

## For Clients and Friends of Financial Connections

A little publicized provision in the Medicare Modernization Act of 2003 increases Part B premiums dramatically for upper-income seniors.

2005 Adjusted Gross Income (AGI): To determine whether the surcharge applies to you, start with your AGI and add to it all tax-exempt interest, savings bond interest utilized for educational expenses, and foreign earned income. The total is your modified AGI.

### **Married Couples**

If your modified AGI is:                      2007 Surcharge added  
More than    But not over                      To premium will be:

\$160,000	\$200,000	13.3%
\$200,000	\$300,000	33.3%
\$300,000	\$400,000	53.3%
\$400,000	-	73.3%

### **Singles**

If your modified AGI is:                      2007 Surcharge added  
More than    But not over                      To premium will be:

\$80,000	\$100,000	13.3%
\$10,000	\$150,000	33.3%
\$150,000	\$200,000	53.3%
\$200,000	-	73.3%

### Surcharges for 2008 and 2009

- ◆ The 2006 modified AGI with income levels adjusted for inflation will double the premium surcharge
- ◆ The 2007 modified AGI similarly adjusted for inflation will triple it

If the provision applies to you, you will receive a letter in late November (not surprisingly, after congressional elections) advising what your new Part B premium will be.

If the income levels shown above do not apply to you, the estimated increase for Part B premiums next year is 14% from \$78.20 to \$89.20.

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Investment markets are reacting emotionally to the most recent events—down for a few days then up for a few days. At Financial Connections, our goal is to lose less when the markets fall but participate when they rise. We call that an “all-weather” approach.

Please feel free to schedule a meeting if you would like to discuss your portfolio or to update us on your financial life.

## WHEN SHOULD I START COLLECTING SOCIAL SECURITY?

This is one of the questions we receive most often. While your individual circumstances may dictate the answer, below are some issues to consider:

Assumption: You were born in 1950

Benefits at age 62	\$1,454
Benefits at full retirement age of 66	\$2,024
Benefits at 70	\$2,757

Issues to consider:

- ◆ If you start benefits at 62 your benefits will be reduced \$1 for every \$2 you earn over \$12,480 per year (adjusted for inflation)
- ◆ Benefits are reduced 5/9 of 1% for each month you receive benefits before reaching full retirement age
- ◆ During the year you reach full retirement age your benefits will be reduced \$1 for every \$3 of earnings over \$33,240 up to the month before your birth date.
- ◆ If you start benefits at full retirement age there is no reduction of benefits regardless of amount earned
- ◆ Additional benefits accrue if you work after full retirement age
- ◆ If you wait to receive benefits until 70 the yearly rate of increase is **8%**. Nice return on your investment! The percentage increase depends on your year of birth. You can check yours at: <http://www.socialsecurity.gov/retire2/delayret.htm>
- ◆ Take early benefits if you need the money to live on
- ◆ Take early benefits if you are in poor health
- ◆ Wait to take your benefits if you have a long life expectancy
- ◆ Wait to take your benefits if you want your spouse to have more income after you die
- ◆ If you are working and don't need the money, why not wait to take the 8% return?

Your Social Security benefit is adjusted annually for inflation using the Consumer Price Index (CPI). But as we discussed in previous newsletters, the CPI does not equal the real increase in cost of living. Over decades, the purchasing power of your Social Security benefit will not keep up with the actual increases in your expenses. By waiting to collect your benefits, you start with a higher monthly income so that the annual increases are larger.

We'd welcome the opportunity to review your circumstances and consider how the different Social Security withdrawal periods fit into your retirement plan.

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## BEFORE WRITING A CHECK TO CHARITY

Have you ever wondered whether the charity you support uses your donations wisely? Does the cause that is important to you have a multitude of charities now vying for your check when years ago there were fewer charities to choose from? Are you deluged with requests for donations but aren't sure which charity to select?

There are several web sites now available to provide information on how each dollar you contribute is used. One web site is [www.charitynavigator.org](http://www.charitynavigator.org). It developed an efficiency rating to compare different charities according to their Program Expenses; Administrative Expenses; Fundraising Expenses, and Fundraising Efficiency to develop Organizational Efficiency

Other web sites with their own systems are:

[www.give.org](http://www.give.org)

(affiliated with the Council of Better Business Bureau)

[www.guidestar.org](http://www.guidestar.org)

(the most extensive reviews 1.5 million nonprofits)

## THE ECONOMY, FINANCIAL MARKETS AND THE FEDERAL RESERVE

The new Fed Chairman, Ben Bernanke, took over in February. Since his tenure began, volatility in the financial markets has increased.

The economic news is not dramatically different from last year:

- ◆ Corporate profits continue at historical highs though slowing
- ◆ Consumers continue to spend
- ◆ Inflation is still low by historical standards
- ◆ Budget deficit is lower than anticipated
- ◆ Dollar is declining slowly
- ◆ Unemployment is low

We wonder how much of the volatility reflects the fact that investors were comfortable with Greenspan but don't yet have confidence in the Bernanke Fed. So every potential problem is magnified until he establishes his credibility.

It's been a long time since we've had a new chairman (the average tenure has been 7 years), and Alan Greenspan took office in 1987. But the market gets jittery when something is "new." On October 19, 1987 "Black Monday" the market dropped 22%.

Also, Greenspan came from Wall Street whereas Bernanke comes from academia.

Regardless of the reasons, the markets' decline this quarter is behavior we have not seen recently. Remember, we're in for the long haul.

### Little Known Facts of Interest

#### ODD AND AMUSING FACTS:

Holy water for worshippers to wash before entering temple walls was dispensed from the first vending machine in 1 A.D. in Egypt. The inventor, Heron of Alexandria, also designed a fire engine, wind organ and steam engine.

In 1888, Thomas Adams Gum Company installed the first vending in the United States dispensing Tutti-Frutti gum.

Japan has the largest quantity and most diversity in their vending machines. They have over 6 million offering such items as oxygen, hot noodles, jewelry, live beetles and, believe it or not, used panties (haven't a clue why)!

#### FINANCIAL FACTS:

- ◆ 67% of people who planned to retire return to work after their "first" retirement
- ◆ 1.5 years was the average period between the first retirement and re-entry to the work force

