

Fall 2005

Price of Natural Gas Leaves Us Cold!

By: Matthew L. Roop, CFP®

The hurricane season of 2005 will go down as one of the most destructive in history. Hurricane Katrina alone claimed the lives of over 1,100 Americans and obliterated much of the coast of Mississippi. However, the effects of Hurricanes Katrina and Rita also radiated across the country as they disrupted oil production and refining along the Gulf Coast. This disruption exacerbated the already steep climb in oil and gasoline prices seen over the past year. In fact, as of the end of September, the price of a barrel of crude oil had risen 31 percent over the past year, with the average retail price for gasoline in the U.S. rising 52 percent over the same period.

The high cost of natural gas

Perhaps more ominous is the rise in natural gas prices. While the price

increases for oil and gasoline are significant, they pale in comparison to the rise in natural gas prices, which have climbed 108 percent over the past 12 months. This fact has received relatively little media buzz, as most people have been concerned with the cost of filling up their gas tanks. However, the rise in natural gas prices will almost certainly have as much impact on consumer budgets over the coming months as the rise in gasoline prices has already. Now that we are entering the winter months, people will be turning up their thermostats. Unlike gasoline consumption, the impact of which can be softened by car-pooling, driving more fuel-efficient vehicles or using public transportation, natural gas consumption cannot be avoided. Keeping the thermostat down once temperatures dip below freezing is not an appealing or healthy option.

The increase in the price of natural gas is rooted not only in the surge in demand, but also in the slowing growth in production. According to the Energy Information Administration (EIA), in spite of a significant increase in the number of wells being drilled nationwide, production has remained relatively flat. Another complicating factor is the difficulty in transporting natural gas over long distances. While some experts cite the use of liquefied natural gas (LNG) as a potential solution to the transportation issue, many LNG terminals are still under construction and thus won't impact natural gas supplies for years.

Many people assume that having electric utilities rather than gas utilities

will make them immune from the hefty price increases. However approximately 50 percent of the electricity generated in the U.S. is produced by natural gas-powered plants. In fact, according to EIA, 90 percent of new electric plants constructed in the 1990s are fired by natural gas. Additionally, many of them are unable to switch to cheaper fuels, such as coal or heating oil, when natural gas prices increase. This is primarily a result of stricter environmental regulations for power plants that use natural gas because it is a much cleaner burning fuel than either coal or heating oil. And while regulation of many utilities limits the increases in electricity costs, a significant portion of these higher costs will eventually be passed on to consumers.

Energy prices and your portfolio

While consumers will feel the sting of rising natural gas prices, the companies who produce and transport the commodity are already recording record profits, and it is reflected in their stock prices. Although we think energy prices in general will level off, it is likely that they will continue to remain high relative to historical averages. By utilizing financial vehicles such as diversified mutual funds that can capture the opportunities in energy stocks, investors can participate in the success these companies are enjoying without taking too much risk.

While you may not entirely recuperate the higher cost of your energy bill with your portfolio increase, it just may make the winter a little less chilly.

Contact Matt if you have questions or would like additional information regarding this topic.

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From Elaine

News from China and India

More news from around the world! As part of my responsibilities, serving as a member of the board of governors of the Financial Planning Standards Board (FPSB), I traveled to China this August, visiting Beijing, Shanghai and Guangzhou. There I participated in three public announcements of China's



Elaine (r) and Wu Xiaoling (l).

entry into FPSB as an Associate Member and in panel discussions with their financial-planning professionals.

It was a whirlwind eight days, but very exciting. The banks in China are leading their entry into financial planning, and I was impressed with their questions and comments concerning the implementation of the financial-planning

process through their positions as branch managers and private bankers.

I also was privileged to spend several days with Wu Xiaoling, deputy governor, People's Bank of China. She is often described as the "most powerful woman in Chinese finance" and someone to watch. Last month she was named to the Wall Street Journal's Second Global "Top 50 Women to Watch List" as a future Policy Maker. It was an insightful experience.

In October, I traveled to Mumbai, India, for the FPSB Board and Council meetings. Prior to the meetings, I spoke on practice standards for financial-planning at our India Affiliate's first financial-planning conference. Five-hundred attendees were expected, but 650 interested professionals showed up! Many financial services companies, such as Fidelity, AXA and Principal, are already active in India. It was delightful to talk with the professionals in India who will be leading their financial-planning movement.

