The Franklin Prosperity Report

'A PENNY SAVED IS A PENNY EARNED'

April 2011 / Vol. 3, No. 4

Are 401(k)s a Good Investment?

The 2011 Franklin Retirement Special

For years, experts have touted 401(k) accounts as a retirement strategy all employees should take advantage of. The benefits are numerous: It's a no-hassle way to save for retirement, it provides tax benefits, and depending on your employer you may be eligible for a matching contribution, hiking your overall income.

"Contribute the maximum amount you can," says Shelly Casella-Dercole, CPA, a partner at the accounting firm Eder, Casella & Co. in McHenry, Ill. "This is a great way to save on tax because the money stays in your pocket, and you save tax at your marginal tax rate multiplied by the amount you contribute. For example, if you're 50 or older and in the 25 percent tax bracket at the federal level, you would save $5,500 in tax on a $22,000 401(k) contribution. Additionally, most states allow for a tax deduction for retirement contributions, as well."

However, not everyone shares Casella-Dercole's opinion on the worth of

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401(k)s. "From my perspective, the 401(k) system has failed, as evidenced by the 2001-2002 crash (precipitated by the Internet bubble, high-profile accounting scandals, and the Sept. 11 attacks) and what happened after October 2007 (with the housing bubble and deep recession)," says John Vucicevic, senior financial planner of Bay City Financial in Panama City Beach, Fla., and owner of www.yourincomeexpert.com.

Who's right? In this special Franklin Prosperity Report Retirement Guide, we'll delve into the pros and cons of this investment vehicle and provide some alternatives for those who agree with the voices who say it's time to retire the 401(k).

The Upside of 401(k) Accounts

Traditional 401(k)s were created in 1978 by the U.S. Congress, which amended the Internal Revenue Code by adding section 401(k), which said employees would not be taxed on income they chose to receive as deferred rather than direct compensation. There are advantages to the 401(k) that even detractors will acknowledge. The four most-oft-cited ones:

1. 401(k)s encourage retirement planning. The main plus of a 401(k) is it forces people to become more active in their retirement saving. With Social Security teetering on the edge of insolvency — the 2010 Social Security Trustees Report states that Social Security spending will exceed projected tax collections as soon as 2015, and politicians in Washington, D.C., show no interest in touching this so-called "third rail" of politics to genuinely address the issues — often a 401(k) is all people have for retirement. Admittedly, based on savings-rate figures for the average 401(k), most won't have nearly enough to retire on, but it's something.

2. Employer matches could pay deferred taxes. One good reason to take part in these plans is an employer's matching contribution. That match, in essence, pays future taxes on future withdrawals. "The 401(k) accounts are excellent accumulation vehicles, especially when there's some kind of employer contribution," says Ori W. Pagovich, managing partner at Gotham Financial Services in New York City. "The pretax benefits of these plans are marginal at best, but the forced savings aspect is one of the most compelling arguments to participate."

If your employer is contributing to your plan, you'd be foolish not to accept that contribution, and the only way you can get that contribution from your employer is to contribute yourself, Vucicevic says.

"If I put in a dollar and my company puts in 50 cents, that's a 50 percent profit without any market ups or downs," he points out. "But contributing more money than needed to get the employer's matching contribution in order to pay higher taxes at some point in the future is foolish in my opinion." His advice: Contribute up to the balance of your employer's contribution, but keep the rest of what you put aside for retirement in other savings vehicles.

3. You control how much you contribute. You don't need to have a lot of money to begin contributing to a 401(k), and you can change your investments within the account without incurring tax liability, says Ornella Grosz, author of *Moneylicious: A Financial Clue for Generation Y* (Transformation Media Books, 2010).

A middleman usually isn't an issue anymore. Most plans have online access. You can log on and change not only your contribution level (by percentage or dollar amount per check) but also which investment choices your money is funneled to within the plan.

4. You may find yourself in a lower tax bracket after retirement. According to Ken Borokhovich, professor of finance at Cleveland State University, the most obvious advantage of 401(k) accounts are their tax treatment. Contributions are made before tax, and earnings on the investments in the account are not taxed as long as they remain in the account. Upon retirement, the funds are withdrawn and are taxable at that time.

"However, most people have lower income after retirement, so their tax rate is lower," Borokhovich says. (Although other experts disagree on this point, as discussed elsewhere in this article.)

Borokhovich adds that because contributions are automatic, people don't have to decide whether they want to contribute to their retirement or possibly spend the money instead. "It removes any temptation," he says.

The Pitfalls of 401(k)s

The positives are notable, but as we said at the start of this article, the negatives are becoming clearer, as well. Our panel of experts cited five to be wary of:

1. A 401(k) offers no defined benefits. "The benefit you're going to get from a 401(k) at the end of the day is a crapshoot," Vucicevic says. "If you're 50 now, you really don't have a clue how much income you're going to have from any market-driven qualified plan 15 years from now."

Moreover, the processes of buy and hold and dollar-cost averages don't necessarily work if you're older than 50, he argues.

