BEDEL FINANCIAL CONSULTING, INC.

Financial Planning and Investment Management

Winter 2004

Changes Abound in 2004

By: Bill Howell, CPA, CFP®, Portfolio Manager

It is almost a rite of passage in the financial arena that we must become familiar with a new round of changes as the new year unfolds. Here are some of the more important changes that impact many facets of our financial lives for 2004.

Health Savings Account (HSA). This is a big development in medical plans for 2004. To be eligible, you must be enrolled in a high-deductible medical plan (minimum of $1,000 for individual coverage and $2,000 for family coverage) and your maximum out-of-pocket expenses cannot exceed $5,000 for individuals and $10,000 for families. In other words, if you have a basic health plan that covers the costs associated with most illnesses and has low-deductible or co-pay requirements, you would not be eligible for a HSA. If you have plans that provide dental, vision, long-term care or disability benefits, however, you will still be eligible for a HSA. HSA contributions are tax-deductible up to $2,600 for self-only and up to $5,150 for families. Individuals born prior to 1950 can deduct an extra $500 in 2004. Withdrawals are tax-free as long as the funds are used for medical expenses. Any income earned on the account balance is not taxed and any unused balance can be carried over to the next year. Employers can deduct contributions to employees HSA's as long as they are offered to all eligible employees.

Long-term care insurance. You will be able to deduct a greater amount of this premium as a medical expense on your tax return for 2004 (subject to the floor of 7.5 percent of adjusted gross income). Individuals age 71 and above will be able deduct as much as $3,250 per person. Lower deductible limits apply to those under age 71.

Estate planning. The estate exemption amount increases by $500,000 to $1,500,000 for 2004. For estates valued at more than $2 million, the top tax rate falls to 48 percent. The generation-skipping exemption amount increases to $1.5 million.

Retirement plans. The maximum elective deferral limit to 401(k), 403 (b), and 457 Plans has increased to $13,000, $16,000 for those age 50 or over. The annual contribution limit for Simple IRA's is $9,000, $10,500 for those age 50 and over. The defined contribution limit for Keogh's and profit-sharing plans is $41,000, up $1,000 from 2003.

General Tax Deductions. In 2004 the personal exemption for taxpayers and dependents increases to $3,100 each. The standard deduction for individuals under age 65 increases to $9,700 for married couples, $4,850 for singles and $7,150 for heads-of-household. Children under age 14 can now receive $1,600 of investment income before it is taxed at the parents' rate.

The taxable income brackets for individuals expanded by 2.3 percent in 2004. See the table below:

Tax Bracket	Singles	Married
10%	Up to $7,150	Up to $14,300
15%	Up to $29,050	Up to $58,100
25%	Up to $70,350	Up to $117,250
28%	Up to $146,750	Up to $178,650
33%	Up to $319,100	Up to $319,100
35%	Over $319,100	Over $319,100

Social Security. The social security wage base increases $900 in 2004 to $87,900, but the actual tax rate stays the same (6.2 percent of the wage tax goes to FICA and 1.45 percent of all wages go toward Medicare). Individuals between the ages of 62 and 65 and four months who currently receive social security benefits, can earn up to $11,640 before benefit amounts are reduced. Individuals reaching age 65 and four months in 2004, can earn up to $31,080 before benefits are reduced. The normal retirement age for social security increases in 2004—individuals who turn age 62 in 2004 will be eligible for full social security benefits upon reaching age 65 and 10 months.

Mileage deductions. The standard mileage deduction for 2004 is 37.5¢ per mile and the rate for medical travel and charity travel is 14¢ per mile.

This covers many of the changes for the year ahead. Keep them in mind as you review your financial plans.

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

In This Issue

Industry News

Keys to Predicting the Economy's Direction

By: Bill Wendling, CFA, Portfolio Manager

At the beginning of every year, pundits proclaim their stock market predictions for the year ahead. Rarely, however, do they reveal the accuracy of their predictions from the previous year. Still, it is entertaining to listen to them.

Do you think you have what it takes to accurately predict the direction of stocks for the rest of 2004 (at least as accurately as anyone else)? We think so. The following keys provide clues to the direction the economy is taking. Once you can accurately and consistently predict the direction, you are well on your way to quick, risk-free, stock market wealth. Good luck!

