

Charting your secure financial future Money Matters



Financial news, information and advice for the savvy Mariner
from Transport Workers Tax Service, LLC and CFS/Retirement & Tax Solutions

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How to take advantage of a lump-sum distribution

CFS
CFS/RETIREMENT SOLUTIONS

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Reg. Rep. - Multi-Financial Securities Corporation

If your employer or union offers you the option of receiving your retirement benefits in a lump-sum distribution, it is worthwhile exploring. Of course, there are risks in managing a lump-sum distribution, but if approached systematically, scientifically, and conservatively, it is a viable option that many prospective retirees choose.

If you decide the lump-sum retirement benefit is best for you, how do you approach it?

A carefully designed financial plan will provide "Retirement Capital Projections" based on many different scenarios - rates of return, inflation factors, unforeseen expenses, etc.

More sophisticated plans will use Monte Carlo Simulation to predict with what degree of certainty you may achieve your retirement income objectives. The goal is to determine a "sustainable depletion factor" based on your overall financial planning profile and to help assure you do not outlive your assets.



HOW DO YOU INVEST THE MONEY?

A personalized investment model and asset allocation plan that provides a disciplined and systematic approach to investing should be prepared. The purpose of this plan is to determine how your assets will be divided among available investment alternatives.

Your plan will usually depend on your financial objectives, time horizon, risk tolerance, and present financial situation. Most, if not all of us, will benefit from professional input regarding this important life-planning issue. Once you have chosen and implemented a sound investment model, stick with it and give it time to work - don't chase returns.

One example of a scientific approach to asset allocation is the Nobel prize-winning concept of Modern Portfolio Theory, based on the concept that your asset allocation plan can determine more than 90 percent of the performance of your investment portfolio.

This approach assumes that how you allocate your investment dollars far out-weighs the potential effects of security

selection and market timing, and through strategic diversification, you can protect against many (but not all) investment risks.

It is important to remember that an asset allocation plan is based on your long-term objectives - usually five years or more. It entails taking a reasonable amount of risk in expectation of higher returns, and since time has a moderating effect on investment risk, the longer your investment time horizon, the more likely you will achieve your target rate of return.

Modern portfolio theory uses a process known as portfolio optimization. The goal is to achieve the target rate of return (as per your financial plan's "Retirement Capital Projections") with the least amount of risk or standard deviation.

When a portfolio is allocated in the most efficient manner relative to the target rate, the model will place the asset mix along the efficient frontier of the risk/reward curve. (See diagram on page 4.)

If a portfolio is inefficient, the client is taking on too much risk for an expected rate of return.

An important aspect of the allocation plan is to monitor the portfolio and rebalance when an asset class may become over- or under-weighted in relation to the specified model.

A broadly diversified portfolio can hold many different and often non-correlating investment vehicles. Through non-correlation, gains in one investment may help offset losses in another investment.

Within a brokerage account, a client can hold a virtually unlimited array of investments to help provide this broad diversification, including common stock, preferred stock, equity mutual funds, bond mutual funds, corporate bonds, government bonds, mortgage backed securities, high-yield bonds, REIT investments, managed futures, non-publicly traded investments (direct participation), money market accounts, and FDIC-insured CDs. This level of diversification is typically not available through mutual funds.

A sound investment process should ignore the narrow approach of attempting to beat the performance of individual markets, and apply a much broader method of risk reduction, income maximization and preservation of capital.

The main objective is to aid investors in achieving their long-term goals and help assure there is adequate income throughout their life expectancy.

If you are in need of financial planning guidance or investment allocation analysis, please feel free to contact our office.

(continued on page 4)





GOING BACK TO BASICS

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Transport Workers Tax Service, LLC

As a merchant mariner you are eligible for two different types of deductions.

- ⇒ Per Diem Deduction, which covers incidental expenses
- ⇒ Out-of-Pocket Deductions

PER DIEM DEDUCTIONS:

To calculate your per diem deductions it is imperative that you obtain a vessel schedule upon completion of your assignment. With your vessel schedule and a copy of your USCG Certificate of Discharge we are able to calculate a per diem write-off for each day you are on the vessel. For US ports it is \$3/day and for foreign ports it can be as much as \$36/day. From the time you leave a US port enroute to a foreign locality, you apply rules under Travel Outside the United States, and foreign OCONUS per diem rates. As an example, an average Far East run covering 180 days of sea time equates to \$3,450 in deductions. Recognize that you are eligible for the incidental portion ONLY of the M&IE Rate (meals and incidental expenses) since your employer provides you with meals. All per diem rate deductions are substantiated by IRS Rev. Proc 2004-60, IRS Publ. 1542, IRS Publ. 17, and the Johnson Tax Court Case. You can access foreign per diem rates at: www.state.gov/m/a/als/prdm



