The Franklin Prosperity Report®

'A PENNY SAVED IS A PENNY EARNED'

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Take Control of Your Retirement!

Maximize Your Nest Egg With a Self-Directed IRA

Today's investment landscape is rocky for investors with an eye on a stress-free, comfortable retirement. It doesn't necessarily help that so much of your financial prognosis is out of your control, thanks to a shaky job market, a tepid economic recovery, and reams of regulation heaped atop 401(k)s and other available retirement savings avenues.

There's no magic wand to clear the way, unfortunately, but there is a compelling option for those who want to take firmer control of their investing course. If you're looking for a way to broaden your retirement savings options while also deferring taxes, you may want to consider a self-directed individual retirement account.

A self-directed IRA is one that allows you to decide how and where to invest your money. It's very advantageous in many ways — but, admittedly, it's not quite as simple as it should be. Like other retirement accounts, the guidelines governing self-directed IRAs are voluminous. In all, the Internal Revenue Service has about 75,000 pages of regulations regarding self-directed IRAs. Not surprisingly, some of the rules even conflict with one another.

Scary, right? Yet for investors seeking the freedom to own alternative assets in tax-deferred vehicles — with former presidential candidate and Massachusetts Gov. Mitt Romney perhaps being the most famous such investor of late — they can be an extremely powerful returns-generating tool.

Financial advisers and planning experts offer some important caveats for investors who seek the freedom offered by self-directed IRAs. It all comes down to "know thyself," which means knowing what's ideal, reasonable, inadvisable, and just plain dumb about managing your own money

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inside a self-directed IRA. Here’s more on how you can put a self-directed IRA to work for you while protecting your assets and income.

The Romney Way

First, let’s take a close look at Romney. While most of us may not have his wealth, we can certainly learn from the methods of the well-off, and his example of self-directed IRA use sheds some light on their potential value as investment vehicles.

Romney got a lot of flak from the media over his enormous personal IRA holdings, which he revealed during a run for the presidency in 2012 as being worth between $21 million and $102 million. This is a head scratcher, to be sure. Most people cannot put more than $17,500 a year into a tax-deferred workplace plan such as a 401(k). Romney apparently used a simplified employee pension IRA associated with his 15 years at Bain Capital, a private equity firm. While the limits can be higher and corporate matching more generous with a SEP, it’s not enough to turn into tens of millions in a decade and a half.

Rather, the reigning theory is that Romney stuffed it with low-basis stock acquired during corporate reorganizations in which Bain participated or simply with Bain stock itself. If it was Bain stock (Romney has not explained his method and isn’t likely to now), experts have concluded it most probably was valued at a very low basis using an IRA rule that allows owners of corporate shares to value them very cheaply when putting those shares into an IRA for the first time.

Jaime Raskulinecz is the founder and CEO of Next Generation Trust Services in Roseland, N.J., a third-party administrator of self-directed retirement plans.

Partly, Romney had some tax-law luck on his side. But his moves were typical of rich investors who have access to some of the best advice in the business, says **Jaime Raskulinecz**, founder and CEO of Next Generation Trust Services in Roseland, N.J., a third-party administrator of self-directed retirement plans. “This has been a strategy used by the very wealthy since IRAs were formed,” she says, “primarily because they have access to trust departments and bankers who work only with the very wealthy.”

That doesn’t mean you can’t take advantage of the same tax-deferral benefits on your own, however.

What Can Go Into Your Self-Directed IRA?

A lot of the alternative investing press focuses on using self-directed IRAs to buy rental properties or collectible gold coins, but the rules are broader by far. You can own stocks, mortgages, franchises, partnership interests, private equity, tax liens, and precious metals, for instance.

Beyond passive income from rental houses, you can buy real estate in the form of farmland, undeveloped land, new construction, and renovated properties or property development. The list goes on and includes commodities, hedge funds, commercial paper, foreign stock, royalty rights, equipment and leases, American depositary receipts, and U.S. Treasury bills. In short, nearly all investments could be targeted in a self-directed IRA — but there are some specific limitations.

"You can invest in anything the IRS says is OK, and basically the IRS only says artwork, collectibles such as antique cars, and wine are not OK, and life insurance," Raskulinecz says.

"However, we have clients who are invested in limited partnerships that invest in collectible Bordeaux, and the reason that's OK is you are investing in a company that invests in wine." This allows you to invest indirectly. "Otherwise, self-directed IRAs and other self-directed retirement plans must follow the same rules of all your other retirement plans," she explains.

You may not buy an investment from or sell to just anyone, Raskulinecz cautions. "There are people who are considered 'disqualified,' meaning you cannot do business with them or transactions with them," she says. "The IRA owner is disqualified, for instance. The IRA owner's spouse, grandparents, ascendants and descendants, and spouses, too."

The rule extends to any company or other entity the disqualified person owns, as well as to anyone helping you manage a self-directed IRA. "[That's] anybody who provides services to your retirement plan, so your financial adviser, accountant, and attorneys," Raskulinecz says.

Real estate can trip up investors using self-directed IRAs, too, but keeping things straight is fairly easy, Raskulinecz points out — just don't live in the property or benefit from it other than through income and appreciation. "You cannot receive any direct benefit from the investment," she says. "If my IRA owns a commercial building, for instance, I cannot

Working Solo? Consider a Self-Directed 401(K)

Four in 10 Americans will be freelancers and temps by 2020, according to one recent study. That's 60 million people working on their own.