Consumer Price Index (CPI). The CPI gauges the direction of U. S. prices (inflation). While inflation remains within or below a comfortable range of 2 to 3 percent, the Federal Reserve is likely to leave interest rates low. Low rates are conducive to an eventually strong economy. When inflation rises, interest rates eventually rise to act as a brake on the economy. The low inflation of the 90s led to higher corporate investment and the evolution of the Internet, while the high inflation of the 70s led to bank defaults and energy concerns.

Inventories. Businesses try to predict demand so they can control supply and ultimately, costs. When they foresee a rise in demand, they increase inventories to meet future anticipated demand. Therefore, a rise in inventory levels can suggest increased confidence in the business sector. But increased inventory levels can also be attributed to lower than expected demand, which could be a leading indicator of an economic slowdown.

Consumer Expectations. Investors also use consumer behavior to predict stock market changes. If consumers expect a slow economy, they tend to be more conservative, postponing unnecessary purchases. If consumers expect a strong economy, they will be more prone to take a second mortgage on their home to fund a ski trip to Vail. This indicator, in effect, can be self-fulfilling.

U. S. Presidential Election Cycle. Yale Hirsch theorizes that U.S. stock markets are weakest in the year following the election of a new president and then continue to improve until the next presidential election. Since 2004 is the last year in the current cycle, this theory suggests stocks will advance. Already, speculation abounds that Alan Greenspan will leave federal funds rates alone in an effort to minimize his impact on the economy and not interfere with the upcoming election. (http://www.investopedia.com/terms/p/presidentialelectioncycle.asp).

If all of these indicators leave you more confused than before, consider this next one.

Super Bowl XXXVIII. If a team from the NFC wins the Super Bowl, the market will go up for the year. If a team from the AFC (Colts) wins, the market will go down. This indicator has been accurate more than 80 percent of the time. Remember this, the next time you hear someone say, "Go Colts!" (http://www.businessweek.com/magazine/content/03_08/c3821131.htm).

Whatever indicator you choose to use, keep in mind that past performance is not a guarantee of future performance. The key to financial success is to not try and outthink the market, but rather to maintain a disciplined long-term approach.

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

From Elaine

Reviewing the Past—Preparing for the Future

2003 was certainly an "interesting" year, with a broad range of both positive and negative factors that makes it difficult to classify. The performance of the stock market was one of the year's highlights and a welcome relief from the previous three years. Another positive—the economy started back on the road to recovery. At the opposite end of the spectrum, however, the loss of thousands of jobs has made it a rough road for those seeking employment. And it goes without saying that the mutual fund scandals were definitely one of the year's lowlights.

If there is a lesson to be learned from 2003, it is that we cannot predict the future. We need to always be prepared for the unexpected. In fact, preparation is the theme of this particular newsletter. Our Feature article will give you information on changes for 2004 to help in your planning process. If you ever wonder how the "experts" predict the future, you will gain some insight from our Industry News article. Our Client Dream—Client Reality article reinforces the importance of preparing for an untimely demise, and as always, we address some of your concerns in Your Questions.

Speaking of preparation… congratulations if you have completed your 2003 tax return. If not, you still have a few more weeks. You should have received a statement from us in January indicating the fees you have paid during 2003 for financial planning and investment management services. Be sure to include these fees on your Schedule A in the "Miscellaneous Deduction" section along with any tax preparation fees.

While you are preparing your tax return, keep in mind that you have until April 15 to make a contribution to your IRA for year 2003. Those who are under 50 years of age and those 50 years or older can contribute \$3,000 or \$3,500 respectively. Whether your contribution is deductible on your income tax depends on both your adjusted gross income and whether you participate in a qualified retirement plan, but you need to complete a Form 8606 with your federal tax return regardless. This form tracks your non-deductible contributions and indicates the funds that you can withdraw from your IRA tax-free during your retirement. Without this accounting, you may mistakenly pay taxes again on your non-deductible contributions.

Client Dream — Client Reality

Will Your Financial Legacy Be a Blessing or a Nightmare?

By: Dawn Morley, MBA, Portfolio Manager

One of my favorite Clint Eastwood lines is, "Dying ain't much of a living!" And, remember the old cliché, "There are only two things certain in this world, death and taxes." The truth is even after we are gone, our financial legacy continues. If we do not help our loved ones, we may not only turn their lives into a living nightmare, we may also leave behind unclaimed assets. It is human nature to think about death only when we are ill.

However, if you die unexpectedly, will your finances be in order? It is important to give your loved ones a road map to your financial affairs. Create a list detailing the location of necessary documentation and accounts and update it regularly. Keep this information in a safe place, divulge its location to key people and give a copy to your attorney.

