

**SPECIAL
POINTS OF
INTEREST:**

- College Inflation
- Estate Questions
- Social Entitlement Issues

**INSIDE
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Inflation Goes to College

Over the past 10 years, tuition and fees have grown more than 4% faster than the rate of general inflation at public four-year colleges and more than 2% faster than inflation at private four-year colleges.¹

That's pretty scary stuff, but it doesn't have to be the end of your dream to see the kids (or grandkids) go to a college of their choosing. You have a friend with the answers to this

test: the Section 529 savings plan.

**Take
Some
Notes**

Two common obstacles to investing for a long-term financial goal are taxes and inflation. You've just read that inflation is a big problem on campus, but what about taxes?

Section 529 plans are state-sponsored investment vehicles designed to help parents accumulate money for college. Any investment earnings accumulate on a tax-deferred

basis and can be withdrawn tax-free as long as they are spent on qualified higher-education expenses (such as tuition, fees, room, board, and school supplies). Tax-free investment earnings could go a long way toward helping families beat inflation and achieve their college savings goals.

There are no income limits for 529 plan donors, who can

expenses associated with participation in a 529 savings plan. There is also a risk that the plan investments may lose money or not perform well enough to cover college costs as anticipated.

The tax implications of a 529 plan should be discussed with your legal and/or tax advisors because the plans can vary significantly from state to state. Also note that

most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers.

Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully.

The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options and underlying investments, can be obtained by contacting your financial professional. You should read this material carefully before investing.

OVERACHIEVEMENT

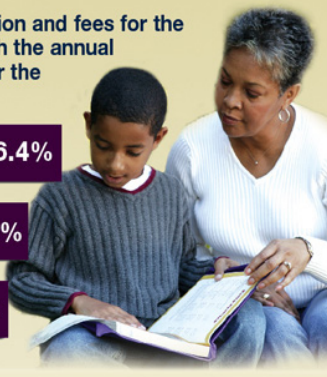
The average annual growth rate in tuition and fees for the 2008-09 academic year, compared with the annual growth in the consumer price index for the period July 2007 to July 2008.

4-YEAR PUBLIC INSTITUTIONS (in-state students) 6.4%

4-YEAR PRIVATE INSTITUTIONS 5.9%

CONSUMER PRICE INDEX 5.6%

Source: The College Board, 2008



contribute up to \$13,000 a year per student (\$26,000 for married couples) without incurring gift taxes. It is also possible to contribute \$65,000 (\$130,000 for married couples) in a single year, as long as the donor doesn't give any other gifts to the student for five years.

As with other investments, there are generally fees and

1) The College Board, 2008

Estate of Emergency?

Most people wouldn't think about traveling somewhere new without a map. Yet 50% of Americans don't have a will, which can leave their heirs without the proper directions to divide their possessions.¹

To help ensure that your estate is distributed according to your wishes, it's important to have certain legal documents in place. A solid estate conservation strategy begins with these basic documents.

Where There's a Will...

A good starting place is a will. This legal document will guide the probate court as it oversees the distribution of your titled property after your death. A will is also the appropriate place to name a guardian to care for your minor children and any assets they may inherit from your estate until they reach legal age.

Powers That Be

The next step is to consider whether you need to name financial and medical powers of attorney. A *financial power of attorney* designates someone to act on your behalf in financial matters should you become mentally incapacitated. A *medical power of attorney* empowers a designated person to make nonfinancial medical decisions in the event you are

unable to make them yourself. Powers of attorney are valid only during your lifetime.

Fill in the Blanks

Life insurance benefits and most retirement plan assets are not subject to probate but rather convey directly to the beneficiaries named on the beneficiary account forms, regardless of what your will might say. This means it is critical to name the appropriate people. It's also a good idea to review your beneficiary designations periodically to ensure that they still reflect your wishes.