The 401(k) world is about defined contributions, not defined benefits, and account holders only get what's in the pot when they retire, says Karl W. Kunkle, CPA, wealth-management shareholder at Schneider Downs & Co. in Pittsburgh. "There needs to be an analysis to help people see if they're saving enough money for retirement and if their investments will help them

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achieve their goals," he says.

Unfortunately, for most private-sector employees, 401(k) plans are about the only game in town because most companies have done away with defined benefit plans and pensions, according to Steve Athanassie, CFP, managing principal of ManageMy401k.com. "Public-sector employees still have defined benefit plans," Athanassie says. "But when you look at employees of small to midsize companies, defined benefit plans are like the VCR — gone."

2. You get too few investment choices. A good 401(k) platform has open architecture, not one single mutual-fund company. "It should be built from best-in-class funds available in the overall market, both actively and passively managed," Kunkle says. "Participants need solid asset-allocation portfolios designed for them, based on their particular risk tolerances. Plans need to be more outcome-based so that participants have enough income to live on after retirement."

Unfortunately, Kunkle and others argue that this just isn't happening. Most companies that offer 401(k) accounts limit them to a handful of mutual funds. Worse, those funds are likely to have been chosen not by someone with the ability and experience to correctly analyze a mutual fund but by a company-appointed employee with little or no investing background.

"You have to choose from the funds in your employer's plan," Athanassie points out. "If your employer has chosen a plan with inferior underlying investments, you're stuck with it."

However, he adds, some good news is the Department of Labor recently passed 408(b)2, a rule that says all the service providers for 401(k) plans must report what the expense of the plan is, plus what they are doing for the plan, which in essence raises the bar for providers.

3. Little or no employee education is provided. Employers who act as plan sponsors are precluded from giving specific investment advice because of the liability involved in doing so, Athanassie says. "Even if employers have really smart investing people on board, they can't give advice, and plan providers can't provide specific advice, either," he says. "Employees are caught between a rock and a hard place."

Athanassie says his experience has shown him that most employees don't want to be investors. "They don't want to learn the difference between a large-cap and a small-cap company or decide how much of their money should be in international investments," he says. "That actually deters people from participating in the plans."

He thinks the most important education most employees need is not how to be successful investors but how to achieve retirement successfully, because once people are freed from making decisions about such things as large and small caps, they begin to focus on how much they're going to need in order to retire, the impact inflation is going to have, and how much they should be putting away today to reach their goals. "Frankly, very, very few people understand that," Athanassie says. "Once you help people with that, they get excited about saving. Arguably, a person's retirement is the largest expense they're ever going to encounter."

4. The purported tax advantage may not exist. "I think most rational people agree that taxes will go up in the future," says Stephen L. Matterson, CEO of Retirement Strategies Inc. in Richmond, Va. "Putting money away now to avoid current taxes and paying higher taxes at some point in the future [doesn't make sense]. Deferred taxes are one of the best annuities the U.S. government has."

Also, when you are ready to retire, you could be confronted with an unfriendly tax picture, Pagovich says. "The argument that 'you will be a in a lower tax bracket' when you retire might not hold true," he says. "Depending on your balance and what you withdraw, you could be in the same bracket or higher."

Not all experts concur with Matterson and Pagovich's assertion that the potential of higher taxes in the future are a "drawback" to 401(k)s. "Although I agree that taxes have to go up in the future," Casella-Dercole says, "I don't know when and I don't know for how long, so how could anyone advise clients based on that kind of assumption? The only thing we know for sure is what is in place right now, so I suggest planning around that — take what you can get now."

5. You may be subject to high fees. In 401(k) platforms, fees have not been required to be disclosed, Kunkle says, and any fees paid to mutual-fund companies or to brokers come out of participants' returns. "Fees are like high blood pressure," he says. "You don't usually know when it's happening, but it will ultimately kill you."

Figuring conservatively, 401(k) account holders will need to make at least 8 percent on their investments just to preserve their capital now, and if inflation and taxes go up, it will be higher, according to Pamela G. Yellen, author of *Bank on Yourself: The Life-Changing Secret to Growing and Protecting Your Financial Future* (Vanguard Press, 2009). "People think the money in their 401(k)s is theirs," she says. "It isn't. The government can change the rules at any time, and between the fees, inflation, and taxes, there may not be anything left."

Beware of "Target Date" Funds

According to Athanassie, target-date funds — which require specifying the year you plan to retire, then relying on fund managers who gradually shift your money from an aggressive stock-heavy portfolio early on to a conservative bond-heavy mix as you near retirement — were created as a prepackaged solution rather than trying to teach people how to invest. "Frankly, I think the future of 401(k) plans is going to be the target-date funds," he says.

Probably so, Yellen agrees, because the Pension Protection Act of 2006 exempted employers from liability if they make target-date funds their default investments. Now, more and more companies are making target-date funds their default option, and some are reportedly putting their employees' money into these funds even if those employees previously chose a different investment.

Target-date funds come with two fees, one of which investors never see because it's deducted from the asset value, Yellen says. "If you own any target-date funds inside a 401(k), you'd be lucky to be paying only 1.5 percent in fees and expenses, she says. "However, just that 1.5 percent can wipe out 39 percent of your retirement, and that doesn't take into account taxes and inflation."

