Fall 2010

DOCTOR's DIGEST MONEY MATTERS

Financial tips from leading experts

New Tax Savings on Equipment for Medical Practices

Your practice should review your equipment purchases in view of new tax breaks that are part of the Small Business Jobs Act, which President Obama signed into law last September. Here's what may affect your practice:

- **Business equipment.** The new law increases the limit of first-year deductions for equipment purchases to $500,000 for both 2010 and 2011, an increase from $250,000 under prior law. Moreover, leasehold improvements up to $250,000 may qualify for this tax benefit.
- **Depreciation.** There's a special 50%

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The Appeal of Target Date Funds

Target date funds have "soared in popularity," according to *Pensions & Investments* magazine. In 2005, only 25% of employers with defined contribution plans (such as 401k's) offered target date funds. Now over 60% do. According to the SEC, these funds already have accumulated $270 billion in assets.

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Expert Advice, Other Reasons to Choose Managed Accounts

Why are managed accounts so popular? According to the Money Management Institute, nearly $1.8 trillion is currently invested in various types of managed accounts. From mid-2009 to mid-2010, that number increased by more than 27%. Here's why:

- **They're fee based.** Investors usually pay around 1% of assets each year: $1,000 for each $100,000 under management. (The percentage may be higher for small accounts and lower for large accounts.) There are no extra transaction fees.
- **They're professionally managed.** A registered investment advisor or a licensed securities broker is respon-

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Now May Be the Time to Buy a Home

Physicians with ample income and good credit ratings may find this is a good time to buy a home, especially in areas where there has not been a flood of foreclosed properties.

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Why Consider Dividend-paying $tocks?

In an investment environment of lower yields and a sluggish economy that may dampen growth stocks, you may want to consider dividend-paying stocks.

Some of these stocks yield around 4% or even more now.

Some of these stocks yield around 4% or even more now, which compares favorably with many investment yields. Moreover, dividend payers typically have outperformed other stocks during bear markets.

"One study of the 2000-2002 bear market found that dividend-paying stocks outperformed non-dividend payers by 47% on average," says Tom Lydon, president of Global Trends

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Why Convert to a Roth IRA?

Converting your traditional IRA to a Roth IRA can be a great idea. After five years and after age $59\frac{1}{2}$, all withdrawals will be tax free; with a traditional IRA, withdrawals are mainly or completely taxable.

The catch? You'll owe income tax on the conversion. For example, converting a $100,000 IRA would cost you $35,000 in tax if you're in the 35% bracket.

You might find the cash to pay that tax by skipping IRA contributions.

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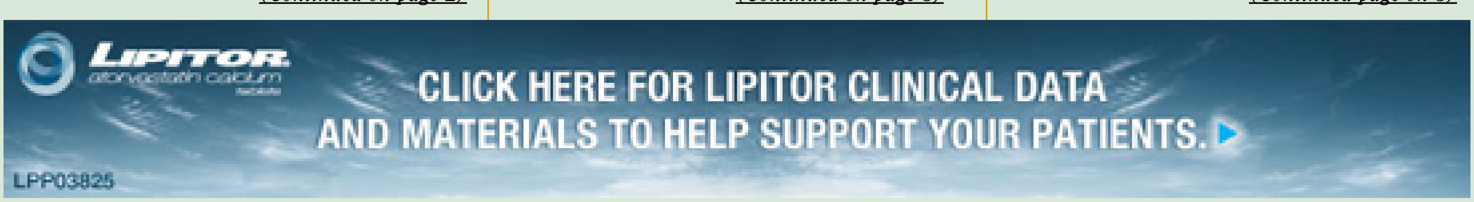

New Tax Savings on Equipment for Medical Practices *(Continued)*

first-year "bonus depreciation" for equipment that doesn't qualify for first-year deductions and is usually depreciated over many years. Now you can deduct half the remaining cost this year, says Mark Luscombe, JD, CPA, principal federal tax analyst at CCH Inc., a provider of tax and audit services in Riverwoods, Ill. "This provision is limited to 2010, so you may want to accelerate equipment purchases before year-end," he recommends.

Here's how it works: Suppose your medical office buys $600,000 of equipment in 2010. You may deduct the first $500,000 right away. Normally, the remaining $100,000 would have to be depreciated over several years, spreading out the tax deductions. Under bonus depreciation, $50,000 (50% of the excess $100,000) can also be deducted in 2010. Only $50,000 has to be depreciated as per IRS tables, with deductions over several years.

- **Cellphones.** The law removes a provision that has required anyone receiving an employer-provided cellphone to keep records of calls and pay tax on personal use. As a result, your medical practice can now provide employees with cellphones and similar devices without the paperwork headaches. $

Following through: Find a summary of the new law's key tax provisions at *http://tax.cchgroup.com/legislation/Small-Business-Jobs-Act-7-23-10.pdf*.

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Expert Advice, Other Reasons to Choose Managed Accounts *(Continued)*

sible for seeing that your investments match your goals and risk tolerance.

- **They provide access to top money managers.** Some stock and bond pickers require minimum investments of $1 million or more. With managed accounts, the minimums may be much lower.

"Separately managed accounts often have minimums of $250,000 or so," says Jean Sullivan, managing principal, Dover Financial Research, Westwood, Mass. With those accounts, investors generally hold individual stocks or bonds. Other types of managed accounts offer mutual funds to investors, where minimum investments might be only $25,000.

Many investment firms offer some type of managed account. If you're interested, ask your financial advisor for details. $

Following through: For details on managed accounts, go to *http://www.schwab.com/public/schwab/investment_products/managed_accounts?cmsid=P-988310&lvl1=investment_products&lvl2=managed_accounts*.