Trusting Your Heirs

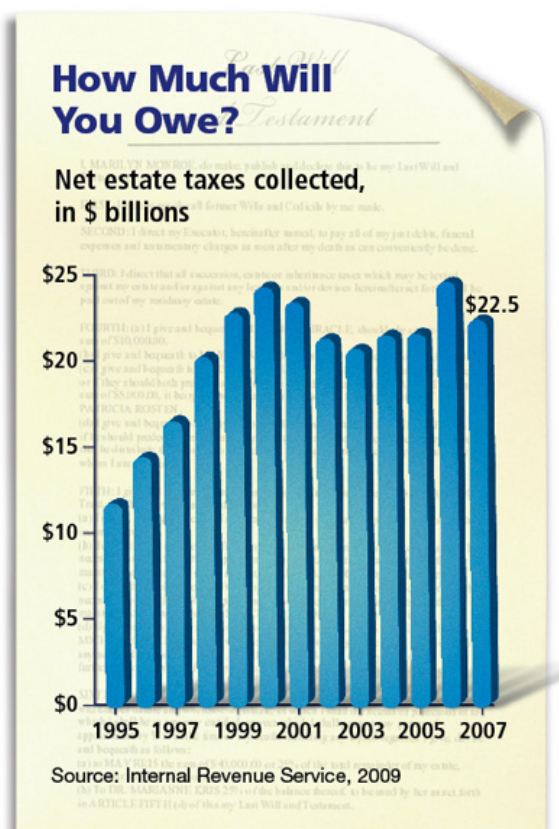
You may also want to consider whether you might benefit from a trust. Trusts are separate legal entities that hold your assets and administer them according to your wishes. Assets placed in certain types of trusts are not considered part of your taxable estate.

The use of trusts can involve a complex web of tax rules and regulations. You should

consider the counsel of an experienced estate planning professional before implementing such strategies.

These basic estate documents can provide a useful roadmap that matches up your heirs with their share of your legacy. For help getting from point A (assets) to point B (beneficiaries), give us a call today.

1) FindLaw.com, 2008



New Reports on Social Security and Medicare May Change America's Sense of Entitlement

An entitlement crisis has been looming on the horizon for several years. Unfortunately, according to the latest reports from the trustees of the Social Security and Medicare trust funds, a spike in unemployment has helped to hasten the insolvency of these programs⁷.

In the 2009 annual reports on the health of the entitlement programs, the government revised its projections of the dates when the trust funds will eventually run out of money.

These reports are the latest signals that the federal entitlement system is in trouble. It raises the very real possibility that these government programs may not be able to make as significant a contribution to your retirement income or provide affordable health care.

Social Insecurity

Between December 2007 and April 2009, 5.7 million Americans lost their jobs.¹ Fewer workers means the government is collecting less in payroll taxes, which support Social Security and Medicare. These taxes equal 15.3% of an employee's total wages, a burden that is divided equally between the employer and the employee.²

The 2009 trustee report projects that the Social Security trust fund will be exhausted by 2037, a revision that knocks four years off the previous estimate.³ Furthermore, the program is projected to sink into a cash-flow shortfall by 2016, one year earlier than previously expected.⁴ A part of the program that subsidizes disabled Americans is scheduled to run out of money by 2020.⁵ This all

amounts to the sharpest erosion of the Social Security system since the mid-1990s.⁶

Moreover, as a result of low inflation rates, it is estimated that Social Security beneficiaries will not receive annual cost-of-living increases for the next two years.⁷

"Medican't"

Even more troubling than the fate of Social Security may be the dire straits facing Medicare, the primary health insurance program for people aged 65 and older.

Even prior to the financial downturn, the "Medicare problem" was characterized by David Walker, former Comptroller General of the United States, as "five times greater than the Social Security problem."⁸ The Medicare problem has only been exacerbated by the recent economic downturn.

The Hospital Insurance Trust Fund, which is already operating in a deficit, is scheduled to completely run out of money in 2017.⁹ The trustee report suggests that, even in the short term, the program will "require substantial changes to program income and/or expenditures."¹⁰

Trust funds responsible for Medicare Part B (doctor visits) and Part D (prescription drugs) are scheduled to remain solvent for the foreseeable future because of legislation that automatically provides funding for both programs. As a result, however, 25% of Part B enrollees may face large premium increases over the next several years.¹¹

Too Optimistic?