Going it alone might seem a risk, not least because of the variability of income and the issue of health insurance. But there are advantages, too, including the ability to open a personal 401(k).

It's an advantage because the limits for contributions are typically higher than workplace plans, as well as the ability to self-direct your investments. Besides the standard $17,500 annual contribution, a self-employed sole proprietor can set aside up to 20 percent of income as profit sharing.

If you earn enough, the deferral maxes out at $52,000 a year. It's a great tool that allows a high-earning contractor to reduce taxes year in and year out. "The other major factor is checkbook control," says **Jeff Barnes**, president of Great Blue Capital in Seattle, a company that sets up self-directed retirement plans. "With a 401(k), you can write the check for an investment without having to get permission from a custodian."

Setting up a solo 401(k) is easy, says Barnes, akin to opening a bank account. "You have to have a business up and running," he says. "You can set one up while you're working in corporate America, but the downside is your employer won't be matching your contributions."

Self-Directed IRA Do's and Don'ts

One of the difficulties with self-directed individual retirement accounts is planning ahead in terms of taxes. You get to defer income taxes today, but you will be taxed on withdrawals later on, says **Bill DeShurko**, managing partner of 401 Advisor in Centerville, Ohio.

Bill DeShurko

"A self-directed IRA turns all income and gains into ordinary income when withdrawn. At age 70½, you do have to start your required minimum distributions," DeShurko says. "Eventually, the IRA will be liquidated at the individual's highest marginal tax rate."

It's a matter of strategy, he says. Make sure the investment is appropriate for the tax deferral but also ultimately for the ordinary tax rates that come with any IRA.

On that note, some investments that make DeShurko's "Do" list for a self-directed IRA:

- Any investment that will be traded frequently and thus taxed on short-term gains. "It doesn't matter whether it's currencies, futures, options, or stocks," DeShurko says.
- Any investment that spins off consistent income. "If you own rental property that rents consistently and you can't offset the income with deductions, [consider deferral]," he says. "Although you'll lose the capital gains rate at time of sale, this is a way to defer the tax on income."

Likewise, on the "Don't" list:

- Don't put any buy-and-hold-type asset into an IRA, DeShurko says. "Capital gains, whether on a stock, real estate, or a commodity are tax-deferred. Therefore, you're putting a tax shelter into a tax shelter," he says. "When an asset is sold, if held for 12 months, it qualifies for a lower capital gains tax rate. So you actually increase the overall tax liability by using an IRA."
- Do not put buy-and-hold dividend-paying stocks in an IRA if you have an alternative, non-qualified account. "Here, you get the double whammy of losing long-term capital gain rates and lower dividend tax rates," DeShurko says.
- Do not use a self-directed IRA for risky investments. "You cannot take a tax-loss deduction for a loss in an IRA," he says. "That's a kick in the teeth if things don't work out."

rent space in that building for my own company. You cannot buy a condo in Miami and then live in it, ever. Nor can anyone in your family or spouses, even if they pay market rates." The concept is to avoid double-dealing.

With that in mind, there are three rules to remember as you explore the self-directed IRA route to retirement saving.

Rule No. 1: Invest in What You Know and Understand

Who should consider a self-directed IRA? First, it should be a confident investor who is ready to make all his or her own investment decisions, Raskulinecz says. Second, those investments should be in asset types with which the IRA holder has experience and personal knowledge.

Third, the investor must be prepared to have all income and expenses involved flow through the IRA itself. Finally, accredited investors can make equity investments in early-stage companies (presumably the course Romney took) through a self-directed IRA, offering a potentially huge tax break if the shares become much more valuable in time.

"The reason to have a self-directed IRA, generally speaking, is to invest in an asset that you know and understand and can control. Mitt understood and still understands private equity investing," Raskulinecz says. "He can look at a company and determine if he makes an investment in it whether it will be a winner or a loser. If he knows that and he uses his taxable money to get great returns for himself, why would he want his retirement plans limited to stocks, bonds, and mutual funds he has no control over?" Building on the example, you could even extend a personal loan, for instance, or buy a friend's mortgage using IRA money, or enter into local private equity deals with partners.

Most of Raskulinecz's clients start off with some trepidation, she admits. "Their first investment makes them a little more nervous than the subsequent investments," she says. "They're afraid of making a misstep. But I find that for the people who come to us as novices, each subsequent investment becomes easier because they are no longer afraid of it."

Not everyone can come across low-basis stock in a wildly successful business like Romney did, but a self-directed IRA can work for even ordinary retirement savers, assuming they are willing to take responsibility for their choices. In fact, if you roll over your workplace 401(k) and 403(b) money into a traditional IRA, you are de facto running your own money.

Rule No. 2: Choose a Strategy and Stick With It

Where people get into trouble with self-direction, however, is confusing luck with skill, caution **Nick Ventura** and **Dan McElwee** of Ventura Wealth Management in Ewing, N.J. If you're not investing in an area that you know backward and forward, such as local real estate or a business, you become dependent on the management decisions of distant strangers. In that sense, your self-directed investments are no different from any other stock or bond market investment.

That's why asset allocation should be systematic, Ventura says. "It can't be 'I feel good about precious metals' and just go buy them. People tend to buy assets because they read about them," he says.

