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Hi Everyone,

Happy 2013! Each new year brings new ideas, hopes and wishes. It's a great time to think about planning for your finances as well. Please give us a call if we can help you with that process.

Also look for our new blog, which is linked to our website's home page. We'll be discussing various personal finance topics in the weeks ahead, so we hope you visit often.

Warm regards,
Deidra

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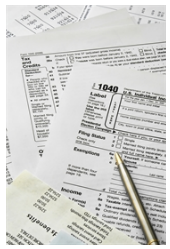
Winter 2013

Fulton Financial Planning, Inc.

Financial Briefs

Guidance For Every Stage of Life

Federal Income Tax Filing Season Is Here



The due date for 2012 federal income tax returns is April 15, 2013. Whether you're preparing your own taxes or paying someone else to do them for you, you'll want to start pulling things together sooner rather than later. That includes gathering a copy of last year's tax return, W-2s, 1099s, and deduction records.

Filing for an extension

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2013) to file your return. Don't make the mistake of assuming that the extension gives you additional time to pay any taxes due, though. If you do not pay any taxes you owe by April 15, 2013, you'll owe interest on the tax due, and you may owe penalties as well. Special rules apply if you're living outside the country or serving in the military outside the country on April 15, 2013.

There's still time to contribute to an IRA

You generally have until the due date of your federal income tax return (April 15) to make contributions to either a Roth IRA or a traditional IRA for the 2012 tax year. That means there's still time to set aside up to $5,000 ($6,000 if you're age 50 or older) in one of these retirement savings vehicles. It's worth considering, in part because contributing to an IRA can have an immediate tax benefit. That benefit comes in the form of a potential tax deduction--with a traditional IRA, if you're not covered by a 401(k) or another employer-sponsored retirement plan (if your spouse is covered by an employer plan, you're considered to be covered as well), you can generally deduct the full amount of your contribution. (If you're covered by an employer-sponsored retirement plan, whether or not you can deduct some or all of your traditional IRA contribution depends on your filing status and income.)

It's a little different with a Roth IRA; if you qualify to make contributions to a Roth IRA (whether you can contribute depends on your filing status and income), the contributions you make aren't deductible, so there's no effect on your 2012 taxes. Nevertheless, a Roth IRA may be worth considering because qualified Roth distributions you take in the future are completely free from federal income tax.

There's also still time to undo a 2012 Roth conversion

Did you convert a traditional IRA to a Roth IRA in 2012, only to see the account drop in value? Wish you could go back in time so that you wouldn't have to pay tax on the value of the IRA assets lost in the downturn? Turns out, you can. If you undo ("recharacterize") the conversion, you're treated for tax purposes as if the conversion never happened--you wind up with a traditional IRA again and no tax bill for the conversion. You generally have until the due date of your 2012 return, including extensions, to recharacterize a 2012 Roth conversion (note that special rules allow individuals who file timely 2012 returns to recharacterize up until October 15, 2013--talk to a tax professional about the details).

If you do recharacterize your 2012 conversion in 2013, you're allowed to convert those dollars (and any earnings) back to a Roth IRA ("reconvert") after waiting 30 days, starting with the day you transferred the Roth dollars back to a traditional IRA. If you reconvert in 2013, then all taxes due as a result of the reconversion will be included on your 2013 federal income tax return.

Review casualty loss deduction rules

If you were one of the many individuals who suffered property damage or loss as a result of late-2012 storms (e.g., October's Hurricane Sandy), be sure to familiarize yourself with the casualty loss rules--you may be entitled to a deduction for storm-related losses that weren't covered by insurance. Review IRS Publication 547, Casualties, Disasters, and Thefts for details.

Compounding Can Add Fuel to Your Portfolio

Note: The examples in this article are hypothetical and for illustrative purposes only. They assume a steady 6% annual rate of return, which does not represent the return on any actual investment and cannot be guaranteed. Moreover, the examples do not take into account fees and taxes, which would have lowered the final results. Speak with a financial professional about how these examples might relate to your own investing circumstances.

If you enter the terms "Albert Einstein" and "compounding" into an Internet search engine, you'll discover a wide variety of quotes attributed to the great inventor. Some results say Einstein called compounding the "greatest mathematical discovery of all time," while others say he called it the "most powerful force in the universe." Despite the many variations, Einstein's point is valid: compounding can add fuel to your portfolio's growth. The key is to allow enough time to let it go to work.

Time and money can work together

The premise behind compounding is fairly simple. If an investment's earnings are reinvested back into a portfolio, those earnings may themselves earn returns. Then those returns earn returns, and so on. For instance, say you invest $1,000 and earn a return of 6%--or $60--in one year. If you reinvest, combining that $60 with your $1,000 principal, and earn the same 6% the following year, your earnings in year two would increase to $63.60. Over time, compounding can snowball and really add up.

