

# Your Money Your Future

Retirement planning strategies and personal finance tips from HealthSHARE – administrators of your THA Retirement Plan.

Texas Hospital Association Retirement Plan  
Summer 2010



## Quarterly Update

### 2010 Update – Second Quarter

#### Capital Markets Update

Financial results for the equity markets for the second quarter were discouraging. Following strong 2009 and first quarter 2010 performances, caution and uncertainty crept back into the investor psyche. International credit issues, persistent high unemployment and growing regulatory mandates facing unsure employers pushed market momentum and cash to the sidelines. Has the recession not really ended, or is this just a pull-back before resuming sustained economic growth? The following good news would advocate for the latter: low interest rates; improving corporate earnings and balance sheets; price-to-earnings ratios at near historic lows; low CD rates; European spending cutbacks; positive GDP; and high but trending down unemployment. The S&P 500 index was down 11.43 percent for the quarter. However, it has risen almost 14.5 percent from a year earlier. Small-cap stocks did slightly better, with the Russell 2000 Index losing 9.9 percent. Global equity indices suffered as well, with the MSCI EAFE Index and Emerging Markets Index experiencing a quarterly decline of 13.9 percent and 8.4 percent, respectively. Fixed income investments were safe havens, advancing 3.5 percent for the quarter, and the Federal Reserve kept its target rate at the December 2008 level of 0 - 0.25 percent.

#### Master Trust Update

The THA Retirement Plan master trust declined 8.35 percent during the second quarter and is down 3.74 percent year to date. The portfolio allocation was approximately 70 percent equity and 30 percent fixed income securities. On a 12-month basis, the master trust gained 12.5 percent. The overall asset base is allocated among large-cap stocks, small-cap stocks, foreign stocks and fixed income/cash equivalents. Trust fund assets were more than \$385 million at the end of the quarter.

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## Good News, Bad News on Credit Card Reform

Consumers have seen some major benefits since the passage of the Credit Card Accountability, Responsibility and Disclosure Act of 2009, including the elimination of most of the practices deemed “unfair” or “deceptive” by the Federal Reserve, according to a recent report from the Pew Health Group’s Safe Credit Cards Project. Unfortunately, it’s not all good news: the report also noted a rise in new trends that could cost cardholders significantly.

The report finds that issuers have eliminated practices such as “hair trigger” penalty rate increases (disproportionate charges for minor account violations), unfair payment allocation and raising interest rates on existing balances. However, Pew’s research also highlights a sharp rise in cash advance fees, continued widespread use of other penalty interest rates and an emerging trend of credit card companies failing to disclose penalty interest rates in their online terms and conditions.

The study, *Two Steps Forward: After the Credit CARD Act, Cards Are Safer and More Transparent – But Challenges Remain*, is the latest in a series of reports from the Pew Safe Credit Cards Project that has examined all consumer credit cards offered online by the nation’s 12 largest banks and 12 largest credit unions. Together these institutions control more than 90 percent of the nation’s outstanding credit card debt. For this latest report, which measures how the industry has changed since the passage of the Credit CARD Act, Pew gathered data in March 2010 on nearly 450 cards.

“Although we applaud changes by the card industry to create a fairer and more transparent marketplace, our research shows that some challenges remain,” said Nick Bourke, director of Pew’s Safe Credit Cards Project and report co-author. “For the first time, we have seen credit card disclosures warning consumers that interest rates could go up as a penalty for certain actions, but not stating how high those rates could go. Federal regulators should pay attention to this problematic new trend. When issuers withhold vital pricing information, it leaves cardholders in the dark and puts their financial security at risk, which is why federal regulations have long required issuers to disclose their rates and fees up front.”

Full details can be found at [www.pewtrusts.org/creditcards](http://www.pewtrusts.org/creditcards). 



# What's Up with Your Taxes?

If you thought your taxes were complicated, be thankful you aren't a member of Congress. As fall approaches, Congress has a multitude of tax-related issues to address. If lawmakers don't act, estate taxes will return, the alternative minimum tax will affect millions more taxpayers, and tax rates will rise for everyone.