The result, too often, is a high-risk portfolio that doesn't fit the goals or the investing background of the IRA holder. "Many of the pitfalls of self-directed investing can be avoided — emotional investing, not having a firm investment strategy, and not employing investment discipline," Ventura says. "These factors combine to cause high turnover and poor performance. You'd be surprised how many people are gung-ho in a bull market to be self-directed, but come running in a bear market with two years of statements they haven't opened."

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Check your e-mail inbox for this month's password.

(Remember to use lowercase letters.)

One way around this obstacle is to create a thoughtful, balanced, low-cost portfolio and simply keep reinvesting and re-balancing, as would any prudent manager. To begin with, rather than put all the money into a single firm's offering, consider a brokerage instead, Ventura suggests.

"If the individual is looking to diversify their account by using different mutual fund and ETF vendors, it is advisable to choose a custodian with a wide selection of investment options," he says. "By using a discount broker, investors can help reduce investing costs and frequently have the option to select from a set of managers."

Watch fees carefully, and be very mindful of what you are trying to achieve personally, McElwee says. "You're going to be an active manager, which we favor. The other type of investing is passive. You buy an index or target-date fund. Both of those are workable approaches to investing," he says. (For one "set it and forget it" passive portfolio idea, check out the "Investing" section on the next page.)

A passive approach is useful if you know you are likely to be driven by your emotions in market extremes in either direction. "If you analyze over long time frames, the 60/40 stock-bond split stands the test of time. It will be a good strategy, if you [prefer] a passive approach," Ventura says.

Rule No. 3: Gauge Your Own Personal Tolerance for Risk

The way to solve the discipline problem is to first build an asset allocation model that matches your personal risk profile. "A dynamic asset allocation should be able to morph over time to reflect the current economic environment and the investor's risk parameters," Ventura says. "Understanding how your asset allocation relates to your long-term financial plan is critical to achieving financial goals."

That ability to absorb difficult market news and outcomes changes over time, McElwee explains. "When we do a profile of a client, we will ask and re-ask questions — not just in the initial meeting but over the course of the entire relationship," he says. "Your risk profile changes not only as a function of your age but also as a function of your employment situation."

Even so, most investors overstate their willingness to take risk in a bull market, Ventura says. "Today, people have been coming to our firm with their investments in all cash. These are people who sold out. They're saying they're very comfortable with a high-risk profile. But if these people are coming to us with cash, that means they at some point were so concerned about their investments that they sold everything," he says. "They need to do a gut check."

In the final analysis, self-directed IRAs aren't ideal for everyone. But if you are a more experienced, confident, and prudent investor who doesn't want to simply lock into a passive strategy, they are well worth a look. ■

— Greg Brown

Build Your 'Set It and (Almost) Forget It' Portfolio

Perhaps you don't have a high cash flow to pay a "money guy" to watch your hard-earned dollars, nor the detailed knowledge of the markets to trade individual stocks yourself. Can you set up a portfolio that essentially takes care of itself?

That's exactly what a target-date fund is designed to accomplish. Put money in, pick a retirement date, and leave it alone. Vanguard offers an array of target-date retirement funds that re-balance automatically among a selection of Vanguard stock and bond index funds, and the fees are extraordinarily low. Fidelity and Schwab have similar, competing products. However, it's smart to look under the hood of any such product and get a grip on the underlying investments, strategies, and fees. If you'd rather skip the prepackaged option and assemble your own fund, here are five ways to build a low-maintenance portfolio that should work well for years without worry.

Chad Nehring is a certified financial planner and shareholder of Conceptual Advisors, an investment advisory firm based in Appleton, Wis.

1. Most pension funds use a standard 60/40 split between stocks and bonds and re-balance them periodically. You could replicate that model with any broad U.S.-market index fund, says **John Longo**, a professor of finance at Rutgers University in New Jersey. Another way is to own the **SPDR Global Dow ETF (DGT)** for the equity part of the portfolio. "These large firms [represented in the ETF] have pricing power that may help in an inflationary environment," Longo says. "Given the size of the firms in the index, they won't be going away anytime soon."

2. Because interest rates are expected to rise from here, it may be paired with a floating rate bond portfolio. "One candidate for the remainder of the portfolio would be the **PowerShares Senior Loan Portfolio (BKLN)**," Longo says. "It currently provides a 4 percent yield."

A twist on the 60/40 model is to think in thirds, says **Chad Nehring**, a certified financial planner based in Appleton, Wis. Use inexpensive index funds or exchange-traded funds to own one-third in domestic stocks, a third in international stocks, and a third in a total bond market fund. "You re-balance once a year, so it's not totally 'set and forget,'" Nehring admits.

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3. If your predisposition is to diversify away from traditional U.S. stocks and bonds, one increasingly popular approach is embodied in the Permanent Portfolio (PRPFX). It aims to keep U.S. dollar–denominated investments at 35 percent of the portfolio, adds gold and silver at 25 percent, aggressive growth stocks at 15 percent, real estate and natural resource stocks at 15 percent, and Swiss franc–denominated assets at 10 percent.