Say at age 45 you begin investing $3,000 annually in an account that earns 6% per year, with earnings reinvested. At age 65, your $60,000 principal investment would be worth almost twice as much--about $117,000. That's not bad, right?

Now consider what happens if you begin investing at age 35, using the same assumptions. By 65, your $90,000 principal would nearly triple to just over $250,000.

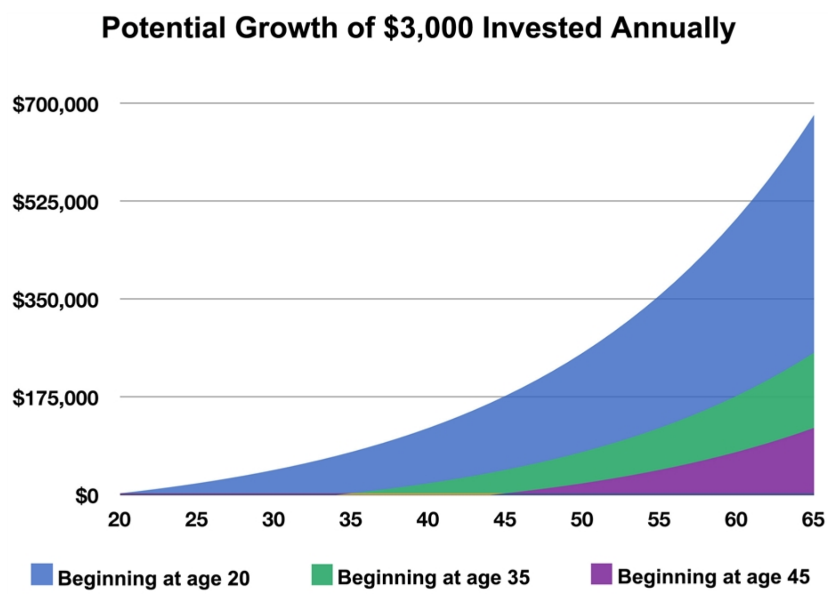
Finally, consider the results if you start at age 20: your $135,000 investment would be worth a jaw-dropping five times as much--$676,524. That's the power of compounding at work.

But how long do I have to wait?

If you'd like to estimate how long it might take for your investment to double, you can use a principle known in investment circles as the "Rule of 72." To use the rule, simply divide 72 by the expected rate of return. For example, if you expect to earn an average of 8% over time, the Rule of 72 gauges that your investment would double in approximately nine years. (This rule applies to lump-sum investments, not periodic investment plans such as those given as examples in this article.)

With compounding, the more patience you have, the better off you may be over the long term. The examples in this article assume a steady 6% rate of return each year; however, in reality, no investment return can be guaranteed. Your actual earnings will rise and fall with the changing economic and market conditions. That's why it's so important to stay focused on the long term. Over time, the ups and downs may average out, and your earnings can potentially go to work for you.

Perhaps that's why Einstein called compounding "man's greatest invention." Or was it the "eighth wonder of the world"? Regardless ... you get the idea. When it comes to investing, time can be the power behind your potential success.



Questions and Answers about Social Security

Did you know that according to the Social Security Administration, 94% of all workers are covered under Social Security?

Whether you're close to retirement or years away from receiving Social Security benefits, you may not know much about the intricacies of this important program. Here are some questions and answers that can help you learn more.

Will Social Security be around when you need it?

You've probably heard media reports about the worrisome financial condition of Social Security, but how heavily should you weigh this information? While it's very likely that some changes will be made to Social Security (e.g., payroll taxes may increase, benefits may be reduced by a certain percentage, or cost-of-living adjustments may be calculated differently), there's been no proposal to eliminate Social Security. Although no one knows what will happen, if you're approaching retirement, it's probable that you'll receive the benefits you've been expecting. If you're still a long way from retirement, it may be wise to consider various scenarios when planning for Social Security income.

How does the Social Security Administration know how much you've earned?

If you work for an employer, your employer will deduct Social Security taxes from your paycheck and report your wages to the Social Security Administration (SSA). If you're self-employed, you pay your self-employment Social Security taxes and report your earnings to the SSA by filing your federal income tax return. To view your lifetime earnings record, you can sign up to access your Social Security Statement online at the SSA's website, www.socialsecurity.gov.

Will a retirement pension affect your Social Security benefit?

If your pension is from a job where you paid Social Security taxes, it won't affect your Social Security benefit. However, if your pension is from a job where you did not pay Social Security taxes (such as certain government jobs) two special provisions may apply.

The first provision, called the government pension offset (GPO), may apply if you're entitled to receive a government pension as well as Social Security spousal retirement or survivor's benefits based on your spouse's (or former spouse's) earnings. Under this provision, your spousal or survivor's benefit may be reduced by two-thirds of your government pension (some exceptions apply).

The second provision, called the windfall elimination provision (WEP), affects how your Social Security retirement or disability benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit is modified, resulting in a lower Social Security benefit.

