

September 2008

Dear Clients & Friends:

After a challenging summer thanks to the weather and to market conditions, we are happy to celebrate the tenth anniversary of PFPFG. We want to thank you for your continued confidence in us, and we look forward to another decade of working with you to further your personal and financial goals. In this letter we would like to offer some tips on personal finance and bring you up to date with PFPFG news.

HOUSING BILL

The big entrées of the housing bill signed into law by President Bush in late July are the establishment of affordable fixed-rate government-insured loans for homeowners on the brink of foreclosure, and the hike in the nation's debt ceiling to allow for bailing out Fannie Mae and Freddie Mac should it be required. However, there are also a number of side dishes that may apply to you or your family members. Briefly: For 2008 taxes only, property tax deductions of up to \$500 (\$1,000 for joint filers) on their primary residence are available to homeowners who don't itemize. First-time home buyers who purchase their primary residence between April 9, 2008 and June 30, 2009 can receive an interest-free government loan in the form of a tax credit of 10% of the purchase price up to \$7,500. (The credit must be paid back in equal amounts over the next 15 years at tax time.) The amount of the credit is scaled down for individuals whose AGI is greater than \$75,000 (\$150,000 for joint filers).

For reverse mortgages, the nationwide cap on the maximum amount one can borrow has been increased from \$400,000 to \$625,000, origination fees have been capped, and certain preconditions for approval (e.g. being required to purchase another financial product) have been prohibited. The rules for the federal capital gains exclusion on the sale of a residence have changed, beginning with home sales after Dec. 31, 2008. Under the new regulations, the excludable gain will be pro-rated based on the amount of time the house was a principal residence. Periods of absence after residing in a home will now generally count as qualifying use. Until the IRS weighs in on the ramifications of this change, it will be difficult to evaluate exactly how the new provisions will affect each individual situation.

BUDGETING

If keeping track of all your check, ATM, and credit card transactions makes you shudder, and entering information into a personal finance software program like Quicken isn't your cup of tea, take a look at a free Web-based service called Mint (www.mint.com). Mint securely logs into bank checking and savings accounts, credit union accounts, and credit cards, displays balances and running lists of transactions in plain English instead of bankspeak, and creates easy-to-understand graphs showing your spending patterns. Mint can also alert you by e-mail about bank charges, and can be set up to remind you about payments due or whether you're exceeding your budget plan. Click on the "Ways to Save" link to view checking and savings offers by various banks. Mint is not equipped for online banking transactions, but simply for monitoring your expenses.

ESTATE TAX EXEMPTION CERTAIN

The federal estate tax, currently scheduled to disappear in 2010 and reappear in 2011 with a \$1M exemption, is likely to be around during the next administration since both McCain and Obama oppose repealing it altogether. Obama favors the \$3.5M exemption

slated for 2009 to continue, while McCain would opt for a hike to \$5M (double those figures for couples). A marked difference in their approach is seen in their proposed tax rate for the top estate level (currently 45%): Obama proposes a freeze at 45%, while McCain would prefer 15%, the same as the capital gains tax rate. In either scenario, the higher exemption rates would leave only a small number of very large estates liable for the federal tax.

HOW RICH ARE YOU, ANYWAY?

In case our mentioning budgeting has left you feeling a little pensive, here's another perspective to consider. The VIP Group, a Washington-based research group, prepared a "Wealth Scoreboard" from 2004 Federal Reserve data that compares the median net worth of US households. Net worth includes the total of your assets (investments, savings, real estate, and personal property) minus liabilities (mortgage balances, debts and outstanding loans). The figures below are in thousands. For example, if you fall into the 60 – 69 age group, you would have needed to have a net worth of \$1,522,000 in 2004 to be in the top 10% of US households. If your net worth exceeded \$232,000, you were in the top half.

Chief earner's age	Top 1%	Top 5%	Top 10%	Top 25%	Median
80 +	\$3,349	\$1,770	\$1,149	\$536	\$188
70 – 79	\$9,198	\$1,945	\$1,106	\$489	\$183
60 – 69	\$10,188	\$3,075	\$1,522	\$699	\$232
50 – 59	\$9,554	\$2,223	\$1,180	\$570	\$188
40 – 49	\$4,710	\$1,297	\$746	\$353	\$113
30 – 39	\$1,971	\$451	\$272	\$121	\$39

The gap between the top 1% and the top 5% or 10% is striking. Maybe it's not too late to get out that baseball mitt or give Nicole Kidman some serious competition.

The Wall Street Journal Online: Wealth Report uses the same 2004 Federal Reserve data differently to show into which wealth percentile different net worth figures fall. For example, a total net worth of \$50K fell into the 60th percentile; \$100K in the 48th; \$200K in the 34th; \$500K in the 18th; \$1M in the 8th; and \$6M in the 1st percentile. To see this from a global perspective, go to the web page www.globalrichlist.com and try the "How Rich Are You?" calculator. Though it uses income instead of net worth, it still serves to remind us of how fortunate the majority of us in the US are.

PFPG NEWS

Tom's comments about the challenges of retiring during a bear market appeared in the *Your Money* section of *The New York Times* in the August 16 article "Retire Now, and Risk Falling Short on Your Nest Egg". Brian has continued his non-profit service with the Maine Planned Giving Council and the Nature Conservancy's Corporate Conservation Council. Debra was selected by the Portland Symphony Orchestra to create a work of art commemorating the inauguration of the new Music Director, Robert Moody. Her oil painting "Practice Break" will be auctioned, and the image will appear on posters for patrons and donors.

We wish you all the best.

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