The idea is to own an uncorrelated mix of assets, thus avoiding the problem we saw in 2008 in which traditional asset classes all seemed to fall at once. "I advocate their general approach in my own investing, taking on more risk in aggressive growth stocks, lowering volatility with safe and stable bonds, and including real assets like real estate and precious metals to play the role of shock absorber and insurance policy," says **Robert Schmansky**, a certified financial planner in Bloomfield Hills, Mich.

Robert Schmansky is a certified financial planner and founder of Clear Financial Advisors, LLC, a fee-only investment management firm.

"In my own client accounts, I use a similar philosophy but prefer using **Dimensional Fund Advisors (DFA)** funds since they aren't as active, are lower cost, and I can control the mix — but for set-it-and-forget-it or smaller balance accounts, **PRPFX** is a fantastic long-term fund," Schmansky says. "Most investors will be happy with the long-term performance and the relatively few down years."

4. DFA funds are available only through advisers, but if the idea of low-cost investing appeals to you and you feel you can decide your own portfolio mix, consider just three exchange-traded funds: the Vanguard Total World Stock ETF (VT) for equity exposure and the **SPDR Barclays TIPS ETF (IPE)** and **SPDR DB International Government Inflation-Protected Bond ETF (WIP)** for a balance of domestic and foreign inflation-proof bonds, says **Robert Margetic**, a chartered financial consultant in San Rafael, Calif.

"Set your risk exposure by the percent allocated to VT," Margetic says. "These are low cost and cover all the key markets. Once a year, re-evaluate your exposure to VT."

5. If you are in retirement already and bonds are absolutely off the menu, consider building up a significant cash cushion — three years' worth of living expenses — and then invest the remainder entirely in equities, says **Bill Hammer**, a certified financial planner in Melville, New York."Invest your nest egg in a diversified equity portfolio, a mix of large, small, U.S., and international using index funds, not actively managed funds. Withdraw no more than 4.5 percent a year, and increase that annual income a few percent annually," Hammer says.

Bill Hammer is co-founder and president of the Hammer Wealth Group. He wrote *The 7 Secrets of Extraordinary Investors*, published in 2012.

Dip into the cash emergency fund only when the market is down more than 20 percent. Otherwise, simply re-balance among the stock holdings every 12 to 24 months, Hammer says. "No more often than that." ■

— Greg Brown

Off-the-Beaten-Path Investing Sites

These four websites offer some unique content for those who want to stay up-to-date with investing trends, receive financial advice, or make sure their portfolio matches their personal values and tolerance for risk.

1. Wealthfront.com
How it works: A fast-growing online financial adviser, the site boasts assets of more than $400 million currently. Wealthfront says it continually monitors customer portfolios, automatically rebalancing as needed to maintain the target allocation. With consideration of one's finances, goals, and risk tolerance, money is allocated across low-cost index exchange-traded funds that invest globally in stocks, bonds, and commodities.

Cost: Advice and management is free for accounts between $5,000 and $10,000. Those above $10,000 are charged an 0.25 percent annual fee, which includes a service to help minimize an investor's capital gains tax liability.

2. ValuedInvesting.com
How it works: The relatively new socially responsible investing platform is an online, automated investment manager that invests clients' money in portfolios of companies algorithmically selected to match investors' personal values. Business activities, such as fracking, tobacco or firearms manufacturing, or payday lending can be prohibited by selecting the appropriate exclusionary filters. Account minimums are low; just $500.

Cost: An all-inclusive annual management fee of 0.6 percent. There are no additional fees for transactions or rebalancing.

3. FutureAdvisor.com
How it works: With an algorithm that analyzes your 401(k), IRA and other accounts then compares them to other model portfolios, FutureAdvisor says it shows people how to allocate their money for optimum return. A digital investment manager, FutureAdvisor also tackles a lot of personal finance topics on its blog and offers a free retirement calculator.

Cost: Advice is free, but there's a monthly fee of $9 or $19 for investment management, depending on your assets.

4. Estimize.com
How it works: Estimize crowdsources earnings and revenue estimates for more than 900 companies from a community of over 17,000 users. Estimize founder Leigh Drogen has said the estimates on his site are more representative of true market expectations and more accurate than traditional Wall Street estimates nearly two-thirds of the time. About 20 percent of the advisers are analysts at mutual funds, hedge funds, and pensions. The rest of the community is made up of independent analysts and traders, as well as some expert and novice investors. Users can sign up to submit with the site.

Cost: Free ■

— Gina Roberts-Grey

Can Your Kids Handle a Sudden Influx of Cash?

Edward Kohlhepp is a certified financial planner and the president of Kohlhepp Investment Advisors, based in Doylestown, Pa.

It's the law: The moment they reach legal age, kids get complete control over the funds in Uniform Gifts to Minors (UGMA) or Uniform Transfers to Minors (UTMA) accounts their families set up for them, regardless of their money-managing skills. "Since these accounts are considered irrevocable gifts, kids can use the funds however they wish," says **Edward Kohlhepp**, CFP, president of Kohlhepp Investment Advisors in Doylestown, Penn. "It's their money, and they can sue a custodian who fails to release it to them."

However, before beneficiaries reach majority, parents or grandparents who set up these accounts can protect that money in these three ways:

1. Switch plans.

If the funds were earmarked for educational expenses, custodians can sell the investments and use the cash to fund a Section 529 college savings plan, which allows the money to be pulled back if necessary.