If someone else receives benefits based on your earnings record, will your benefit be reduced as a result?

Your benefit will not be affected if other people, such as your spouse, former spouse, or dependent children, receive Social Security benefits based on your earnings record.

If you delay receiving benefits until after full retirement age, should you still sign up for Medicare at age 65?

Even if you plan on waiting until full retirement age or later to take your Social Security retirement benefits, make sure to sign up for Medicare three months before you reach age 65. If you enroll late for Medicare Part B (medical insurance) your coverage may be delayed or cost more later. Visit the Medicare website, www.medicare.gov to learn more.

Do IRA withdrawals count toward the Social Security earnings limit?

Prior to full retirement age, an earnings limit applies if you receive Social Security benefits. If you earn more than this amount, your benefit will be reduced. However, only wages from a job or net earnings from self-employment count toward this limit. Unearned income, such as IRA withdrawals, investment earnings, or capital gains, does not count.

What if you change your mind about when to begin Social Security benefits?

You have a limited opportunity to change your mind after you've applied for benefits. You can complete Form SSA-521, Request for Withdrawal of Application, and reapply at a later date. But if you're already receiving benefits, you can withdraw your claim only if it has been less than 12 months since you first became entitled to benefits, and you're limited to one withdrawal per lifetime. In addition, there are financial consequences--you must repay all benefits already paid to you or your family members based on your application, as well as any money withheld from your checks, including Medicare premiums or income taxes.

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This newsletter strives to provide factual and up-to-date information on the topics discussed, but it should not be regarded as a complete discussion of these issues. The reader is advised to engage the services of a competent professional before taking action on any subject matter discussed.

I'm going on a cruise--do I need to purchase travel insurance?

It depends. The decision to purchase travel insurance really comes down to whether the financial benefit outweighs the cost of the policy premium. For example, if you had to cancel your trip, could you afford to lose the money you paid for the trip? If not, a travel insurance policy might be right for you. You can purchase travel insurance from a travel agency, tour operator, cruise line, car rental company, or directly from an insurance company. There are a number of different types of travel insurance, and the type of coverage offered, policy terms, and cost will vary.

The most common type of travel insurance policies are those that offer trip cancellation/trip interruption coverage. This type of coverage will reimburse you if you have to cancel your travel plans before you leave or cut your trip short due to an unforeseen event. Covered contingencies can include anything from a hurricane to your cruise line operator going out of business. Other types of coverage that are marketed to travelers include baggage protection, which provides 24-hour protection for your belongings, and accidental death and dismemberment insurance (AD&D), which compensates you if you lose a limb or eye or compensates your beneficiary(ies) if you die in an accident. Keep in mind that before you purchase travel insurance, you'll want to make sure that you don't already have other types of insurance that offer duplicate forms of coverage. For example, your homeowners policy may cover your belongings if they are lost or stolen while you are traveling, or your life insurance policy may provide coverage for accidental death and dismemberment.

Finally, whenever you travel, you should make sure that you'll be adequately covered by your health insurance policy. If you aren't covered or if the coverage provided is limited, you should consider purchasing a temporary health insurance policy. These policies pick up where your current health insurance coverage leaves off and provide coverage if you are hurt, injured in an accident, or get sick while you are traveling. They can even provide coverage for medical evacuations--something that is especially important if you are traveling outside of the United States.

My laptop was stolen and my personal financial information was stored on it. How can I protect myself against identity theft?

You are right to be concerned about identity theft since identity thieves can use your personal financial information to access bank accounts and credit cards, and make unauthorized transactions in your name. As a result, it's important to act fast in order to protect yourself from any potential attempts at misusing your financial information.

Your first step should be to contact one of the three major credit reporting agencies, i.e., Equifax, Experian, or Transunion, and place a fraud alert on your credit report to prevent someone from opening a new account in your name. The agency you contact will then forward your information to the other two agencies. You can also find out if your state allows you to "freeze" your credit report, which will prevent any unauthorized access to your credit information. Once you place a fraud alert on your credit report, you are entitled to a free copy of your report from each of the credit reporting agencies. Review each of your credit reports and notify the agencies of any fraudulent or suspicious activity. You should also contact any financial institutions or credit card companies with which you have accounts. Ask to have your current accounts closed and open new ones with new account numbers. If possible, you should also request that your new accounts include additional safeguards such as password protection.

Finally, if you suspect that your financial information has already been misused, you'll want to consider taking the following steps:

- Contact the appropriate financial institution and dispute any unauthorized charges or transactions as soon as possible. Generally, your liability will depend on how quickly you notify them.
- Consider filing a complaint with the Federal Trade Commission (FTC), which will entitle you to certain identity theft protections. You can go to www.ftc.gov for more information.
- File a police report with your local law enforcement agency. A police report can be helpful when filing an extended fraud alert or disputing unauthorized transactions.

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