OUT-OF-POCKET DEDUCTIONS:

You can deduct un-reimbursed employee expenses that you incur through the year in order to carry out your duties as an employee and are ordinary and necessary expenses. Per the IRS, an expense is ordinary and necessary if it is common and accepted in your type of trade or business. An expense is necessary if it is appropriate and helpful to your trade or business.

Examples include:

- ✓ License fees
- ✓ Passport fees
- ✓ Medical exams/physicals required by your employer
- ✓ Subscription to professional journals and trade magazines
- ✓ Depreciation deduction on a computer or cell phone (only if it is for the convenience of your employer or required as a condition of employment)
- ✓ Union Dues
- ✓ Travel, transportation, entertainment - related to your work
- ✓ Job search expense
- ✓ Work clothes and uniform expense
- ✓ Tools used for work
- ✓ Phone calls

All work related expenses are subject to a **2%** deduction limit, so you will need to deduct **2%** of your adjusted gross income from the total amount of the above deductions.

Travel Expenses

Defined per the IRS: travel expenses are the ordinary and necessary expenses of traveling away from home for your business, profession, or job.

You are traveling away from home if:

1. Your duties require you to be away from the general area of your tax home substantially longer than an ordinary day's work, and
2. You need to sleep or rest to meet the demands of your work while away from home.

The standard mileage rate for operating your car in 2004 is **37 ½ cents a mile (40 ½ in 2005)**. For example; traveling to ship, union hall, or home. In addition to using the standard mileage rate, you can deduct any business related parking fees and tolls. Meal expenses when subject to "hours of service" limits (Coast Guard and Department of Transportation ((DOT)) regulations) **are deductible at 70%, non-DOT meal expense are deductible at 50%.**

As a 'temporary employee' (since your assignment is expected to last one year or less) you can deduct ordinary and necessary expenses you have while traveling away from home on business including but not limited to, transportation between your home and business destination, taxi transportation, business calls while on your business trip, and computer rental fees.

In order to deduct your travel expenses, it is imperative that you keep documentary evidence showing amount, date, place and nature of expense. Recognize that no receipt is necessary for expenses less than \$75 other than lodging, but an entry must be made in a travel expense log. Please contact us for a complimentary expense log.

Work Related Education

You can deduct the costs of qualifying work related education as business expense if it meets one of the following tests:

1. The education is required by your employer or the law to keep your present salary, status, or job.
2. The education maintains or improves skills needed in your present work.

Deductions include but are not limited to, meals, lodging, air fare/bus fare/mileage, tuition fees and phone calls while at an educational site.

To make this newsletter as helpful as possible, we welcome your input. Please call us toll-free or e-mail comments, suggestions or questions to us. Answers to questions of general interest may be published.

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Important Note

For M.E.B.A. members; you will receive a 1099-MISC from the M.E.B.A. covering reimbursement for expenses incurred to attend course at Calhoun School. Although this typically does have to be reported as 'Other Income' on your Federal 1040, you can offset the reimbursement by your out-of-pocket expenses.

Job Search Expense

Includes mileage expense back and forth to the union halls, lodging and meals when applicable, and telephone expense.

If in the past you did not feel you had sufficient Schedule A deductions to justify itemizing on your return, you can **now deduct sales tax** (if you reside in a state that does not impose state income tax). This was a late change in the tax code for 2004, so please visit www.transport1040.com to pull down the sales tax table. In addition to the amounts listed, you can add on any sales tax paid on a boat or car you purchased in 2004. In addition to sales tax, your Schedule A deductions also include, real estate or personal property taxes, mortgage interest, charitable contributions (both cash and non-cash), investment expenses (including publications, internet access for the percentage of time used for investment research, annual fees for financial services), safety deposit box, tax preparation fees, and our all time favorite, job expenses.



In order to take advantage of the lucrative deductions available to you, we require the following information:

- Copy of your prior years Federal/State Income Tax Return (not required if TWTS was the preparer last year).
- U.S. Coast Guard Certificates of Discharge (or letter of service time) for all time served aboard each vessel during the year.
- Ports of call statement showing where the vessel was located each day that you were on board during the year.
- Completed TWTS tax organizer (Especially worksheets covering your Merchant Seaman Job Expenses and Merchant Seaman Education/Job Search Expenses).
- All W-2s, 1099s, 1098s, etc.
- A check for \$399, or \$429 if you want us to hold your check until you receive your Federal refund.