"The assets will have been used for their intended purpose," says **Shomari Hearn**, CFP, EA, vice president of Palisades Hudson Financial Group in Fort Lauderdale, Florida. Plus, assets in a 529 account grow tax-free. "Make sure you know the tax consequences, especially from the kiddie tax, before doing this," Hearn adds. (The "kiddie tax" are the IRS' rules governing what children owe on investment income.)

2. Spend it down.

Before kids reach legal age, custodians can use UGMA/UTMA funds for benefits other than parental support. A car, computer, tutoring, cellphone bills, summer camp fees, or a trip to Europe can be beneficial, and you don't have to tell the child how you're paying for them.

You can also entice them into greater responsibility by making getting the things they want a joint effort. "To a kid with a part-time job you might say, 'I know you'd like to have a car. We'll free up some money for it if you can contribute as well,'" suggests Kohlhepp. He adds that if your child plans to apply for financial aid for college, spending down the account makes sense because kids get penalized for having assets in their own names.

3. Use it to teach money and investing skills.

"If you engage them from this perspective, they will be more likely to make better decisions about what they use those funds for when they reach majority," Hearn says. "There's no guarantee of that, of course. What they think at 12 when they first get involved may be quite different at 18, at which point they could decide to blow it all on a fancy car." Still, it's an avenue worth exploring. ■

Spending

Weigh Your Options for Hiring Home Care

The home is a great place to experiment with do-it-yourself projects. But when your priorities change from refinishing flea-market finds to bringing in medical or personal care for a loved one, is it time to call in the professionals? Whether to hire an in-home care provider on your own or work with an agency is a big decision. We stacked the top pros and cons to help you decide which option makes sense for your family.

Hiring Directly

Employing your own care provider offers these primary advantages:

- **You're in the driver's seat.** "Oftentimes, people choose to hire their own worker because they know somebody they want to hire or they're looking to have more control over the employment relationship," says **Steve Edelstein**, national policy director of PHI, a nonprofit that promotes quality long-term care services. In this arrangement, you're free to employ a person you already know and trust, even a family member.

  "It puts the consumer in full control of who the caregiver is and how the caregiver functions," adds **William Dombi**, vice president for law with the National Association for Home Care and Hospice.

- **Financial savings.** Generally, it's less costly than partnering with an agency. "The worker is paid directly, and there is no overhead in the mix," Dombi says. In fact, Edelstein says that "some workers and consumers see that as an advantage to both sides" because the consumer saves money and the worker realizes a higher percentage of the hourly rate. He cautions families against negotiating payments too low, however. "Is this really where you want to drive a hard bargain, thinking about who's coming into the home to care for your mom or your dad?"

The major disadvantages include the following:

- **Paperwork.** "You have to be prepared to be an employer and all that entails," Edelstein says. Taking care of all tax withholdings and filings, plus being in charge of supervision and training, can be stressful. There are companies that can help strictly with the financial aspects of your situation,

Help With Special Situations

If you're shopping for home-health assistance as part of the intermittent care that's covered by **Medicare**, the decision is made for you: You must go through a home-care agency, which is paid directly by Medicare. Use the Medicare Home Health Compare site to compare quality data for providers in your area.

Long-term care insurance might pay if you hire someone directly. It may require a medical certification that home assistance is needed. Check the policy for specifics.

which may be something to consider. "They allow the consumer to identify their own worker, and then the agency hires the worker and provides the payroll functions," Edelstein says.

- **Dealing with the unpredictable.** There are drawbacks to working primarily with one care provider, Edelstein says. "What happens when they can't come to work? What do you do in emergency situations?" In these cases, you'll need a network of friends or family that can provide backup care. And there's no guarantee any employee will stay forever — either with an agency or as your direct hire — but when you're the employer, finding a replacement means starting from scratch.

Using an Agency

Working with a home-care agency offers ample benefits, chiefly the convenience of having someone else handle these details:

- **An agency finds qualified workers and screens, trains, and supervises them.** "If you don't have a sense of who you want to hire, then it might be a challenge for you to find somebody," Edelstein says. And once you find candidates, you might not be sure how to vet them properly — a vital concern when allowing a stranger to provide personal care to loved ones. With an agency, background checks of credit, work history, and criminal records are typically taken care of, as well as a drug screening. Furthermore, an agency can provide information on the types of individuals a worker has served in the past, so you can identify a good match from the start. And expect continuous supervision and training of the workers. "If it's a good agency, there is someone who's attending to the quality of the caregivers," Edelstein says.

- **The agency handles the employer tax and legal responsibilities.** This is probably the most powerful draw of using an agency, as mastering the minutiae of federal, state, and local taxes can be burdensome. "The agency takes care of all the payroll functions," Edelstein says.

But don't forget to account for these downsides:

- **Upcharge for the convenience.** Of course, there's a steeper cost to having an agency handle all those details. "The price per hour is going to be higher," Dombi says. "It doesn't come for free."

- **Less than consistent personnel.** You may need to evaluate agencies individually on this aspect. Some allow you to choose regular providers; others may not. "Unless that's something specifically negotiated," Edelstein says, "you may be seeing a number of different workers." ■

— Kathryn Stewart

Ben's Good Cents

"Those who love deeply never grow old; they may die of old age, but they die young."

