



DEAN, DORTON & FORD

CPAs | Consultants | Financial Advisors
NEWSLETTER SUMMER 2007

Retirement Savings - How Much is Enough?

An interesting research paper published by the investment firm Alliance Bernstein's Wealth Management Group is titled "Retirement: Plan Early and Often." Among the issues it deals with are how much is needed for a comfortable retirement and the importance of the individual's or family's spending rate. Consider the following table from Bernstein's paper which shows how much a married couple of the same age needs in investment assets (excludes residence and other personal use assets) at specified spending levels and specified retirement ages, assuming a 60% stock and 40% bond (both highly diversified) portfolio mix and based on a 90% confidence level that the portfolio will be sufficient to last until death.

How much do you need to retire?

Retirement Age	55	60	65	70	75
Spending Rate*	3.4%	3.6%	3.9%	4.3%	5.0%

Size of Core Portfolio You'll Need (in millions)

Annual Budget*

Annual Budget*	55	60	65	70	75
\$100,000	\$2.9	\$2.8	\$2.6	\$2.3	\$2.0
\$150,000	4.4	4.2	3.8	3.5	3.0
\$200,000	5.9	5.6	5.1	4.7	4.0
\$300,000	8.8	8.3	7.7	7.0	6.0
\$500,000	14.7	13.9	12.8	11.6	10.0

* Spending rates as a percentage of investment assets at the various ages; annual (after-tax) budgets are grown with inflation.

The table tells us, for example, that for someone retiring at age 65 and desiring \$200,000 of after-tax spending money, the indicated minimum level of investment assets to provide a 90% level of confidence that it will be sufficient through mortality is \$5.1 million. The spending rate of the investment portfolio is 3.9%. If retirement is deferred until age 70, the \$5.1 million needed declines to \$4.7 million, and the spending draw-down increases to 4.3%. Note that this data only relates to the investment portfolio and does not reflect the extent to which additional spending can be funded by social security or other noninvestment income.

Bernstein properly points out that many variables impact this type of analysis. Among these are:

- the mix of taxable and tax-deferred investment assets (the table above assumes 75% taxable and 25% tax-deferred; but if a mix contains more tax-deferred, a larger total is needed to cover income taxes as the tax-deferred account is drawn down).
- the portfolio's concentration (a higher concentration/lesser diversification reduces the 90% level of confidence that the assets will be sufficient).
- income tax brackets.
- gender and marital status (in relation to life expectancies).

In future issues we'll share more of Bernstein's research results.

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Control Procedures for Accounts Payable and Purchases

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Continuing our "Top Ten" series on business internal controls, we have 31 questions on our accounts payable and purchases internal controls checklist. My top ten are:

1. Are your requisitioning, purchasing, and receiving functions segregated from invoice processing, accounts payable, cash receipts and disbursements, and general ledger functions?
2. Is purchasing separated from requisitioning, shipping, and receiving functions?
3. Are your employees with purchasing and accounts payable responsibilities required to take vacations, and are other employees required to perform those functions when an employee is absent?
4. Is access to your computerized vendor and accounts payable records limited to those with a logical need for such access?
5. Are your following documents (including unused forms) prenumbered with the sequence controlled and accounted for:
 - (1) Purchase orders?
 - (2) Receiving reports?
 - (3) Debit/credit memos?
 - (4) Shipping orders for returned goods?
6. Do you have an approved vendors list?
7. Are your purchases supported by properly authorized and approved requisitions and purchase orders?
8. Are invoices compared to purchase orders and receiving reports and reviewed for correctness of:
 - (1) Quantities received?
 - (2) Brand name and product ordered?
 - (3) Pricing?
 - (4) Clerical accuracy?
9. Do you follow-up on unmatched open purchase orders, receiving reports, and vendor invoices by a person independent of the purchasing and receiving functions?
10. Are shipping orders for returned goods matched with vendors' credit memos?

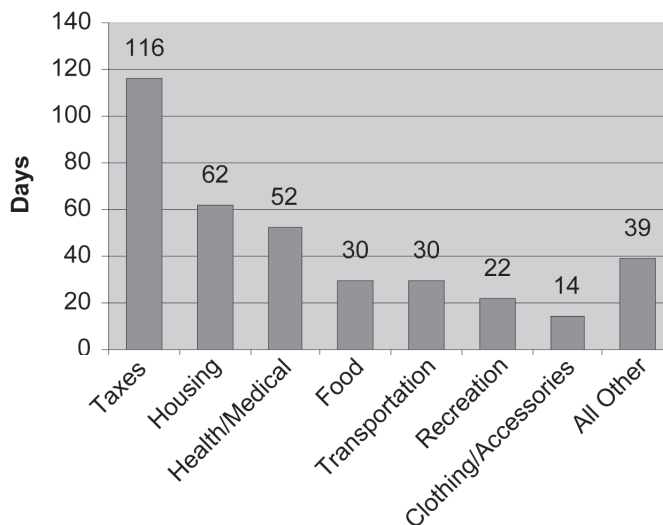
If you'd like the other 21 questions or if you'd like to discuss your company's internal controls, please call me at (859) 425-7662.

• **David Richard**, drrichard@ddfky.com

Spending By Americans

How many workdays does it take per year for the average American to pay taxes, housing, food and other expenses?

Check below – you may be surprised!