Legal Documents. List the location of your will, trust documents, living will and powers of attorney. Copies should be kept with your attorney. List your attorney's name and contact information.

Financial Accounts. Sometimes these accounts have a small death benefit. List bank account names and account numbers. List investment and retirement accounts with account numbers. List the names of your financial planner and/or investment professional and contact information.

Loans & Credit Cards. List any personal loans, names of creditors with contact information and credit card companies with account numbers.

Insurance. List all policies including homeowners, auto, life, health, disability and long-term care along with the name of the company, policy number and contact information.

Real Estate Property. List the location of the deed, mortgage holder and title insurance carrier.

Taxes. List the name of your tax preparer and contact information. List the location of historical tax records.

Safe-Deposit Boxes. List the name and location of the bank and include the contents of the lock box. Provide the location of the key for the lock box. Consider listing a loved one as a co-owner of the safe deposit box. Do not leave documents in the safe-deposit box that would need to be immediately accessible after your death.

Other Assets. List hard assets that are not located in obvious places, i.e. items in storage or hidden cash.

Health Care. List name of physicians, medications and dosages, drug allergies and medical history. This is important if you are seriously injured and do not die.

Funeral and Burial. List your specific wishes or prearranged information.

Other Important Information. List driver's license number, social security number, vehicle registrations, names of friends and family with contact information, e-mail accounts and passwords, locations of keys and combinations to safes and combination locks.

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

As we begin this new year, we want to express our gratitude to all of you. Thanks to you, Bedel Financial Consulting completed 15 years of service as of year-end 2003. We sincerely appreciate the confidence you have expressed in us by referring your business associates, friends and family members to our financial planning and investment management services. We look forward to continuing our client relationships for many years to come. Remember that all of us at Bedel Financial Consulting are here to assist you in any way that we can.

So let us all look forward to year 2004, knowing that although we will surely encounter the unexpected along the way, we will be prepared.

Sincerely,

Elaine

Elaine E. Bedel, CFP®

Your Questions

Making Changes and Getting Current

By: Julie Gilliam, Financial Planning Specialist

Q: To finance my son's college education, I put money into the 529 Plan. He just received a big scholarship – what happens now?

A: Do not worry—there are options available to you if he does not use all the savings from the 529 Plan. Your first option is to withdraw a dollar amount from the account equal to the amount of his scholarship. You will not be required to pay the 10 percent penalty usually assessed for a non-qualified (non-education) withdrawal, but you will need to pay taxes on the investment portion of the amount withdrawn. Or, if excess funds remain in the account after your son completes his education, you can change the beneficiary of the account to another member of your family—his younger sister, perhaps. There are specific rules that govern the process you need to follow if you choose this option. Be sure to review them carefully.

Q: I have already reviewed my savings plans, including retirement and education, for the year. What else can I do to get my financial paperwork in order?

A: Something that most people put off indefinitely is compiling a household inventory for their homeowners insurance. A videotape, photographs, digital pictures on CD or just a detailed list can be a great help if you have to file an insurance claim. Be sure to inventory your basement, attic, garage and any outside storage areas as well. Include original costs, dates of purchase and approximate replacement values on all items on your list. Keep copies of receipts for high-priced items: computers, furniture, appliances, etc. Do not forget to date the list and update it regularly with sales and purchases. When finished, keep a duplicate copy in your safe-deposit box. Some insurance agents will also keep a copy on file if you request it. Once you have all the information gathered and updated, review your current insurance policy to see if your coverage is sufficient.

Contact Julie Gilliam if you have questions or would like additional information regarding these topics.

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Corporate Calendar

Bedel Financial Consulting will be closed for business on the following days:

Year 2004

Memorial Day - May 31

Independence Day - July 4 (On Sunday) – will close on Monday, July 5

Labor Day - September 6

Thanksgiving - November 25

Day after Thanksgiving - November 26

Christmas Day - December 25 (On Saturday) – will close on Friday Christmas Eve – December 24

Year 2005

New Year's Day - January 1 (On Saturday) – will close on Friday New Year's Eve – December 31.

ADV Form Request

As one of our clients, you have the opportunity to request the latest update of Bedel Financial Consulting, Inc.'s ADV Form Part II, as required by the Security and Exchange Commission. Please let us know if you would like to receive the latest version.

Thank you!

Thank you for your patience in waiting with us for SBC to correct their snafu and list us in the Business Section of the White Pages. We finally made it!

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