retirement age. Most survivor benefits are paid to women because wives are generally younger than their husbands and live longer.

Ex-spouses are eligible: a former spouse may be eligible for benefits if the marriage lasted at least 10 years. The divorced spouse must be age 62 or older and unmarried. The amount of benefits an ex-spouse claims has no effect on the benefits the worker and his or her current spouse can receive.

Will Social Security be around when I retire?

For the first time in history, Social Security is projected to pay out more in benefits than it collects in taxes in 2010 and 2011. The Social Security trust fund is currently expected to be exhausted in 2037. After that, even if no changes are made, there will still be sufficient resources to pay about 75% of the beneficiaries' scheduled benefits. In other words, even under a "no change" scenario, benefits would only drop 25% from today's level (on an inflation adjusted basis).

Fixing Social Security—the Options.

Without going into great detail about the specifics, Congress does have a number of options it could choose from to help "cure" the Social Security underfunding issues. These include but are not limited to:

- Reduce benefits levels
- Push back "Full Retirement Age"
- Increase the Social Security wage base
- Increase contributions rates
- Collect what is owed to the government
- Decouple the cost-of-living adjustment and CPI
- Reduce spousal benefits
- Include more workers in the Social Security tax pool
- Increase the average of working years required

Mosaic will be happy to review with you how to get the most from your Social Security benefits, what your breakeven age is for electing Social Security benefits, and how Social Security should be incorporated into your financial plan.

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return on your portfolio, the value of the stock market when you begin withdrawals, and the level of confidence you desire that your portfolio will last throughout lifetime. Each year, we'll evaluate the current rate of inflation, your portfolio's value and its prior year return. With these inputs, we can make appropriate adjustments to your withdrawal amount if needed.

Once your target withdrawal amount has been calculated, we'll raise cash in your portfolio to cover the upcoming year's withdrawal amount. These funds are set aside in money-market type investments and transferred to your bank account each month like a paycheck. If you choose to spend less than the maximum allowed under this analysis, the surplus is maintained for use in years in which you may need more than the maximum allowed from your portfolio.

Keep in mind that no program, including this one, can unconditionally guarantee the desired results, but this program is based on thoughtful research and provides a rational framework for deciding how much you can spend. Mosaic planning clients who would like to learn more should contact their advisor.

What Will it Be — Inflation or Deflation?

Recently, there has been much debate amongst economists as to whether the United States will experience inflation or deflation over the next few years.

"Inflation" means the price of goods and services is rising. It's usually measured by the Consumer Price Index (CPI). When prices rise, consumers can no longer purchase as many goods or services with the same number of dollars as before. If inflation rises too steeply or too quickly, the economy suffers. Consumers buy fewer goods and it becomes harder to sell goods overseas. On the other hand, moderate rates of inflation are considered positive as it reflects healthy and consistent economic growth. Accordingly, the Federal Reserve Board (Fed) tries to target a rate of inflation of around 2-3%. If inflation gets too high, the Fed will generally raise interest rates to try to slow down the economy so that prices and the dollar will return to more stable levels.

Conversely, if inflation falls too steeply, this too can be a cause for concern. When prices are falling, we have "deflation." At first blush, falling prices might seem to be a favorable development for the consumer. However, deflation can be a serious problem for the economy and the Fed has fewer tools with which to combat deflation's effects. If prices fall steadily over a long period, consumers are likely to delay purchases (why buy now if prices keep falling?). Thus, deflation can cause a drop in demand for goods and services. This drop in demand usually contributes to economic contraction — leading to job losses, declining wages, and often a decrease in asset values (home prices and stock portfolios, etc.).

Deflation is difficult for the Fed to combat once it has set in because it tends to be self-reinforcing. Deflation can lead to a vicious cycle where consumers continue to spend less, further reducing demand and leadings to reductions in employment and, ultimately, reduced economic growth. All of this leads to further deflation. To keep this vicious cycle from taking hold, the Fed can seek to stimulate the economy by reducing interest rates and increasing the supply of money. In conjunction, the government can try to increase demand by lowering taxes and increasing government spending.

As of July 2010, the inflation rate of the US economy stood at about 1.2%. This low inflation rate and our high current unemployment suggests to some economists that the US could be soon entering a deflationary period. Other economists argue that with interest rates so low, with all of the stimulus money that the government has spent, and with the vast increase in the money supply, inflation is more likely to be the next problem.