This chart, based on data compiled by The Tax Foundation, www.taxfoundation.org, shows the number of days' worth of income it took the average American to pay for the categories of expenses shown. The "All Other" grouping is net of a two-day negative rate for savings

Health Savings Accounts Gaining Popularity

We are observing increased usage of Health Savings Accounts (HSAs), either as an option in connection with employer-sponsored medical insurance plans or by self-employed individuals. Essentially, HSAs involve a deductible (if paid by the employee or self-employed person) or nontaxable (if paid by the employer) contribution to the HSA, a tax-free buildup of earnings on the HSA funds, and no tax consequences when distributions are made from the HSA (as long as the distributions are used to fund what otherwise would be deductible medical expenses).

In some respects, HSAs operate much like a qualified retirement plan in that the initial funding is either deductible or tax-free and the earnings on the funds contributed are nontaxable, but in the case of HSAs the eventual payment of medical expenses is nontaxable to the account owner. Considering the nondeductibility of medical expenses unless they exceed 7 1/2 % of adjusted gross income (for regular tax, 10% for alternative minimum tax), the use of HSAs allows those limitations to be avoided and for medical expenses to be paid with pre-tax dollars. In some respects, HSAs also are similar to a flexible spending account arrangement, except the earnings on the HSA account are nontaxable and any HSA balance at the end of the year remains in the account even if unspent for that year. HSAs may be viewed as being tax-favored savings accounts for medical expenses.

Who may participate in HSAs? First, the participant must be covered by a high-deductible health plan (HDHP). For 2007, a HDHP is one with a minimum deductible for single coverage of \$1,100 and for family coverage of \$2,200. Under such a plan, the maximum out-of-pocket is limited to \$5,500 for single coverage and \$11,000 for family coverage. These amounts are subject to annual inflation adjustments. Once HSA owners reach age 65, no further contributions can be made to the HSA. However, distributions for qualified medical expenses continue to be excludable

from gross income after the account owner attains age 65. HSA account owners cannot be covered by health insurance other than a HDHP.

Unlike flexible spending accounts, HSAs belong to the owner and are portable. As a result, for an employer-sponsored plan, if the employee changes jobs, the account still belongs to the individual and can be used to fund future medical expenses.

Contributions to an HSA for 2007 are limited to \$2,850 for single coverage and \$5,650 for family coverage. A catch-up provision for individuals who have reached age 55 by the end of the tax year increases the contribution limit by \$800 for 2007, \$900 for 2008, and \$1,000 for subsequent years. Excess contributions are subject to a 6% excise tax and are includable in gross income. If the employer contributes to an employee HSA, the contribution is treated as employer-provided health insurance coverage, resulting in it being excluded from taxable income, FICA, and FUTA.

Distributions from HSAs are tax-free as long as they are used to pay for qualified medical expenses. If used for other purposes, the distributions are taxable and a 10% penalty applies. The HSA can pay for spouse and dependent medical expenses, even if they are not covered by the HDHP. HSA distributions can be used to fund any out-of-pocket qualifying medical expenses, including deductibles and co-pays. HSA distributions can be made at any time for medical expenses incurred after the effective date of the HSA; they do not have to be made in the year the medical expense is incurred.

If you have not considered HSAs either for your company or individually, we suggest that you give these accounts consideration. Please contact us if you would like to know more about HSAs.

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www.ddfky.com/staff3.html

People News

New People at Dean, Dorton & Ford

Pierce Jones, who earned his Management of Information Systems degree from Buena Vista University of Iowa, has joined our technology consulting group. Pierce comes to us from General Electric, where he served as an IT Responsible Analyst.

Matthew Holt has joined our firm after a year of public accounting experience. Matt has a bachelor's degree in Sociology from the University of Kentucky and a masters degree in Criminal Justice from Eastern Kentucky University, and he completed his accounting curriculum at Northern Kentucky University.

Chris Purvis, a CPA with two years of public accounting experience and a University of Kentucky graduate, is joining DDF and relocating from Louisville to Lexington.

Jennie Liebman, a University of Kentucky student, will be doing a marketing internship with us this summer.

Joining DDF this summer are recent accounting graduates: **Allison Carter**, **Laura Ludwick**, and **Casey Kramer** from the University of Kentucky; **Jodi Garrison** and **Melissa Coomes** from Transylvania University; and **Brad Southworth** from Eastern Kentucky University.

Professional and Community Activities and Accomplishments

Dean, Dorton & Ford co-sponsored the American Cancer Society's 2007 Fayette County Relay for Life and had a team of 30 who actively participated in the event.

Jennifer Nicholson has become a licensed CPA in Kentucky.

Paula Hanson has been elected to the American Institute of CPAs Board of Directors.

The matters discussed in these articles provide general information only. You should consult with us about your specific situation before undertaking action based on such general information.

Dean, Dorton & Ford, PSC Still the Place to Be in 2007

We are pleased to announce that Dean, Dorton & Ford, PSC has once again been named one of the "Best Places to Work in Kentucky." In 2005, we ranked fourth in the medium company category, made up of companies which employ 25 to 249 people. In 2006, we moved up to third. Continuing this upward trend, we have been ranked second for 2007, making us the highest-positioned CPA firm in Kentucky for the third consecutive year. The selection process is based on an assessment of the company's employee policies and procedures and the results of an employee survey conducted by an independent organization.

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Our management team works hard to create and maintain a work environment which includes challenging and diverse work assignments, teamwork, professional development, mentoring and coaching, and attractive compensation opportunities, and we are gratified that our employees have acknowledged and appreciated these efforts.



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