As things stand, the now-lapsed estate tax will return in January 2011. Under current law, there is no federal estate tax, but heirs who sell appreciated assets they inherit face capital gains taxes they could have avoided in the past. Under the 2009 rules – which President Obama favors restoring – the first \$3.5 million of an estate was exempt from federal estate tax and the top tax rate was 45 percent. If Congress takes no action, the estate tax will return with a basic exemption of \$1 million and a top rate of 55 percent.

Additionally, the alternative minimum tax, which was created to prevent the wealthiest households from taking so many deductions that they ended up owing little or no income tax, may affect an additional 21 million taxpayers. Because the AMT is not indexed to inflation and because of recent tax cuts, an increasing number of middle-class taxpayers have been hit with this tax.

Finally, perhaps the most pressing issue relates to the tax cuts enacted in 2001 and 2003, which are set to expire this year. President Obama favors letting them expire for families that make \$250,000 or more, but not everyone supports this idea. If Congress can't come to an agreement, tax rates will revert back to their 2001 levels, meaning everyone's taxes will go up. **3**

## Quarterly Update continued from page 1

### Participant-Directed Program Update

The THA Participant-Directed Program offers 20 fund options from which employees may develop an investment plan to meet their specific retirement desires and goals. Open to defined contribution plans, it offers online access and comprehensive support through Milliman Inc. at [www.millimanbenefits.com](http://www.millimanbenefits.com). The participant-directed program also met stiff resistance during the second quarter. All equity-based funds experienced negative gains but were in line with their respective benchmark objectives. Fixed income funds proved

a safe bet as the Prudential, Schwab and PIMCO funds had positive performances. Total fund assets were more than \$52 million.

The THA Retirement Plan will hold its next board meeting on Aug. 27 at the Texas Hospital Association headquarters building at 1108 Lavaca St. in Austin. For more information, please contact Fred Hamilton at [fhamilton@tha.org](mailto:fhamilton@tha.org) or 512/465-1082. Visit [www.healthshare-tha.com/tharetirementplan](http://www.healthshare-tha.com/tharetirementplan) for additional information about the THA Retirement Plan. **3**

| Master Trust Performance | 2Q10          | YTD           | 1 YEAR         | 3 YEAR        | 5 YEAR       |
|--------------------------|---------------|---------------|----------------|---------------|--------------|
| Master Trust Fund        | -8.35 percent | -3.74 percent | -12.55 percent | -5.24 percent | 1.42 percent |
| *Custom Benchmarks       | -7.79 percent | -3.34 percent | 13.77 percent  | -5.41 percent | 1.49 percent |

\*Combined Indices: S&P 500, Russell 2000, MSCI EAFE and Barclays Capital Aggregate Bond

| PDRP Funds Performances                | 2Q10          | YTD           | 2Q10                                     | 2YTD                       |
|--|---------------|---------------|--|----------------------------|
| <b>Equity Managers</b>                 |               |               | <b>LifePath (Target Date) Funds</b>      |                            |
| Schwab S&P 500 Index                   | -11.4 percent | -6.6 percent  | BlackRock LP Retirement                  | -3.1 percent -0.4 percent  |
| Thornburg Value                        | -13.3 percent | -9.1 percent  | BlackRock LP 2020                        | -6.4 percent -3.3 percent  |
| American Beacon Large Cap Value        | -11.9 percent | -6.1 percent  | BlackRock LP 2030                        | -8.8 percent -5.5 percent  |
| Growth Fund of America                 | -11.7 percent | -8.0 percent  | BlackRock LP 2040                        | -10.8 percent -7.3 percent |
| Goldman Sachs Mid Cap Value            | -11.0 percent | -3.4 percent  | Blackrock LP 2050                        | -10.9 percent -6.7percent  |
| Columbia Acorn                         | -9.7 percent  | -3.1 percent  | <b>Fixed Income Managers</b>             |                            |
| Wells Fargo Advantage Small Cap Growth | -11.4 percent | -1.3 percent  | Schwab Retirement Advantage Money Market | 0 percent 0 percent        |
| <b>International Equity Managers</b>   |               |               | Prudential Guaranteed Income             | 0.95 percent 1.91 percent  |
| Dodge & Cox International Stock        | -14.0 percent | -10.8 percent | Schwab Stable Value                      | 0.6 percent 1.16 percent   |
| Lazard Emerging Markets                | -9.0 percent  | -3.6 percent  | PIMCO Total Return                       | 2.7 percent 5.6 percent    |
| <b>Balanced Manager</b>                |               |               | PIMCO Real Return                        | 3.7 percent 4.9 percent    |
| Oakmark Equity and Income              | -8.0 percent  | -3.68 percent |  |                            |