Hit the Beach Without Breaking the Bank This Winter

Polar vortex. Those in the northern climes might shudder — literally and figuratively — at those words, a reminder of last winter's brutal assault. You probably can't duck the reprise completely, but you can at least make sure you escape this season, if only for a little while. Here's how to book a beach vacation on the cheap, with the help of our expert **Susanna Zaraysky**, author of *Travel Happy, Budget Low: Over 200 Money Saving Tips to See the World*. She shared three tips for trimming the expense of a winter beach vacation this year:

1. Travel in early December. It may not seem ideal to squeeze in a vacation between Thanksgiving and Christmas, but if you're trying to maximize your travel budget, that time frame offers some of the best winter deals you can get, Zaraysky explains. Research has shown that prices in the Caribbean (among many other locales) are lower in early December, just before high season starts mid-month. For those worried about running into hurricanes in the Gulf and Atlantic, the Atlantic hurricane season runs June 1 through Nov. 30 — not that it guarantees no storms, but you are ducking the main window. Also note that Aruba, Bonaire, Curacao, the Cayman Islands, and Trinidad and Tobago fall outside the "hurricane belt," according to data from SmarterTravel.com.

When You're There . . .

▸ If you can find a hotel or, better yet, a rental home with a kitchen, you can save big on food. That's because relying on restaurants can quickly add up. Instead, when you research your destination, find a nearby grocery store or Walmart you can stop in on the first day, and buy fruits, vegetables, nuts, crackers, and a range of breakfast options. (Yes, even a tourist trap like Disney World has grocery options within driving distance of the resort area, and many hotel rooms come equipped with at least a fridge.) "You may not even have to go to a restaurant, and if you do, maybe it's once a day instead of three times," Susanna Zaraysky says.

2. Claim your frequent flier miles before the rules change. Have you been waiting for the perfect opportunity to redeem your miles stockpile? Zaraysky says it could be time to cash out. "Delta has changed the way people accumulate miles, and I wouldn't be surprised if other airlines do the same soon," she says. Delta's new scheme, effective Jan. 1, 2015, is no longer tied to distance traveled but to ticket price. So if you've been accruing miles by purchasing inexpensive — but long-distance — tickets, it might make sense to stop earning and start redeeming now.

3. Rent a private residence. While all-inclusive resorts are convenient, you can score savings and a more authentic experience by looking outside tourist traps. "Rent a house or use Airbnb.com," Zaraysky recommends, "[especially] if you're staying in an area that has a cultural life of its own — say Miami." ■

The Insurance Loophole That Can Save You Cash

So-called "storm chasers" — repair contractors who migrate from one storm-ravaged part of the country to another, approaching homeowners with offers to install new roofs or siding because of hail or wind damage — may be costing you money, whether you take them up on their services or not. That's because the practice is having the effect of driving up claims, and thus home insurance rates.

The growing issue, in part, has led to an option for saving on your own premiums, which you may want to take advantage of depending on your current financial situation. The little-known "cosmetic damage exclusion" can help you lower your own rates if you know what to ask your agent.

First, know what exactly constitutes "cosmetic damage" for the sake of insurance. "Cosmetic damage only affects the look of the home," says **Troy Thompson**, an independent insurance broker at Pinnacle Insurance Agency in Coon Rapids, Minn. Think dents in roof vents or aluminum siding or other damage that doesn't compromise the structural integrity of the building. Hail and wind are the two most common perils that cause cosmetic damage.

In an attempt to protect consumers from scammers and keep home insurance rates affordable, the American Association of Insurance Services has developed an option available in most states as of February 2013 that makes cosmetic damage "optional coverage" and allows homeowners the ability to exclude wind and hail damage that is only cosmetic in nature. The exclusion does not apply to damage that in any way compromises the structural integrity or functionality of a home.

If you opt to exclude cosmetic damage, the annual savings on your home insurance premium could be significant. Thompson says the premium could drop anywhere from $100 to $200 or more, depending on your state, value of your home, coverage, and similar factors.

The decision, of course, rests on your willingness to live with cosmetic damage (or fix it out of pocket) if such damage does occur. It's a calculation you'll want to make depending on everything from your finances to the potential of strong storms in your area. If you do decide it's an option worth consideration, you'll next have to check with your agent or broker to see whether it's available to you based on your state and policy.

As for those storm chasers suggesting you file a claim to cover the damage? "You should be very leery of someone knocking on your door or cold-calling regarding home cosmetic damage," Thompson cautions. In many instances, these scammers have victimized consumers, skipping town with insurance money or placing liens on properties for work never performed. It's a situation best avoided with a "no thank you." ■

— Gina Roberts-Grey

Your Home

Raising a New Roof: Say 'Sayonara' to Shingles?

Although it's still considered a niche segment in roofing — which is dominated by asphalt shingles, with 70 percent of the market share — there are several reasons why metal roofing might be the best choice for your home.

Metal? Yes indeed, you read that right. **Tom Bollnow**, senior director of technical services for the National Roofing Contractors Association, walked us through the positives and the one potential drawback to determine whether this home upgrade is right for you.

Positive No. 1: Longer Life Span

One of the most valued benefits to metal roofs is their projected longer life span. "Like your other longer-service-life materials, metal roofs should last at least two times longer than the average asphalt shingle roof and sometimes more depending on the material and the installation," Bollnow says.

