

Retirement portfolio should include stocks

Q: I am 32 and newly in practice. I am saving for my retirement and family security, and I worry about losing money in the stock market. Is it reasonable to just buy Treasury bonds for my retirement portfolio?

A: I understand your concern, but your potential plan is not just risky, but virtually guarantees failure to achieve a safe sum for retirement. Treasury bonds across various maturities would give you about a 3% annual yield at best. The income is taxable, so your "real" or after-tax return would be even less. Inflation has run at least 3% a year for most of the last 40-plus years, so you would lose purchasing power every year with your bonds-only portfolio.

Another way to think about this situation is to realize that a first-class stamp cost six cents in 1970. Today it is 47 cents, almost an eight-fold increase. If you're going to need eight times the number of dollars to sustain today's lifestyle 39 years from now, your exclusive reliance on Treasury bonds will leave you far short of what you need.

Although we recently emerged from the worst bear market for stocks since the Great Depression of the 1930s, emerging we are. During the last 100 years, a portfolio of equities has never lost money over a 15-year period, and the average return over that 100-year period far exceeds the returns on bonds and cash.

Given your very long time horizon for investing, the real risk lies in not having a substantial portion of your portfolio in stocks. Do the work to find a low-cost, diversified approach to equity investing, or get some help from a professional adviser. The long-run payoff will be well worth your time and effort. Good luck!

It is always a good idea to fill out the free application for federal student aid, or FAFSA, form regardless of your income. Some students might qualify for financial aid due to factors such as outstanding academic or athletic ability, or ethnic or geographic diversity. The use of "income shifting" techniques (such as gifting appreciated stocks to your

children so that they could sell them in their lower tax brackets) has been impaired by "kiddie tax" laws. Under these laws, a child's unearned income of more than \$1,900 is taxed at the parents' bracket if the child is a student aged fewer than 24 years.

A child who works enough for the practice to supply at least half of his or her annual expenses, however, would qualify as a nondependent and be able to shelter a great deal of earned and unearned income through the use of the standard deduction, the personal exemption, the capital gains tax rate for lower-income individuals (currently very low), and the use of special educational tax credits. Discuss these possibilities with your accountant or financial adviser.

If you have a few years before your child is to attend college, then 529 plans are the best choice for the task. These plans allow pretax contributions to grow tax-free until used for educational costs.

Educational IRAs also will grow tax-free, but they carry income restrictions and a cap of \$2,000 in annual contributions. Look for a 529 plan with low expenses. The Web site savingforcollege.com is a good place to start.



WORKING FOR PRACTICE CAN HELP DEFRAY SOME COLLEGE COSTS

Q: I have three children who will be attending college starting in a few years. Is there any way income from my practice can help them pay for some of their costs?

A: College expenses can be astounding and are usually paid on an after-tax basis.

We want to hear from you!

Send your money management questions to medec@advanstar.com. Answers to our readers' questions were provided by Steven Podnos, MD, CFP, principal of Wealth Care LLC in Merritt Island, Florida.

Medical Economics online

Grandparents sometimes will help pay for a child's college education. Learn more about the options available for grandparent gifting at MedicalEconomics.com/grandparents

Many articles and books are available on how middle-class and lower-income families may obtain aid for the expenses, but little is written about those families with enough income to disqualify most chances at financial aid.