By some accounts, the projections made by the trustees may be understating the problem. For example, these estimates are based on the expectation that the economy will recover by late 2009 and that revenue will increase soon thereafter, before falling into deficits in 2016. If an economic recovery is late in coming, these estimates could prove too generous.

Also, the Medicare report assumes a 21% cut in payments to doctors working for Medicare, as dictated by law. But Congress has cancelled that reduction for the past several years.¹²

Population Problems

In addition to the complications caused by the current economic crisis, part of the insolvency problem facing these entitlement programs is demographic. As more baby boomers enter retirement and begin to collect benefits, the cost of these programs is expected to rise. In 2008, Social Security benefits amounted to 4.4% of gross domestic product (GDP). By 2034, they will account for 6.2%.¹³ Medicare's annual costs represented 3.2% of GDP in 2008, but they are estimated to surpass Social Security in 2028 and reach 11.4% of GDP by 2083.¹⁴

The trustees reports confirm that these popular entitlement programs are in serious need of reform. Although most people agree that major changes are needed to fix the problems fac-

Social Security...(cont'd)

ing Social Security and Medicare, there is a partisan divide. As with most political issues, both sides of the aisle paint drastically different pictures of what an entitlement makeover might look like.

According to a recent survey, 64% of retirees say Social Security is their single largest source of retirement income, and for

32%, Social Security provides more than 90% of their incomes.¹⁵ Considering the uncertain future of Social Security and Medicare, a carefully considered financial strategy may help you prepare to meet more of the funding demands of retirement on your own.

- 1) U.S. Bureau of Labor Statistics, 2009
- 2) *Los Angeles Times*, May 13, 2009

- 3-4, 9-11, 13-14) Social Security Administration, 2009
- 5-6) *The Washington Post*, May 13, 2009
- 7, 12) *The Wall Street Journal*, May 13, 2009
- 8) "60 Minutes," July 8, 2007
- 15) Social Security Administration, 2008

What's New at Brandywine

From Raymond's Desk

The Investment and Financial Planning "Round Table"

This month several colleagues and I came together to discuss what we are doing next in regards to our clients, their accounts, and our business in general moving forward. There is no question the past 10 years have been the most challenging for clients and advisors. There are several things we can do to help put into perspective the last 10 years and what we can expect from the next 10 and even 20 years. Historically there have been extended periods in the markets which offered low to negative returns. Looking back at the periods after which this has happened, the markets posted above average rates of return for the following decade or two. This provides some support that once the "engine" starts turning again and the world economies start to recover we could see some positive periods of growth once again. Although in the short term (3-5 years) we do see a period of higher inflation and slower growth domestically. We do see other areas of the world in which GDP is growing faster like China, India and Brazil, which should lead the world recovery. To conclude it appears we have avoided financial Armageddon for the time being and are moving to the next phase of the recovery, and although we still have a few roadblocks, we will eventually see the equity markets move higher. For now volatility will continue to be higher than normal as we move through the summer months

From Justin's Desk

June is grill season. I've begun to slowly develop a joy of cooking, however, I am no Julia Child, Gordon Ramsey, Emeril etc. After discovering (or should I say self diagnosing with the help of a few healthy acquaintances and clients) my gluten intolerance, I have decided to take matters into my own hands and see what I come up with. My wife and her family have been great inspirations and with a little help from them and Trader Joe's, my kitchen endeavors are running smoothly. Grilling has been my foundation, with sides of vegetables and rice to compliment the "catch of the day." I even attended a book signing of someone I never heard of who wrote a book on brines, marinades, rubs, etc....boring book, great recipes! I would say I grill something almost every night and I think my health is thanking me. It truly is amazing how great you feel simply from eating healthy and there is truth in the saying "you are what you eat."