"Generally, metals such as copper, stainless steel, and some high-quality coated metals should last in the range of 40 to 50 years," Bollnow continues. "The more common metal products such as coated aluminum and coated galvanized steel should last 25 to 30 years. The variables are the gauge/thickness and quality of the coating applied."

The average life span of an asphalt roof, in comparison, is 12 to 20 years, according to the Metal Roofing Alliance, a trade organization.

Positive No. 2: Customize Your Look

No matter your home's overall style, you can tailor your metal roof's appearance through the large range of available colors and styles — such as ones that imitate the look of slate, tile, and wood shingles.

Metal Myths

This isn't your great-grandfather's old tin roof anymore. The common concerns you might have based on those stories of yesteryear aren't founded, Tom Bollnow says. Here are the five most common myths he'd like to dispel:

1. **Metal roofs attract lightning.**
   Lightning is attracted to the high point, not necessarily the material. Metal shingles would actually dissipate lightning if struck, unlike asphalt shingles, which would sustain more damage.
2. **Metal roofs are loud like a drum during rain.**
   This belief comes from thinking of old tin roofs, which weren't put on solid sheathing.
3. **Metal roofs rust.**
   Almost all the materials on the marketplace today are corrosion resistant.
4. **Metal roofs will be ruined by hail.**
   Almost all metal roofs are designed with ribs and striations that won't dent much.
5. **Metal roofs will dent if you walk on them.**
   Almost all metal roofs are every bit as walkable for surface traffic as all other products.

Positive No. 3: Climate Considerations

Depending on what part of the country you live in, metal roofs may be the smartest choice of materials for your region. "You'll see metal roofs very often in coastal regions, as they can be very resistant to high winds and storm damage," Bollnow says. "You also see a lot of them in snow country like Colorado because the snow doesn't accumulate on the roof — it has a tendency to slide off and rid itself of the snow loads. And it's becoming more popular in western states where fire-resistant materials are mandated."

Positive No. 4: Cooling Capabilities

Metal roofs come with either coated materials (which reflect the sun's rays and emit heat quicker) or bare materials (that don't release heat as quickly).

"Metals such as copper, stainless steel, and Galvalume are highly reflective but have a tendency to absorb heat," Bollnow says. "Metals that are coated with other colors are reflective and emit the heat quicker. Stone-coated steel, which looks like tile and asphalt shingles, can be made with reflective coatings on the surface of the material, and as long as they have a coating over the metal, they release the heat during the evening hours."

The Drawback: A High Initial Cost

The one potential drawback you've been bracing yourself for: The initial cost of a metal roof is one of the biggest considerations for the average consumer. "While it's a little bit less than slate and tile, metal roofing is probably at a good two to three times the cost of the midline asphalt shingle market," says Bollnow, who suggests looking at the investment by the cost per year.

"If you divide the price by the anticipated service life, it will give you a cost per year. And then it's a better comparison with other materials. But since the average person only lives in their house seven or eight years, something that could last 50 to 60 years might not compute." So if you plan to live in your house a couple of decades or longer, it's potentially a worthwhile investment — otherwise, it may be unnecessary.

Ready to Act? Hire an Expert

If you're ready to make the move to metal, keep in mind that the average roofer shouldn't be hired to do the installation. "You need a tradesman, preferably with some sheet-metal experience because of the cutting and the fitting and the things that are intrinsic to metal shingle installation," Bollnow says. "While you can use the NRCA website to locate a contractor near you, that doesn't necessarily mean they are qualified in all fields of roofing. We encourage consumers to check references and installations of these specialized materials." ■

— Jill Schildhouse

Small Business

Seven Ways to Outsmart Card Processing Fees

"Paper or plastic?" It's a decision consumers make every day, but not about grocery bags. We're referring to payment methods, and plastic (in the form of credit and debit cards) is increasing in appeal for shoppers. Less so for retailers, who must pay fees with each transaction (a flat fee for debit and a percentage of the purchase for credit).

It's enough to make some businesses opt out altogether and go cash only. But retail consultant **James Dion**, co-author of *Start & Run a Retail Business*, says that's unwise.

Aside from the substantial inconvenience to customers, he says that the more cash you have on hand, the more of a target your business is for criminals. Plus, credit and debit cards offer a psychological advantage. "The customer doesn't perceive that as real money, so the amount of impulse purchases and overbuying … is still pretty substantial," Dion says.

So cutting out cards isn't the ideal answer. But these options for dealing with processing fees can lessen their bite:

1. Join a trade organization. Mega-retailers such as Walmart and Target can negotiate hefty discounts on processing services because of their volume. "If you're a smaller retailer, you're paying what you'd call in a hotel a 'rack rate,'" Dion says.

One way around the rack rate is to join your trade association, which may have negotiated a more advantageous rate with a particular processor. Some retailers have access to an association but choose not to join because of annual fees, he says. "If they did the math, they'd pay for that [annual fee] in the first two months."

2. Learn what your rate really means. Ben Dwyer, founder of CardFellow.com, a credit card processor comparison website, says the best thing a business owner can do is understand what makes up the charges. "There's no magic to credit card processing," Dwyer says. "There's a fixed component and there's a markup component, and that's what a business is really shopping for."

The fixed component includes an interchange fee, which is paid to issuing banks, and an assessment fee, which goes to the card brands such as Visa and MasterCard. It's the same no matter what processor you use. The markup component is made up of the card processor's fees.

