Coping With Financial Losses

Q: My elderly parents lost a substantial portion of their savings and need my help. Are there any tax breaks for providing my parents with financial support?
A: Not exactly. But there are tax-smart ways to help your parents, including:
Make a gift. In 2009, you may give as much as $13,000 to another person ($26,000 to a couple) free of federal gift tax. Higher amounts are subject to federal gift tax..
Pay the bills. You can pay your parents' medical bills without triggering the gift tax, no matter how large the bills are. Just make sure to pay the medical provider directly.
A family loan. Your parents may insist on paying you interest on money they borrow from you. Consider a below-market interest rate that matches the Applicable Federal Rate (AFR). The IRS publishes the AFR on irs.gov.
Claim your parents as dependents if you pay for more than half of their living expenses and they have annual taxable income of less than $3,500, not including Social Security benefits. Each dependent you claim in 2009 reduces your taxable income by $3,650.

Q: Since last year I've lost more than 40% of the savings in my workplace retirement plan. Why should I keep contributing to it?
A: It's natural to question the value of investing in your plan following the market's historic losses. But the downturn hasn't changed the fact that investing in an age-appropriate mix of stock, bond and cash investments offers you the best chance to reach your long-term goals. What's more, your plan's advantages are still too good to pass up.

Contributions to a traditional plan reduce your taxable income, providing an immediate tax break. Your plan also allows you to defer taxes on investment growth until you withdraw the money in retirement—potentially an enormous benefit. Plus, employer matching contributions, if offered, may give your savings an additional boost. It is important to note that withdrawals prior to age 59 ½ may be subject to federal tax penalties.

Although the bear market may be unnerving, stocks continue to offer the best chance for long-term growth. Consider that the S&P 500 produced an annualized gain of 8.43% during the 20 years through 2008—far more than bonds or cash—even including last year's historic decline.[1] And holding stocks for long periods reduces the risk of losses: The S&P 500 hasn't lost ground during any 20-year period since 1926.[2]

Keep in mind that when the market recovers it tends to post big gains quickly. Continuing to participate in your workplace plan will enable you to reap the benefits if and when that happens.