## Is a Certificate of Deposit Right for You?

With interest rates on savings accounts hovering between 1 and 2 percent, savvy savers are looking for alternate places to park their cash. One popular choice is a certificate of deposit, which typically earns more – sometimes much more – interest than a regular savings account. CDs are held for a specific term (often three months, six months or one to five years), and, usually, at a fixed interest rate. If you leave the money alone during the investment period, you can withdraw it along with the accrued interest. If you are considering investing in a CD, ask yourself the following two questions:

- **How soon will you need the cash?** You don't want to withdraw your money before the term is up – the penalties for early withdrawal can be severe.
- **What are interest rates doing?** While longer-term CDs have higher interest rates, you don't want your money to be tied up for years if interest rates rise.

Other options besides a traditional CD include a bump-up CD, in which you may swap your CD's interest rate for a higher one if rates on new CDs of similar duration rise during your investment period, and a liquid CD, which allows you to withdraw part of your deposit without paying a penalty. Additionally, you may wish to consider laddering, in which you divide your lump sum into equal parts and invest each in CDs of varying durations. For more information or to compare CD rates at banks across the country, go to Bankrate ([www.bankrate.com](http://www.bankrate.com)). **S**

## When Converting to a Roth IRA Isn't the Best Idea

With the elimination of income limits on Roth IRA conversions, many people are considering converting their traditional IRAs into Roth IRAs. The main benefit of a Roth IRA versus a traditional IRA, of course, is that Roth IRA withdrawals are tax-free in retirement. For many people, conversion is indeed a wise decision – but for others, it is not. How do you know which camp you fall into?

Perhaps the biggest issue relates to the immediate tax implications. Because you have been making contributions to your traditional IRA without paying taxes on them, now you have to pay up. You have two options: 1) you can pay those taxes from the balance of your IRA account, which eats into your retirement savings and may result in additional interest and penalties if you are under the age of 59½ at the time of conversion, or 2) you can pay them from an outside source, such as a savings account. Obviously, this can be a big chunk of cash and may wipe out much of your savings, or even worse, you may not have the money available. There is good news, however: the IRS is allowing taxpayers a one-time opportunity to spread out the payment of taxes due on a Roth conversion in 2010 over 2011 and 2012.

There are additional considerations. If you're retiring soon, it won't pay off to convert, as it can take 15-20 years for the tax-free growth of a Roth IRA to make up for the taxes paid at the time of conversion. Also, most people fall into a lower tax bracket when they retire, so do some calculations on how much you'd really benefit if you convert. Finally, because the distribution from your traditional IRA into a Roth is treated as income, it might actually put you in a higher tax bracket for 2010. Talk to your financial advisor to decide what's best in your situation. **S**



## Healthy, Wealthy and Wise



### SPF Explained

Ah, summertime in Texas. As the temperature goes up and the sun beats down, one item flies off the shelf at stores across the state: sunscreen. Deciding which sunscreen to buy can be puzzling, however, especially as manufacturers produce sunscreens with higher and higher SPFs. Is it the higher the better, or can there be too much of a good thing?

According to the Skin Cancer Foundation, most sunscreens with an SPF of 15 or higher do an excellent job of protecting against ultraviolet rays. SPF, or sun protection factor, is a measure of a sunscreen's ability to protect against ultraviolet B rays, which cause sunburns (but not ultraviolet A rays, which are more closely linked to deeper skin damage). Here's how it works: if it takes 20 minutes for your unprotected skin to start turning red, using an SPF 15 sunscreen theoretically prevents reddening 15 times longer (about five hours). Keep in mind that this is an average. For someone who's prone to burning, a sunscreen labeled SPF 30 may act more like an SPF 15, and for another person, the same product may act like an SPF 50.