"My concern with target-date funds is that they are generally constructed with mutual funds from a single mutual-fund family," Kunkle says. "I don't think any one mutual-fund family has all the high-quality ingredients to build a good target-date fund."

Kunkle also questions whether the traditional target date 20/80 mix of equity/fixed income investments is really appropriate for someone who is 65 years old. "People are living longer," he points out. "I'd rather use an asset-allocation approach customized for each person."

Researching the Alternatives

The question for those doubting the 401(k) is this: Are there other, potentially better options? Yes, according to Matterson, Vucicevic and Yellen.

Matterson recommends the following three strategies for building up retirement savings:

- **Roth IRA**: "You can never have too many retirement programs going for yourself," Matterson says. "Even though there are limitations on the contribution amounts and taxes must be paid on the money contributed before those monies are deposited, Roth account holders can withdraw funds tax free later on, when taxes will almost certainly be higher."

- **Tax-deferred annuities**: Indexed annuities linked to the S&P 500, as well as other indexes such as the Dow Jones Industrial Average, grow as the economy grows. Those purchased through an insurance company guarantee you'll never receive less than the amount you put in.

Several major life insurance companies offer a great program for retirees, Matterson says, offering a bonus as well as a defined floor and an income-stream option. "For example, if you put $100,000 into a program like this, you can get a 7 percent bonus, which means you start off with $107,000 and the value will never go below that," Matterson says.

He adds that insurance-annuity products are a better value than brokerage-company variable annuities, and if you outlive the actuarial tables or the payouts exceed the value of your account, the insurance company still has to keep paying.

• **Life insurance**: This can offer multiple benefits, and not just when you die, Matterson says. The floor is what the client has contributed, plus a guaranteed 2 percent paid over the life of the contract, not annually. Also, you can borrow the money out of a life insurance product income-tax-free if you're with a company that offers a "zero wash" loan.

Depending on your age, you can put in as much or as little as you wish, and you're not forced to withdraw anything when you're 70½. "There is no maximum contribution," Matterson says. "You can get the money out tax free, and it grows tax deferred."

(A caveat: When it comes to life insurance, Casella-Dercole warns, "You need to be very careful to make sure you understand the policy you're entering into. Otherwise the annual insurance cost could actually leave you with nothing. The older you get, the higher the annual insurance cost, and the less money you will have available to you when you need it.")

Vucicevic, meanwhile, employs a mix of life insurance and indexed annuities for his clients, choosing from an array of products with A+ ratings. "Contributions don't have to be under a government-defined limit," he says. "You can put in a million dollars every year if you want to."

Yellen is investing in dividend-paying whole life insurance policies with paid-up additions riders. The riders, she explains, significantly increase the growth of the money in your policy. "It can make your cash value grow up to 40 times faster," she says. "That's a huge differential."

"I have quite a number of these policies," Yellen says. "I buy them as fast as I can because they grow at a guaranteed, predictable rate — at an exponential rate, so the growth is the greatest when you need it the most, which is in retirement, and you can access your money."

The Verdict on 401(k)s

In the final analysis, 401(k)s have some serious disadvantages. However, pulling the plug on your 401(k) participation is probably not the answer. Instead, the smart strategy is to make the most of your 401(k) by making sure you're getting the maximum match from your employer and controlling your own investments within it. Thoroughly research your options, and never let your funds simply go to the plan's "default" investment choices.

In addition, augment your retirement savings with a selection of the alternatives pointed out by our group of experts. When it comes to your retirement, your best (and only) advocate to ensure you'll have enough to live on is *you*.

You must determine how much income you'll ultimately need to maintain your desired lifestyle, and then assemble a portfolio of investments designed to deliver that target rate of return. It's far from easy in this extremely low-interest environment, but just taking the proactive steps to prepare puts you well ahead of millions of other Americans. □

7 Tips to Act on Now to Save on Your 2011 Tax Bill

April 18 is fast approaching, and millions of Americans are scrambling to get their taxes in order, as well as scratching for last-minute deductions to reduce what may be a daunting bill from the government.

While the doors of opportunity are slamming shut on 2010, there's no better time to make a firm promise to yourself that you'll head into the 2011 tax season smarter, savvier, and much better prepared. To help, we've enlisted Shelly Casella-Dercole, CPA, a partner with the accounting firm Eder, Casella and Co. in McHenry, Ill., to give her best advice on what you can do to start this tax year right — and save more money next April.

1. Open a health savings account. If you're covered under a qualified low-cost high-deductible health insurance plan, either purchased individually or provided through your employer, you also can have a health savings account. You can make tax-deductible contributions into an HSA up to $7,150 for 2011, depending on your age and type of coverage.

"You can use the money in the account to pay qualified medical expenses not covered by insurance," Casella-Dercole says. "Any unused funds carry over from year to year, and interest and other earnings also accumulate tax free. At age 65, you may withdraw amounts for any purpose without penalty, but it'll be taxable. Essentially, it's similar to a traditional IRA."