Both China and India may be considered 30 years behind the United States in the development of the financial-planning profession, however, I can assure you that it will not take them

that long to catch up. I am confident that the many bright, energetic and dedicated individuals in both these countries will bring financial planning to the forefront.

In 2006 I will have the honor of serving as the Chair of the FPSB, which sets the standards in financial planning for the Certified Financial Planner™ designation outside of the United States. Currently there are over 100,000 CFP® professionals globally, and that number will grow exponentially over the next five years. Being involved in this evolution is a humbling and amazing experience.

Although this is a very busy time of year for everyone, take time to read the informative articles in this issue. As you focus on completing your last-minute "to-do" list tasks, remember the proverbial saying: "Thank heaven for the last minute, or nothing would ever get done!"

Sincerely,

Elaine E. Bedel, CFP®

By: Bill Wendling, CFA, Portfolio Manager

Before we eat our pumpkin pie, buy our last holiday gift and remember we still don't know the words to "Auld Lang Syne," we should all consider several year-end planning items. Cover your bases so you can wrap up 2005 and enjoy your corned beef and cabbage in 2006.

- Review your estate documents to determine if you can take advantage of the Unified Credit Amount, which increases from \$1.5 million to \$2 million in 2006. These increases are set to disappear in 2011, but Congress may pass a permanent law soon. Stay tuned.

- Take tax losses on investments to offset realized capital gains and up to \$3,000 of personal income. Any leftover tax loss can be carried forward into future years. Be aware of the Wash Rule, which does not allow you to deduct the loss if a substantially identical asset was purchased 30 days prior to or 30 days after the sale of the investment.
- Make charitable contributions with low-cost basis assets and the fair market value of the gift can be deducted from your tax returns. If you contributed to the Tsunami Relief Efforts this year and claimed the gift on your 2004 tax return, do not include it on your 2005 return. If 2005 is an unusually high year

for your taxable income, charitable gift accounts allow you to gift an asset today, have a charitable deduction this year and direct the proceeds to your choice of charities over multiple years.

- Make a minimum distribution from your retirement account if you were age 70 1/2 or older in 2005 to avoid a 50-percent penalty. Waiting to make the distribution closer to the end of the year allows the earnings to continue to accrue for the majority of the year.
- Consider maximizing your employer or self-employed retirement plans and your IRA contributions to receive a greater deduction on your tax return. IRAs and some self-employed

Client Dream — Client Reality

The Big Picture on the New Roth Option for 401(k) Plans

By: Julie Scheers, Financial Planning Specialist

On January 1, 2006, some of you will be able to participate in yet another form of retirement plan—the Roth option for your 401(k). This option, similar to existing Roth IRA accounts, allows after-tax contributions to be deposited and the account balance (deposits and growth) to be withdrawn tax-free at a later date. Here are some highlights.

- Only 401(k) and 403(b) plans may be amended to allow Roth contributions.
- Contributions can be split between the traditional 401(k) and Roth 401(k) options, but cannot add up to more than \$15,000 for the basic contribution and \$5,000 for the catch-up contribution in year 2006. This amount will increase in future years.
- Companies are not required to offer the Roth option, and may not, since it requires additional accounting and will only be available 2006-2010, unless extended.
- Employer match dollars will go to the traditional 401(k) even if employee contributions are to the Roth option.
- There are no income-related restrictions for Roth contributions

to a 401(k) as there are for the Roth IRA.

- Special withdrawal rules for first-time homebuyers are not included for the Roth contributions to a 401(k).
- The Roth portion of the 401(k) should be rolled to a Roth IRA, where it will be subject to the rules of the Roth IRA, meaning there are no minimum distributions required during your lifetime. The rules have not yet been finalized for Roth funds left in the 401(k).
- The rules governing tax-free distributions after retirement are the same for the Roth portion of a 401(k) as for the Roth IRA: five years from the beginning date for the contributions, when the account owner becomes disabled or when the account owner reaches age 59 1/2.

Does the Roth option for your 401(k) make sense for you? The big-picture answer involves “guesstimates” about your personal income tax rates. Traditional 401(k) contributions are taxed at the existing rate at the time they are withdrawn; Roth contributions to the 401(k) plan are taxed at the rate in effect when they are placed in the account.