Since we could be facing either inflation or deflation, our Mosaic investment strategies hold positions designed to help protect your portfolio in either scenario. During inflationary times, equities and real estate generally perform well because of the rapid economic growth associated with these periods. Treasury Inflation Protected Securities (TIPS) are held in most bond portfolios expressly to benefit from rising inflation. On the other hand, during deflationary periods, most bonds (other than TIPS) will increase in value in response to dropping interest rates. In addition, the alternative investments held in most Mosaic client portfolios are chosen in part because of their relative lack of correlation to the equity and bond markets. These investments often "march to their own drummer" and are less affected by market swings—whether up or down. When combined, this mix of assets is designed to most times offer at least a few winners, regardless of economic direction, and thus should help returns and smooth the "ride."

Budgeting Advice for Young Couples

According to a poll conducted by credit-score generator Fair Isaac, when it comes to difficulties in relationships, Americans are twice as likely to cite as a problem fiscal responsibility as they are sexual compatibility. One thing is certain: money problems are common for newlyweds and it can be a source of tension and conflict that ultimately brings a marriage down. The basics are obvious, though not always employed: communicate regularly, set goals and avoid money secrets. Practical advice includes setting up three bank accounts — one for each spouse as well as a joint account. This can provide each partner with a little financial breathing room. Another idea is that if one spouse leaves the workforce, he or she should be paid a "salary" by the working spouse in order to maintain some financial autonomy. Making savings automatic, maintaining a budget and avoiding high-interest debt help keep the peace too.

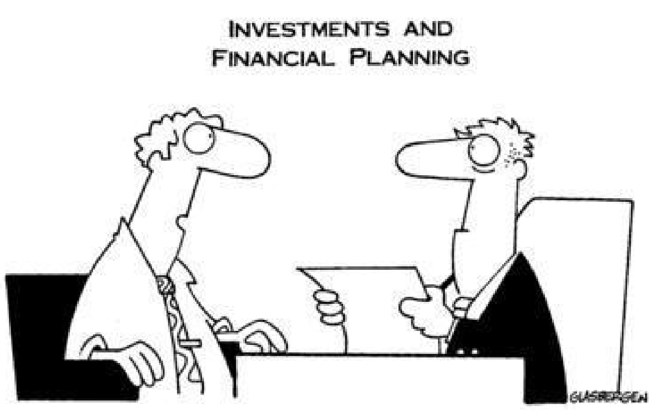
AROUND THE OFFICE

At the Podium… **Kevin Gahagan** generated a lively discussion with his talk to the North Bay Investors' Forum in June on the subject of "Investment Strategy in a Post-Crash World."

Travel to Old Mining Towns… As part of a "road trip" which included Yosemite and Sequoia National Parks, **Dave Cowles** and his wife Karen visited Bodie, California, an authentic ghost town in the Eastern Sierras. The discovery of Gold led to Bodie's boom years in 1878-79 but competing discoveries in other areas drew most of the population away. At its peak, Bodie in 1880 had 10,000 residents and 65 saloons! By 1910 the population had dwindled to 698.

Susan Morse and her husband Frank visited Virginia City, Nevada, a mining town that appeared overnight as a result of the Comstock Lode silver strike of 1859. Like Bodie, the city swelled to 10,000 residents, was once called the "richest city in America" and swiftly declined after 1898 when the Comstock Lode played out. As a newspaper reporter there, Samuel Clemens first used his pen name, Mark Twain.

Education a Continuing Affair… In early June, the members of our advisory and financial planning teams attended the FPA's Northern California Regional Conference. "NorCal" is a national caliber conference that provides a range of in-depth educational sessions and presentations by leading thinkers. This year's conference was chaired by Mosaic's own **Sabrina Lowell**. Sabrina received many well-deserved kudos for her outstanding efforts.



"Explain to me again why enjoying life when I retire is more important than enjoying life now."

In mid-August **Kevin** attended the FPA's Far West Round Up, a 2 ½ day educational retreat held on the UC Santa Cruz campus. **Dave** traveled to Chicago in June for the annual user conference for our rebalancing software. In July, he was in Santa Monica for an investment conference sponsored by Dimensional Fund Advisors (DFA), one of our primary mutual fund companies. The highlight was hearing from Gene Fama & Ken French who together published ground-breaking research on the benefits of "value" and "small cap" investing which Mosaic incorporates into our portfolios.

While attending an iShares conference in late July, **Susan** listened to Malcolm Gladwell ("The Tipping Point", "Blink" and "Outliers") discuss a framework to use in decision making. He suggested problems be seen as "puzzles" (where there is a definitive answer but you are missing relevant information) or "mysteries" (where there is not a definitive answer and there is too much information). Different skill sets are required to tackle the problem, depending on whether it is a puzzle or a mystery.