2. Fund a flexible spending account. If offered by your employer, this a plan that allows employees to make tax-free contributions to pay health-care and dependent-care costs. In 2011, you can contribute up to $3,500 for medical expenses not covered by insurance and $5,000 for dependent-care costs. "Be careful, as unlike an HSA, this is a use-it-or-lose-it plan," Casella-Dercole says. "You forfeit any money left in the account on March 15 of the next year, so only contribute what you're sure you'll spend."

3. Take advantage of the 529 college savings plans in your state. Have a child or grandchild who will be attending college? If you'll be paying for it, a 529 makes a lot of sense. "Contributions do grow tax free, and the earnings will never incur a tax as long as the money is eventually used for qualified education expenses," Casella-Dercole says. "Even though there is no current federal tax deduction, many states do offer deductions from state income tax if you are contributing to your own state's plan."

4. If you have a large amount of investment income, look into tax-exempt investments. "There are many options for investments that are tax free for federal as well as state," Casella-Dercole says. "Discuss it with your tax adviser, and make sure you consider the tax savings when comparing taxable and tax-exempt investment options. The higher your tax bracket, the more beneficial it can be to invest in tax-exempt investments."

5. If your home value isn't underwater, consolidate loans into your mortgage. "While I would never advocate saving taxes by spending even more on mortgage interest expense, if you have other debt anyway, such as car loans, credit-card balances, etc., converting that debt to mortgage debt would allow you to get a tax deduction for the mortgage interest expense — for now at least, as there are serious talks in Congress about eliminating this tax benefit," Casella-Dercole says. "Also, generally, the interest rate on the mortgage debt will be less than the rates on the other loans."

6. Be organized. Pick a place to store all documents that could have a tax effect. "Trying to recreate what happened during the year at the end is not only difficult, but usually results in missing information, which often means missed opportunities for tax deductions or credits," Casella-Dercole says. "I tell clients, if you even think that it might be related to income tax, put it in the file and ask me. I'd rather field 100 questions that result in no tax savings than miss one item that could have meant savings."

7. Hire a trusted tax adviser and consult with him/her before making any decisions that could create tax. There are many ways to save taxes or structure transactions to reduce taxes, but if you aren't consulting an adviser before finalizing those transactions, there is typically nothing that can be done once the transaction has occurred. "For example, if you sell investment real estate for a large gain and intend to purchase another piece of investment real estate, you likely would want to consider doing that through a tax-deferred exchange," Casella-Dercole says. "But once you sell the first piece of real estate, it's too late."

Low-Volatility Play: Convertible Bonds

"In my opinion, with the run-up the stock market has had, we're due for some type of pullback," says **Brenda Wenning, head of Wenning Investments, LLC in Newton, Massachusetts**. "Quantitative easing is ending, too, and whether or not the economy is moving along on its own has yet to be determined, so I'm a little cautious right now."

One of the investing moves Wenning is currently making is putting money into convertible bonds, which offer low volatility compared to the stock market. "It should do well if the stock market does well, because it's highly correlated to the S&P, but provides downside protection as well," Wenning says. "If the market starts to correct to a large extent, the coupons will start to act as a cushion for the portfolio, and the dividend yield is close to three percent right now."

Wenning especially likes the **Miller Convertible Fund** (MCFAX), available through investment advisers. "Miller has done a really nice job, and part of his investment objective is subdivision of capital, so (investors) won't be horribly punished when the downside does come," she says. Other convertible funds include the Vanguard Convertible Fund (VCVSX) and the Fidelity Convertible Securities Fund (FCVSX). □

The 5 Best Summer Vacation Deals in the U.S.

Forget the conventional wisdom that summer is the most expensive time of the year to travel. If you're tired of staycations and ready to explore new parts of the United States, experts are predicting plenty of value vacation destinations for the summer travel season. Here are five that our travel experts touted as especially attractive options in 2011:

Las Vegas: As the temperatures heat up, the prices for hotels and shows cool down in Las Vegas. A building boom has put thousands of new hotel rooms on the market, and the competition for guests is fierce.

Some high-end hotels are priced below $100 a night, and throw in upgrades, food and spa credits, and free show tickets. Budget-priced accommodations are going for as little as $20 a night, says Gabe Saglie, senior editor at Travelzoo (ww.travelzoo.com). Even the entertainment is a bargain, with prices 30 percent to 50 percent off peak prices. "The Strip is becoming almost like a baby sister to the Great White Way in New York City," he says.

California's Central Coast: Located between Los Angeles and San Francisco, this stretch of coast has the charm of California wine country, but at a much lower price. "It's a great, affordable experience compared to the Northern California wine experience," Saglie says.

The region is dotted with small beach enclaves and quaint historic towns. Perhaps the most memorable is Solvang, which Saglie describes as "like a Danish town out of a storybook." The area also offers adventures like hot-air ballooning and horseback riding, but at lower prices.

Washington, D.C.: While the hotel prices might not be as low as in some other parts of the country, the District of Columbia makes up for it with many freebies. "The best tourist sites are free," says Jason Clampet, editor at Frommers.com.

For one, you can't beat the Smithsonian Institution. With its 19 museums and galleries, nine research centers, and the National Zoological Park, it's the world's largest museum complex, and it spans such diverse offerings as the American Indian Museum, Air and Space Museum, and Natural History Museum. Admission to all the Washington, D.C., locations is free. "You can spend more on a hotel room knowing you're not going to pay $40 on admission fees. It has a built-in value," Clampet says.