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Why Consider Dividend-paying Stocks? *(Continued)*

Investments, Irvine, Calif. "A study that took a longer perspective, from 1970 to 2000, found that dividend-paying stocks outperformed non-dividend payers during down markets by an average of 1.5% per month."

Companies that pay dividends generally take in more cash than they need; these sound firms pay out profits to investors. Overall, they tend to have good long-term prospects. In addition, bear markets often go hand-in-hand with recessions, and many dividend payers are in industries like utilities and household products, which tend to retain customers in hard times.

If you'd rather not pick individual dividend-paying stocks, consider mutual funds and exchange-traded funds, many of which invest in such companies. $

Following through: Enter a stock's ticker symbol and see the information on its dividend payments at *http://dividendinvestor.com*.

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The Appeal of Target Date Funds *(Continued)*

As the name indicates, these funds set a certain date at which time an investor may expect to retire, essentially putting your asset allocation on autopilot. When the target date is far in the future, these funds invest heavily in stocks because stocks have delivered strong long-term returns. As the target date nears, these funds gradually shift from stocks to bonds, becoming less volatile and more likely to generate investment income. A 35-year-old physician who expects to retire at age 60 might invest in a 2035 target date fund, for example. Younger investors might choose a 2040 fund while those closer to retirement might select a 2020 fund, say, or a 2025 fund.

All target date funds are not the same. "Some funds manage to the target date, when investors may be looking for a lump sum," says Edward Bernard, vice chairman, T. Rowe Price Group, Baltimore. "Other funds manage through the target date for a retirement that might last 30 years." Because funds in the latter category generally hold more stocks, they may be riskier and may have the potential for higher returns than those in the former category.

Investment professionals will adjust your target date-fund-asset allocation as you grow older. If you're interested, read the prospectus carefully to see what strategy the fund will be following and whether you're comfortable with that approach. $

Following through: Read the *Wall Street Journal's* five questions to ask before investing in a target date fund at *http://online.wsj.com/article/SB10001424052748703460404575244682419158898.html*.

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Now May Be the Time to Buy a Home *(Continued)*

While the past few years generally have not been a good time to buy because of declining asset values, home prices seem to be at or near a bottom at the same time that mortgage rates are at record lows.

The National Association of Realtors (NAR) reports that the median sales price of existing single-family homes peaked in 2006 at about $222,000. By 2009, that median price had dropped to around $172,000, a decrease of $50,000, which is more than a 20% decline from the peak. However, new data are encouraging:

- The median price in August 2010 was $178,600, up from $177,200 in August 2009, reports NAR.
- Prices in July 2010 were 3.2% higher than in July 2009, according to the S&P/Case-Shiller 20-City Home Price Index. Ten of the 20 major cities tracked by the index saw year-over-year gains while only Las Vegas hit a new bottom.

Many homes have been foreclosed and are now owned by banks. If the banks decide to flood the market with homes, prices may drop further. However, that may not happen. Some lenders are suspending foreclosures and evictions while regulators review banks' procedures. Such developments may reduce the flow of properties onto the housing market and thus remove some downward pressure on prices.

"Banks are reluctant to bring too many homes to the market because they won't gain from continuing weakness in home prices," says Mark D. Luschini, chief investment strategist, Janney Montgomery Scott LLC, Philadelphia. "It serves the banks holding foreclosed or foreclosing properties no benefit to toss more inventory onto the market. It is likely, however, that this 'shadow inventory' will weigh on prices for many months if not years to come." With the economy slowly recovering and banks cautiously selling the homes they hold in inventory, prices may be flat for a while. $

Following through: Find the latest home price data from NAR at *http://www.realtor.org/wps/wcm/connect/9218f380440c64c69e08ff34cafa6d66/REL1008EHS.pdf?MOD=AJPERES&CACHEID=9218f380440c64c69e08ff34cafa6d66*.

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Why Convert to a Roth IRA? *(Continued)*

"Instead of contributing to an IRA, consider converting part of your traditional IRA to a Roth IRA," says Joseph R. Brooks, president, Fairhaven Financial Advisory Corp., East Lansing, Mich.

For example, if Dr. Johnson and her husband are both 39 years old, they might be in the habit of contributing $5,000 to their IRAs. Each of them could convert $14,000 of their traditional IRAs to Roth IRAs. If they are in a 35% tax bracket, they would owe $4,900 each: 35% of $14,000. They could use the money that otherwise would be contributed to a traditional IRA to pay the tax on their Roth IRA conversions, putting them on a path towards future tax-free distributions.

In 2010, practicing physicians and their spouses generally can contribute up to $5,000 each to a traditional IRA, or $6,000 if they are at least age 50 by year end. The 2011 contribution limits may be a bit higher due to inflation. For Roth IRAs, the dollar limits are the same; but high-income taxpayers may not be able to make any Roth IRA contributions. As of 2010, because there are no income limits on conversions, high-income physicians may find Roth IRA conversions appealing now. $

Following through: Find the answers to frequently asked IRA questions at *http://www.irahelp.com/faqs.php*.

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About the Author: Donald Jay Korn is a New York-based financial writer with particular expertise in investments, real estate, financial planning, taxes, and insurance. He has authored seven books on financial topics and is a regular contributor to *Financial Planning, Black Enterprise, Investor's Business Daily*, and *Consumer Reports Money Advisor*.

Doctor's Digest: Money Matters is a quarterly personal financial e-newsletter for physicians, provided by the publishers of *Doctor's Digest*. *Doctor's Digest* is a bi-monthly single-topic practice-management publication that bridges the gap between the business of medicine and the practice of medicine, offering answers to physician's most pressing practice-management questions. To get a free e-subscription to *Doctor's Digest*, go to *www.doctorsdigest.net* and use Promo Code 11791.