Furthering the Profession…. Norm Boone began his term in July as President of the San Francisco Estate Planning Council. **Kevin** continues his work on the specialty conferences for the Investment Management Consultants' Association. The first in this conference series will be the Advanced Wealth Management conference in San Francisco in November. **Geoff** recently had the first of a series of articles published on the topic of Integrating Stock Options (and other forms of Equity Compensation) as part of a Holistic approach to Financial Planning.

Congratulations… To **Benson Choy** and **Mary Ballin**, our newly minted CFP®s who each recently completed the examination and experience requirements for certification. Congratulations to you both!

Tips for Boosting Your Credit Score

If you're thinking about refinancing your mortgage, buying a car or borrowing for any other reason, your credit score is a very important number. The interest rate you pay on your loan will be determined, in large part, by the three-digit number that is generated from the information in your credit report. Most lenders have very specific lending criteria that determine the loan terms and rates available to a borrower. Your credit score is one of the key determinants. If a lender's best rates are offered to borrowers with a credit score of 700 or higher and yours is a 698, those two points could cost you thousands of dollars.

According to www.myfico.com, the consumer web site of the Fair Isaac Corp. that created the FICO (or credit) score, the interest rate difference between a score of 698 and 700 is one-half percentage point. Fall below a score of 675 and the rate goes up another 1.2%. Most lenders today practice tiered pricing, with interest rates rising as FICO scores decline. Each lender chooses its own "break points" between pricing tiers. Lender A may increase the interest rate if a FICO score falls below 700, while Lender B may not charge higher rates until the score is 690 or lower. If your lender's break point is 700, raising your score from 698 to 701 can be vital.

What if you're house hunting and you just need a few extra points to bump you over the line to the best rates? Start by pulling your credit report and your credit score to see where you are. If your score is above a 720, you're golden. Typically, improving your score from a 720 to a 740 won't get you better terms.

What you're looking for on your credit report are factors that could affect your score. Look for errors in the report, such as accounts that aren't yours, late payments that were actually paid on time, debts you paid off that are shown as still due, or old debts that shouldn't be reported any longer (negative cites are supposed to be deleted after 7 years—other than bankruptcies, which can remain for up to 10 years).

After repairing errors, the fastest route to a better score is paying down balances on credit cards. There are always exceptions, but many observers think that over a 60 day period, it may be possible to increase your score 20 points by paying down your credit lines.

Had a few late payments in your past? If you find yourself in some financial difficulties, you can protect your score by making sure your payments don't go 60 days past due - some lenders don't report 30 days past due, but they all report 60 days past due. Even if you've paid your bills late in the past, you can improve your credit score by paying every bill on time. Forget about grace periods - if you want to have a really good record with the credit agencies, pay your debt before it is due and keep your balances low.

If you're trying to boost your credit score, closing old or unused accounts probably won't help and it may work against you. Unless you also pay down your debt, closing unused accounts changes your debt utilization ratio (your total debt divided by your total available credit). A higher utilization ratio can make it appear you're closer to maxing out your credit. Since the length of your credit history is another factor in your credit score, if you do close accounts, you should consider leaving open those that are oldest.

Another strategy for bringing up your score: transfer balances from a card that may be close to its limit to other cards with lower utilization. You look more credit-worthy debt isn't overly concentrated and close to the limit. Try to get the usage on your cards at 20% to 30% instead of a bunch at zero and one at 80%.

If you're in the throes of qualifying for a mortgage and need a score boost in a hurry, you can speed the process along with rapid rescoring. If you've got legitimate negative information on your credit report, such as late payments or accounts in collections, you're out of luck. But the process of rapid rescoring can help increase your score within a few days by correcting errors or paying off account balances. You can't do this one yourself; you'll need a lender who is a customer of a rapid rescoring service. Generally, the service will run roughly $50 for every account on your credit report that needs to be updated, but it could save you thousands in interest on your loan. If a consumer can find a lender who is a customer of a rapid rescoring service, new information can be posted within 72 hours.

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Thoughts to Live By

"The person who makes a success of living is the one who sees his goal steadily and aims for it unswervingly." - Cecil B. DeMille

"If your vision is for a year, plant wheat. If your vision is for ten years, plant trees. If your vision is for a lifetime, plant people." - Chinese Proverb

"Debt is the worst poverty." - Thomas Fuller

"We probably wouldn't worry about what other people think of us if we could know how seldom they do." - Olin Miller

"The individual activity of one man with backbone will do more than a thousand men with a mere wishbone." - J.H. Boetcher

"It is not enough to be busy; so are the ants. The question is, What are we busy about?" - Henry David Thoreau