Gulf Coast: The aftermath of the Deepwater Horizon oil spill has left the Gulf Coast of Alabama and Mississippi, on into the Florida Panhandle, eager to reclaim their lost tourist trade. Hotels, as well as owners of private rental accommodations like condos and houses, want the world to know "the beaches are clean," Clampet says.

This is an area that has thrived on Southern visitors heading to the beach for their summer vacation. Gulf Coast accommodations, restaurants, and entertainment venues "have an incentive to get people to enjoy it beyond what they imagined," he points out.

Colorado: Mention Colorado and snow skiing at resorts like Aspen, Vail, and Breckenridge usually spring to mind, Saglie says. But a visit to the Colorado mountains in summer means "a lot of the natural wonder still exists, but it's not snow covered." Instead, you can hike, fish, golf, and enjoy numerous cultural events. Rooms at resorts that might cost $400 a night in the winter might see their rates slashed by 70 percent in the summer season. Yet, "they don't skimp on the luxury," Saglie says.

How to Win Online Auctions — Without Running Up the Price

Since its inception in 1995, eBay has become the king of online auction sites, offering an at-home shopping opportunity that lets you find the items you want at low prices. But those online auction bargains can wind up costing a lot more than you may have meant to spend if bidding wars boost the final price.

Fortunately, there's a way to avoid paying more than you'd like: Use a bid sniping service to avoid encouraging other bidders to drive prices higher. Sniping services keep your bids secret, placing them only during the last few seconds of an auction. Not only do they let you set the highest price you're willing to pay and keep it private, but they also allow you to cancel your bid altogether during the last few minutes of an auction without cost if you change your mind about wanting the item.

You can buy sniping software and install it on your computer, but sniping services offer connection speeds far faster than home computers can manage, making them a better bet. They also free you from the need to monitor auctions, and you're charged only when you win. Here are several sniping services for you to check out:

1. www.esnipe.com has a 10-day trial period during which bidders can make 30 bids at no cost. After that, you buy packages of bidding points ranging from $5 for 500 points to $425 for 50,000 points. ESnipe charges 1 percent of the winning auction price, with a minimum fee of 25 cents and a maximum fee of $10.

2. www.auctionsniper.com gives you the first three auctions you win free, then charges 25 cents for auctions won for less that $25, 1 percent of the final price for auctions won from $25 to $885, and $9.95 for those won for more than $995.01.

3. www.bidnapper.com offers a free 15-day trial and support for some online auctions other than eBay, including Overstock, uBid, and eBid, and the ability to earn 2 percent back on eBay wins. Ten snipes are $19.99 and 25 are $36.99, or you can pay a monthly fee.

4. www.bidnip.com provides the first five snipes for free, after that, charges can be as low as 22 cents per bid.

5. www.bidslammer.com gives you your first three snipes free. Subsequent snipes cost 50 cents per winning bid or 1 percent of the closing price, whichever is bigger, up to a cap of $5.

6. www.snipersniper.com has developed an online database of services and software to help eBay users sift through the ever-growing list of sniping and other eBay tools.

Quick Ways to Save a Buck

Matthew Lesko, infomercial celebrity and best-selling author of more than 100 books on the topic of getting free money and services, including *American Benefits for Seniors: Getting the Most Out of Your Retirement*, offers up these four handy saving-related tips.

1. Check whether you're getting the broadband service you're paying for. Up to 80 percent of broadband consumers don't know what speed they're actually getting out of their service — and might be paying for more than they need. Take the Federal Communications Commission Free Broadband Test at www.broadband.gov — click on "Test My Broadband Speed Now" — and depending on your results, start negotiating with your provider.

2. Get $500 for the hassle of dealing with a junk fax. The Telephone Consumer Protection Act makes it illegal for anyone to send an unsolicited fax, and it allows the consumer to sue and recover $500 to $1,500 per fax. See www.fcc.gov/cgb/consumerfacts/unwantedfaxes.html.

3. If you qualify, you can receive $30 for cell-phone setup plus $200 at zero percent interest. The Lifeline and Link-Up programs provide discounts on your monthly bills, loans at zero percent interest, and grants to purchase new phones for consumers with incomes up to $29,760 for a family of four. Programs vary by state. Visit www.lifeline.gov for more information.

4. Get $1,000 if mean bill collectors call you. There are certain rules bill collectors have to follow when contacting you: They can't call before 8 a.m. or after 9 p.m., can't repeatedly use the phone to annoy you, use profane language, give out false credit information about you, contact you by postcard, and much more. Find out your rights because a judge can give you $1,000 plus attorney fees and court costs if the rules are violated. See www.ftc.gov/bcp/edu/pubs/consumer/credit/cre18.shtm.