Another way to look at it is in terms of percentages: SPF 15 blocks approximately 93 percent of all incoming UVB rays, SPF 30 blocks 97 percent, and SPF 50 blocks 98 percent. They may seem like negligible differences, but if you are light-sensitive, or have a history of skin cancer, those extra percentages make a difference.

Regardless of the number on the bottle, it's important to use the proper amount of sunscreen. The average person needs about 1 ounce – or a shot glass full – to cover the body. Studies show that most people apply only half to a quarter of that amount, which means the actual SPF they have on their body is lower than advertised. **S**



## Houston and Dallas among Most Charity-Conscious Cities

Even in the recession, millions of Americans will donate more than \$300 billion to charities this year. But do those donors know in which cities nonprofits are spending less to court their support and have sufficient funds to weather turbulent economic times? Charity Navigator, a website that analyzes and evaluates more than 5,000 charities in the United States, recently concluded its seventh study of the largest charities in the nation's top 30 metropolitan markets, revealing that charities in markets such as Pittsburgh, Houston and Dallas show greater overall financial health than those found in Baltimore, Detroit and Indianapolis.

In its study, Charity Navigator compared the median performance and size of the largest nonprofits in the 30 largest metropolitan markets. Those markets account for 55 percent of the 5,500 charities evaluated by Charity Navigator and generate 64 percent of the total revenue and 66 percent total spending. The study revealed that regional factors, such as the cost of living, a market's maturity and a city's tendency to support one or two specialized causes, greatly influence the ability of the charities in each city to raise money and manage costs. Pittsburgh ranked at the top of the list, followed by Houston and Dallas.



"In these difficult economic times, we know many Americans have to make tough choices regarding their ability to make charitable donations," said Ken Berger, president and chief executive officer of Charity Navigator. "Likewise, the professionals leading our nation's charities must decide how to best utilize donations to achieve maximum social impact while retaining enough funds to sustain operations beyond the recession. This study offers information that can help both donors and nonprofit leaders understand the financial strengths and weakness of each philanthropic marketplace and thus assist them in navigating through this challenging time."

For more information, go to [www.charitynavigator.org](http://www.charitynavigator.org).

### CHOOSING A CHARITY

Interested in giving to charity, but not sure which charities are legit? Two useful websites can help.

Charity Navigator ([www.charitynavigator.org](http://www.charitynavigator.org)) evaluates the financial health of more than 5,500 of America's largest charities. Charity Watch ([www.charitywatch.org](http://www.charitywatch.org)), run by the American Institute of Philanthropy, rates more than 500 charities on a scale of A+ to F. Both sites provide additional tips for finding a charity that you can feel good about supporting.

### Worthy Web Sites

**NerdWallet.com**

Wondering how your rewards card stacks up against all those others? Check out NerdWallet ([www.nerdwallet.com](http://www.nerdwallet.com)). This site, founded by a Stanford-educated hedge fund analyst and launched this past March, combs through more than 400 credit cards to find the best one for you based on the amount you generally charge each month, what kinds of things you buy and your estimated credit score. The company estimates more than 75 percent of the site's beta users found a better credit card than the one they already have, saving them an average of \$200 per year. You also can search for the best low-rate or balance-transfer cards. You don't have to register to use the site, and the service is free.

#### THA Retirement Plan

The THA Retirement Plan, sponsored by the Texas Hospital Association, provides retirement benefits for more than 15,000 health care employees in Texas. The plan is governed by a board of Successor Trustees, which makes investment decisions on behalf of the plan's participants, and is administered by HealthSHARE, a wholly owned subsidiary of THA. [www.healthshare-tha.com/tharetirementplan](http://www.healthshare-tha.com/tharetirementplan)

#### Your Money Your Future

*Your Money Your Future* is published quarterly by HealthSHARE for participants in the THA Retirement Plan. Because each person's financial and retirement circumstances are different, you should consult with a financial planning professional before implementing any ideas found in this newsletter. For specific information on your participation in the THA Retirement Plan, contact your human resources department.

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