TAX TIPS

- Be sure the W-4 forms you have on file with your employer reflects your valid and current address and exemption amounts.
- Upon receipt of your completed return, be sure to fully review and acquaint yourself with all the items contained therein to ensure that there are no omissions or mis-statements.
- Do not forget these commonly overlooked items: safety boots, calling card expenses, charitable contributions, and small change expenses (tolls, mileage, and meals at the airport).

A typical client of **TWTS** recognizes a tax savings in excess of \$1,500 by taking advantage of the above deductions.

Contact us at:

TWTS@TRANSPORT1040.COM

for a complimentary travel expense log to help you track your expenditures.

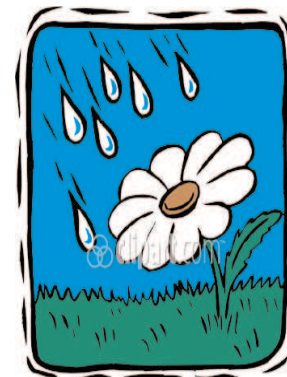
Quotable Quotes

"Quality is never an accident; it is always the result of intelligent efforts."
- John Ruskin

"Enjoy the little things in life, for one day you may look back and realize they were the big things."
-Henry David Thoreau

"We are in charge of our attitudes - I am convinced that life is 10% what happens to me and 90% how I react to it."
- Vince Lombardi

"The sense of humor is the oil of life's engine. Without it, the machinery creaks and groans. No lot is so hard, no aspect of things is so grim, but it relaxes before a hearty laugh."
- G.S Merriam





Developing a sound financial plan...

Where to start?

Preparing a financial plan may seem daunting. Using a planner to guide you through the process alleviates much of the anxiety and the work.

You begin the process by filling out a Financial Planning Questionnaire.

Your planner in turn will:

- ✓ Review your Financial information
- ✓ Develop a Financial Plan
- ✓ Conduct Asset Allocation Analysis
- ✓ Make Recommendations
- ✓ Help Implement your plan
- ✓ Track your Investments
- ✓ Provide Accountability

To request a Financial Planning Questionnaire (at no cost or obligation)

contact us:

CFS-Retirement Solutions
 318 East Main Street
 Salisbury, MD 21801
 1-800-465-7042
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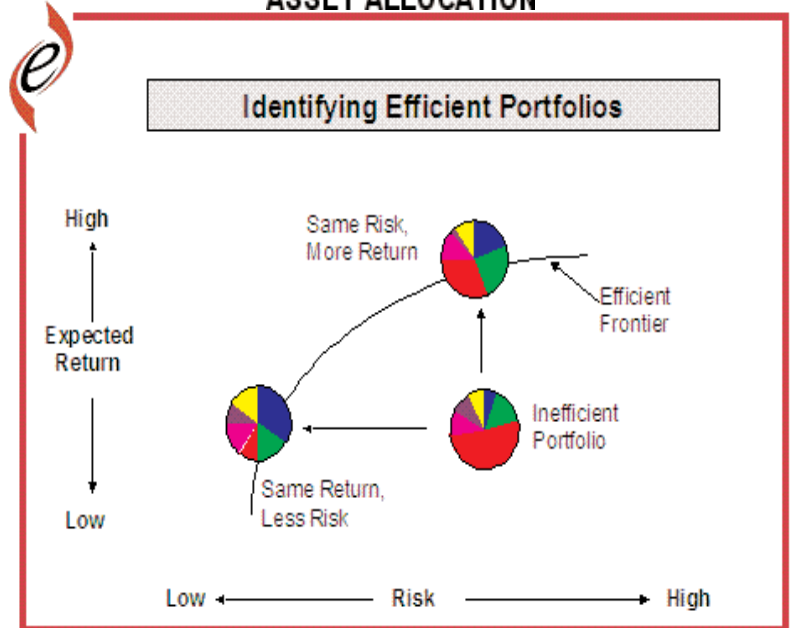
Quotable Quotes

"Well done is better than well said."
 - Benjamin Franklin

"Strong convictions precede great actions."
 - J.F. Clarke

SunGard Expert Solutions

ASSET ALLOCATION



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