For more "free money" tips from Lesko, download his free 14-page Special Report, created exclusively for *The Franklin Prosperity Report*, available at www.franklinprosperityreport.com under the "Special Reports" section. □

Insurance

What Nobody Tells You About PMI

If you originally bought your home with less than 20 percent down, you may be paying a monthly charge for private mortgage insurance. PMI is a nasty fee from your point of view. It protects the lender, not you, and the cost isn't tax-deductible. The amount depends on the size of the loan, but it typically ranges between $40 and $100 per month . . . every month.

There are several ways to end this, says Michael Licamele, president of Residential Finance Network, a real estate advisory service based in Connecticut. Depending on factors such as the current value of your home and your payment history, you might be able to stop the charges now. Here's what you need to know:

If you received your loan after July 29, 1999 (or have since refinanced), your lender is required by law to eliminate the PMI charge when your loan-to-value ratio (LTV) reaches 78 percent — based on the original price you paid for the home — as long as your payments are current. That means the principal balance on your mortgage is 78 percent (or less) of the cost of the house. At that level, the PMI should (by law) disappear automatically. If you've reached that level and you're still paying PMI, contact your lender immediately.

Beyond that, there are two things about PMI you need to be aware of. First, once you hit 80 percent LTV (not the 78 percent under the law), you can request that the PMI charge be eliminated. Although it's not automatic, it's definitely worth a try. Again, contact your lender to start the process as early as possible.

The second issue is your home's current value, compared to the original price you paid. Although admittedly unlikely in this brutal real estate market, if the value has gone up since you purchased your home, your LTV may already be well below 80 percent and you should no longer be paying PMI. But the burden is on you to instigate a professional appraisal of your home's value and bring it to your lender in order to have the PMI removed. The lender is not required to assess your home and merely goes by what you originally paid.

Bottom line: If you believe you have 20 percent or more equity in your property and you are still paying for private mortgage insurance, act now to eliminate the charges.

Life Insurance: Consider More Than Income

Like it or not, the stereotypical fast-talking insurance agent with the bad tie asks a good question when he says, "What happens to your family if you die?" The breadwinner in a family should certainly have life insurance.

But personal finance experts recommend that a breadwinner consider a policy for his or her spouse, as well. "You may consider coverage on a spouse whose primary responsibility is to care for children or an elderly family member," says Robert Gordon, senior financial adviser with Miami-based Investor Solutions. "If that caregiver met with an untimely death, you would have to start paying for those services (he or she) was providing."

Also, make sure you do your homework to find out what the insurance agent is selling, because some policies fatten his or her commission without adding much value to you. Translation: Go with a term life insurance policy when covering basic income replacement needs. If considering cash-value policies, which include whole life, universal life, variable universal life, and variations of those policies, do your homework and do it well.

"They get paid more commissions for these policies," says Gordon of the insurance agents. "Unfortunately, they're doing a disservice to the public, because the unsuspecting consumer ends up buying less coverage than is needed due to(a limited) budget and the higher cash-value premiums."

Lower Your Car Insurance Rates

Car insurance companies often offer a number of discounts. But you can't just rely on your agent to tell you what you're eligible for — you need to ask.

Call today and see whether there are any opportunities or special discount offers available to help lower your bill. Some of the common programs are the following:

Discount	May be eligible if:
Safe Driver	You have a blemish-free driving record for at least three years
Anti-Theft Device	Your vehicle has a LoJack system or an alarm
Multi-Car/Multi-Policy	You insure more than one vehicle or have other insurance with the same company
Restraint System	You have air bags or motorized seat belts
Associations	Your insurance company has affiliations with organizations that you're a member of, including military, alumni, professional and student groups
Driver's Safety	You pass an approved driving course
Good Grades	You're insuring young drivers with a high GPA
Farming	You work as a farmer and use the vehicle in that capacity

Small Business

A Little-Known Way to Slash Printing Costs

Most small companies and home offices can easily save a bundle on paper, ink, and toner with innovative new software plug-ins that cut costs and waste associated with printing. "This simple yet powerful exercise reduces print volume by an average of 17 percent to 25 percent and saves an average of $80 to $120 per employee per year," says Hayden Hamilton, co-founder of GreenPrint, a software firm focused on printing efficiency.

Everyone who's tried to print something from the Web knows that what comes out of the printer is often very different from what appeared on your screen. Often, you'll get multiple pages with nothing or next to nothing on them. The solution is software that automatically configures Web pages to let you grab and print only the parts that you want.

Free Web-friendly-printing downloads are available from Hewlett-Packard and Canon. HP's Smart Web Printing plug-in for Windows works with your browser and lets you quickly select and clip, or select and print Web pages just the way you want them, eliminating surprises that waste ink and paper. To find it, go to www.hp.com and search for "Smart Web Printing."

Easy-WebPrint from Canon (www.canoneasywebprint.com) is free and offers even more features. Easy-WebPrint is a browser toolbar that lets you perform all these money-saving and time-saving functions:

- Automatic and manual scaling to avoid cropped Web page printouts
- Duplex printing
- Selecting print preview pages to print
- Printing a single page, or building a list of pages to print all at once
- Standard or high-speed printing with just one click
- Multi-column printing
- Optional printing of page backgrounds

Oregon-based GreenPrint offers other money-saving solutions for home use, small businesses, and big companies, as well. Visit www.printgreener.com. □

Ben's Good Cents

"Were it offered, I should have no objection to a repetition of the same life from its beginning, only asking the advantages authors have in a second edition to correct some faults in the first."