The answer comes down to when the tax-free benefits are worth more to you—today or tomorrow? No one knows what the tax law will do in the future, although expectations are that rates will increase. Do you expect your tax rate at retirement to be higher or lower than it is currently?

Another issue to consider is your level of investment assets: do you expect to spend investment dollars in your retirement, or pass them to your heirs? If you expect to have sufficient non-retirement assets from which to draw your retirement living expenses, Roth contributions to your 401(k) may make sense if you roll it to a Roth IRA at your retirement. Then, you can avoid minimum distributions that you may not need for spending. Your dollars will be able to stay in the Roth IRA and continue their tax-free growth, and your heirs will receive an income-tax-free inheritance, although they will have minimum distribution responsibilities.

Contact Julie if you have questions or would like additional information regarding this topic.

Holidays!

- retirement plans give you until April 15, 2006 to make contributions for the 2005 tax year.
- Gift up to \$11,000 per year (\$22,000 for a married couple) to as many individuals as you would like without having to file a gift tax return, if you gift money or assets as part of your overall estate plan. The annual gift exclusion amount increases to \$12,000 in 2006.
 - Assess your expected tax bracket this year versus next year and, if your tax bracket is lower next year, defer or postpone the receipt of taxable income to 2006.
 - Increase your tax deductions by paying the final estimated state
- income tax payment before the end of 2005 if your 2005 tax bracket is higher than that expected in 2006.
- Stock up on supplies that are needed next year as a way to lower income this year if you are self-employed. Additionally, office equipment, up to a certain dollar amount, can be listed as an expense instead of a depreciable asset.
 - Check with your tax preparer to ensure you do not owe an Alternative Minimum Tax (AMT) before making year-end tax planning moves.
- Now start practicing those verses!
- Contact Bill if you have questions or would like additional information regarding this topic.

Corporate Calendar

Bedel Financial Consulting

will be closed for business

on the following days:

November 24 — Thanksgiving

November 25 — Day after Thanksgiving

December 25 — Christmas Day (Sunday)

December 26 — Day after Christmas

Year 2006

January 1 — New Year's Day (Sunday)

January 2 — Day after New Year's Day

Your Questions So What Is in Store for 2006?

By Kathy Hower, CFP®

Many of you are beginning to wonder about the changes ahead for 2006. While most tax provisions will not be finalized until closer to year-end, here are answers to some of your tax-related inquiries as estimated by CCH Inc., a federal tax publication.

Q: What changes will be reflected on my tax return for 2006?

A: For starters, the standard deduction for joint filers will increase from \$10,000 to \$10,300; for single filers, from \$5,000 to \$5,150; and for dependents, from \$800 to \$850. The itemized deduction phase-out will increase by \$4,550, beginning at \$150,500 for joint and single tax filers. Personal exemption amounts will increase from \$3,200 to \$3,300. The personal exemption phase-out will begin at an adjusted gross income (AGI) of \$225,750 for joint filers (a \$6,800 increase) and at an AGI of \$150,150 for single filers (a \$4,550 increase).

Q: Will there be a change in the estate and gift tax provisions for 2006?

A: The maximum annual gift that you can make to another individual without incurring a gift tax will increase from \$11,000 to \$12,000, while the maximum lifetime gift amount (over

and above the \$12,000 annual exclusion) will remain at \$1 million. The Federal estate tax unified credit amount will increase from \$1.5 million to \$2 million.

Q: Will I be able to increase my retirement contributions in 2006?

A: Contribution levels for 2006 are:

401(k), 403(b), 457 – \$15,000. Catch-up* is \$5,000.

Defined Contribution Plan – the lesser of 25 percent of compensation or \$43,000. Catch-up is \$5,000.

Solo 401(k) – 100 percent of salary, up to \$15,000; then 25 percent of salary above \$15,000, a maximum of \$43,000. Catch-up is \$5,000.

SEP IRA – The lesser of 25 percent of compensation or \$43,000.

Traditional and Roth IRA** – \$4,000 (same as 2005). Catch-up is \$1,000 (an increase of \$500.)

* Catch-up is the additional amount allowed for individuals age 50 and over.

** Both joint and single tax filers who wish to convert their traditional IRA to a Roth must have an AGI of \$100,000 or less (no change).

Contact Kathy if you have questions or would like additional information regarding this topic.

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