3. Request only true pass-through (or interchange-plus) pricing. In this structure, interchange and assessment fees are passed along at cost, and the processor's markup is clear. Dwyer says this is the only format in which you can compare processing costs accurately. The alternative is called tiered (or bundled) pricing, in which interchange and assessment fees are not passed through at cost and the breakdown is obscured. "The No. 1 mistake that businesses tend to make when they're shopping for processors is asking 'What's your rate?' It's not really the rate that matters," Dwyer says. "In fact, the rate is a [distant] second to the pricing model and the terms that it uses."

4. Lock in competitive rates for life. If you don't get this protection, Dwyer says "processors can quote whatever they want because they know they can adjust that pricing down the road."

He explains that "portfolio reviews," in which processors periodically evaluate your account and can apply a rate increase, are typical. A simple notification is printed on the first page of your statement, and if you miss it, the increase takes effect. Dwyer says all processors available through CardFellow lock in their markup rates for the life of the account.

5. Don't be fleeced by equipment leases. Many small businesses lease their processing terminals, but Dwyer says purchasing a terminal is better. It involves a small upfront cost of a few hundred dollars, but it usually pays off with savings many times that amount. "There is no good reason to lease equipment," he says. "It never makes financial sense."

6. Ensure future flexibility with the right hardware. In addition to owning, you want processing equipment that's universally compatible, meaning it can be reprogrammed to work on another processor's network should you decide to switch later. "Universal equipment is at or near the cost of proprietary equipment, so there's no reason to limit your options," Dwyer says. He recommends purchasing these terminals from the processor directly so you'll know it's compliant. "Most offer a year warranty or more."

7. Keep your primary focus on growing the business. It's true that every penny counts, but retail consultant Dion cautions against obsessing over fees when finding new ways to please customers is ultimately more profitable. "It's always better to have more sales and grow your business than to take that defensive position and cut costs," he says.

First, make sure you offer the right product, a wonderful atmosphere, great employees and phenomenal service. "If all that stuff is running perfectly and you've got some time," he says, "see what your operational savings can be on changing your credit card processing." ■

— Kathryn Stewart

Ben's Good Cents

"Hide not your talents, they for use were made. What's a sundial in the shade?"

Dr. Franklin's Mailbag

Never Sign a Cellphone Contract Again

Lately, plenty of readers have been asking us about the no-contract, "prepaid" cellphone plans being heavily marketed. Their popularity is surging, thanks to the savings offers, never having to worry about paying for unused minutes and gaining the flexibility to switch to a better deal at any time, says **Bob Sullivan**, consumer advocate and author of *Stop Getting Ripped Off*.

"The majority of people don't use anywhere near the full offering of their contract, and by switching, you can save as much as 50 percent off your monthly bill," he says. "That is real money in your pocket."

A 2011 study by (now-defunct) BillShrink found that cellphone customers overbuy minutes and data, wasting an average of $336 per year. For light smartphone users who do not require many minutes or extensive usage of high-speed data, there are many options that cost less than $50 per month, Sullivan says.

All the major carriers have no-contract options: Sprint has Boost and Virgin; Cricket Wireless is part of AT&T; T-Mobile has GoSmart, and Verizon has a whole line of prepaid plans.

But then there are other, independent carriers that re-bundle usage from the big carriers — and often are available in the same coverage zones. Most people have never heard of companies like H2O, Republic Wireless, Ting, Kajeet, and Chit Chat (just to name a few), but they offer some of the lowest prices on the market. Consumer Cellular, for example, starts at 200 minutes for $15 per month, and 200 texts and 20 MB of data for just $2.50 per month.

Just be sure to scrutinize the fine print before you make the leap, noting caps on texts and data and additional monthly fees.

Hot Savings Tip

I have a four-burner tempered glass electric cooktop stove with two small and two larger burners that are heated with electric coil elements. The heating surface area of the large burner has approximately twice the heating surface area as the small burner.

This means that you use twice the electricity to heat the large burner as required to heat the small one, equating to twice the cost to use the larger burner. Bottom line: When cooking, try to use the smallest diameter pot and the smaller burner.

— Larry W., Destrehan, La.

Turn Off the Bill-Paying "Autopilot"

I review all my bills, even the utility bills, with a fine-tooth comb and question the smallest unknown charges. I always call and ask whether there is a current special going on I am eligible for or whether there is any way we can lower the rates . . . or I might have to cancel. Thanks to such efforts, my satellite TV bill is so low that the other companies who call don't even try to convince me to switch once I tell them what I currently pay thanks to my years as a "loyal" customer.

— Marilyn Z., Mansfield, Texas

A Clean Savings Sweep

The cleaners you buy in stores to clean kitchens and bathrooms are very powerful. I dilute my cleaning products with water. This way, the cleaning agents last longer and I can tolerate the smell in order to clean with them.

I also found myself spending so much money on dishwasher detergent. I began buying the cheapest detergent I could find (you can find great deals at your local dollar stores) and dispensing one-half baking soda and one-half detergent in the dishwasher. It cleans your dishes just as well as the expensive dishwasher detergent brands. To add a great shine and save money on rinsing agents in the dishwasher, I use vinegar. All these inexpensive items from your pantry work great!

— Sarin P., Ottawa, Ohio

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