Dr. Franklin's Mailbag

Every month, we ask readers for their best tips on making and saving money. The amounts don't matter; it's about little changes anyone can make to keep more cash in their pockets to save, invest, or spend better elsewhere.

Fatten Your Wallet With Some Home Cooking

My husband and I realized that we were spending way too much eating out, so we decided to cut back. We were going out at least twice a week, at $35 to $50 a pop — it was madness!

We set a goal to slice that in half. On Sundays, we planned our meals for the week and built the grocery list from that. It was eye-opening once we started equating the cost of going out with the amount of groceries we could buy for the same amount. We could fill a cart for $100 and have enough food for breakfast, lunch, and dinner for a week.

The experiment was interesting. We realized we often resorted to eating out because when we got home from work, we couldn't decide what to cook, so a restaurant became the "easier" option. Now we have the meal plan on the fridge and the ingredients on hand, and we can whip up dinner in 20 minutes or so.

By the third month, we were down to only two meals out per month, and we didn't even miss it. Home-cooked meals are fresher, cheaper, healthier, and less hassle.

— Lori R., Sycamore, Ill.

These Savings Are No Accident

When determining your auto insurance deductibles, the tendency is to choose the lower option. The thinking is, If I'm in an accident, I'd much rather pay $250 or $500 out of pocket than $1,000.

However, unless you're regularly banging into walls, poles, or other vehicles, that "what if" worst-case-scenario thinking is costing you money every month with no tangible benefit. After all, how many times have you needed to make an auto insurance claim in the last three years? And how much in extra insurance have you paid in that same time?

Bottom line, if you have the money in your savings to cover the deductible, you're probably better off taking the insurance with a higher deductible but a lower monthly payment. I raised mine from $500 to $1,000 for collision and $250 to $1,000 for comprehensive, which cut my rate by 30 percent. (Of course, the same principle holds true on health insurance, too.)

— Alexis J., Portland, Maine

Double Up for Less Tax-Time Stress

Here is the way I make sure that I remember all my legal contributions for income-tax time. Everyone has more than one book of checks. I use one book of checks for normal transactions and another book only for the things that I need a record for taxes. I use the duplicate checks, which leaves you with a copy of each check and who and what it is for. Hope this helps others with this small but easy way.

— John H., Greenwich, N.J.

Stretch Your Meal Dollars on the Road

When we travel, we eat dinner out the first night and take the leftovers back to the hotel to save it for the next night. If you check before you book, you can find hotels that have refrigerators and microwaves.

We also travel with a small cooler for fruits and snacks, as well as several ice packs that can fit in the hotel freezer. This allows us to keep our leftovers for the next night, even if we're driving from one destination to the next. I can add fruit and bread or stop at a grocery deli to add to our dinner, if need be. It can get tiring (and expensive) going out to dinner every night, so this eat-out-every-other-night plan gives us a break.

— Judy K., Farmington, Calif.

Juice Your Savings With an Orange Account

ING Direct's Orange Savings Account can help you create good savings habits. You can set up automatic monthly contributions from your checking account of $25, $50, $100 … whatever you'd like. The Orange Savings Account can be electronically linked to your current checking account at whichever financial institution you bank with, so there's no need to switch banks, no fees, and the interest rate is competitive (Ed. Note: 1.00 percent at press time).

I use mine to help avoid credit-card debt. I let savings build up, and if I need money for a larger purchase, I can easily transfer it from my ING savings to my bank account online.

With ING, you also can set up multiple savings accounts and name them. For example, you can have one account for "Vacation," another for "Property Tax," and a third for "Car Down Payment." This helps you save more easily for various goals.

— John S., New York

Be Water Wise

To save water while showering, I installed a "shut-off valve" between the end of the shower pipe and the shower head. Therefore, when I don't need the full flow of water (i.e., when I'm soaping my body or washing my hair), I simply push the button on the shut-off vale to decrease the water flow to a low trickle. At the same time, I preserve my desired water temperature setting. Using this set-up, I'm conserving on my water usage expense and my water heating expense.

— Shirley S., Milwaukee

SHARE YOUR MONEY SMARTS AND GET $50! If you have a money-saving (or money-making) idea, send it to saving@franklintips.com or by regular mail to Franklin Tips, P.O. Box 20989, West Palm Beach, FL 33416. If we publish your idea, we'll send you a $50 Walmart gift card.

Franklin Matters

The Chinese Influence on Franklin

By Mark Skousen

"The Chinese are the most ancient, and from long experience, the wisest of nations." — Ben Franklin (in a letter to his daughter, 1784)

In his will, Benjamin Franklin listed among his prized possessions a Chinese gong, which he bequeathed to his grandson, William Temple Franklin. It represents an appropriate symbol, for traditionally gongs were used not only as percussion instruments but to clear the way for important officials and processions.

Among his many talents, Franklin was a musician and was fond of singing, dancing and enjoying a lively social life. He invented the glass armonica, which he often played in conjunction with other musical instruments. Perhaps he added the Chinese gong to his musical list while ambassador of France. At the home of Madame Helvévtius, Abbé Morellet would sing one of Franklin's favorite Scottish ballads while Madame Brillon would play the pianoforte and Franklin the armonica. The Abbé toasted him: "Le verre en main/Chantons nôtre Benjamin." ("With glass in hand/Sing to our Franklin.")

Franklin's favorite Chinese philosopher was Confucius (551-479 B.C.), the most influential teacher of ancient China. Franklin first introduced Confucius to the American colonies when in 1737 he ran a series of articles from "The Morals of Confucius" in his weekly magazine *The Pennsylvania Gazette*. Franklin called the Chinese master's philosophy "the gateway through which it is necessary to pass to arrive at the sublimest wisdom."

Professor David Wang of St. John's University made the bold claim that Confucius was Franklin's moral exemplar, and that 11 out of his 13 virtues were inspired by "The Morals of Confucius." According to Wang, Franklin "consistently and systematically promoted the main principles of the Confucian moral philosophy" in his adult life.

Is this wishful thinking, or a breakthrough about the source of Franklin's personal philosophy? There are indeed some of Franklin's virtues that are closely linked with Confucian philosophy.

Franklin is clearly attracted to the Stoic philosophy of meditation, calm, reason, silence, and avoiding the extremes of anger, fear, and the emotions of mobs. But was this taken from Confucius, or from the Greeks, the Romans, and King Solomon?

In his autobiography, Franklin wrote that he started his road to "moral perfection" and his 13 virtues in the early 1730s, long before he published extracts from "The Morals of Confucius." He cites the Roman Cato, Solomon's Proverbs, and St. Paul and James of the New Testament, but not Confucius. In his virtue #13, humility, he cites only two mentors: "Imitate Jesus and Socrates."

"Above all, Franklin loved the Chinese tradition of honoring the elderly."

According to Confucius, rulers and ministers had a special obligation to live a strict moral code and to teach it to their followers. Franklin approved of this approach. In a letter in 1749, he commended Rev. George Whitefield for preaching to high-ranking officials in government. "If you can gain them to a good and exemplary life, wonderful changes will follow in the manners of the lower ranks."

He then cited Confucius on this principle. "When he saw his country sunk in vice, and wickedness of all kinds triumphant, he applied himself first to the grandees; and having by his doctrine won them to the cause of virtue, the commons followed in multitudes."

Above all, Franklin loved the Chinese tradition of honoring the elderly, and would no doubt find this statement by the great Chinese philosopher Lin Yutang (*The Importance of Living*, published in 1937) most agreeable: "In China, the first question a person asks on an official call, after asking about his name and surname is, 'What is your glorious age?'

"Enthusiasm grows in proportion as the gentleman is able to report a higher and higher age, and if the person is anywhere over fifty, the inquirer immediately drops his voice in humility and respect. People in middle age actually look forward to the time when they can celebrate their fifty-first birthday . . . The fifty-first birthday, or the half-century mark, is an occasion of rejoicing for people of all classes. The sixty-first is a happier and grander occasion than the fifty-first and the seventy-first is still happier and grander, while a man able to celebrate his eighty-first birthday is actually looked upon as one specially favored by heaven."

Franklin lived to the glorious age of 84.

Be free,

Mark Skousen, Ph.D., a sixth-generation grandson of Benjamin Franklin, is an economist and holds the Benjamin Franklin Chair of Management at Grantham University. He's the author of *The Compleated Autobiography by Benjamin Franklin*, a tome that fills in the 33-year gap left by Franklin in his original work from age 51 until his death, using Franklin's own papers as the guide.

Ask Franklin

I'm 80, in good health and want to boost my income, which consists of an annuity and Social Security. I'm considering selling my mobile home, on which I pay $1,000 in monthly space rental, and using the proceeds as a down payment on a conventional home in order to take out a reverse mortgage (a reverse mortgage isn't allowed on a mobile home in California). Would it be a good decision?

— Marilyn E., Sacramento, Calif.

Real estate investor Chris Yates, president of CM Yates Capital in Denver, advises a test drive. "Find a broker experienced in reverse mortgages and apply for one subject to selling your property," Yates says. If the mortgage appears obtainable, Yates suggests finding a real estate broker who knows the mobile-home market in your area to find out what you can expect to get for yours. Finally, do some preliminary house shopping to determine whether you can find a place you like that's affordable. "Don't move forward until you have all this information," Yates says.

In 2004, I bought a $16,000 time share; I recently sold it for $2,300. Can I claim all or a part of my loss, the realtor's commission, or the maintenance fees and taxes I have paid on my federal income tax?

— Larry S., Miami

Not likely, says Luke Carey, CFP at Lighthouse Financial Advisors in Red Bank, N.J. "If you converted the time share to a rental, you can deduct these expenses using the value of the time share at that point as your basis," Carey says. "But if the time share was for personal use only, you're out of luck. Of course, if you make money, the government would want you to report that capital gain."

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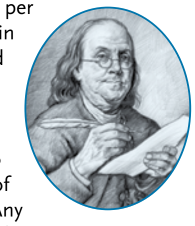

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