

Personal Wealth Report

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Money Management

Do's and Don'ts for Investors

As with most things in life, there's a right way and a wrong way to invest your money. If you do things the right way, you increase your chances for investment success. But if you do things the wrong way, you can end up throwing good money after bad. Here are some common "do's and don'ts" for investors to follow.

Do avoid unnecessary risks. You may seek to diversify your portfolio to avoid the risks associated with a large investment in a single "category." For instance, your portfolio may include such different investment vehicles as mutual funds, money market funds, stocks, bonds, annuities, United States savings

bonds, Treasury obligations and certificates of deposit (CDs)—just to name a few of the possibilities.

Note: Diversification does not eliminate the risk of investment losses.

Also, remember to diversify within the different classes of investments. For instance, instead of investing in one mutual fund, you might spread out your investment dollars among several types of funds.

Don't be overly conservative. The uncertainty of the stock market has been well documented. But awareness of this potential volatility can lead to a problem of a different sort: being too conservative. Based on the historical performance of

the S&P 500, it may be reasonable to allocate a significant portion of your portfolio to the equities market.

Of course, past performance is no guarantee of future results. Furthermore, changes in your personal situation or economic trends may dictate a shift in your allocation of assets.



Do broaden your investment portfolio. (*continued on page 3*)

Insurance Ideas

There's More Life in Survivorship Insurance

Despite rumors of its demise, the need for survivorship life insurance—also called "second-to-die" insurance in some cir-

cles—remains critical in the wake of recent revisions in the estate-tax law.

Basic premise: With a survivorship policy, both spouses are insured under the policy, but no proceeds are paid when the first

spouse dies. Instead, all of the proceeds become payable when the second spouse dies—at a time when the family is likely to need additional funds to pay federal estate tax. Thus, the need for survivorship insurance (*continued on page 3*)

Estate Analysis

How the Probate Process Works



For many individuals, probate is as desirable as being tied up in jury duty. They know it is inevitable, but they will avoid it if they can. Yet probate is often a fairly innocuous procedure to endure. This is especially true when the decedent has a will that is properly executed.

What happens if there's no will? During the probate process the court appoints an administrator to handle the estate. This is normally the spouse or adult child of the decedent. In the absence of a will to reveal the decedent's intentions, the court applies state law to determine who should be the beneficiaries of the estate. Since this may or may not be

what the decedent would have done, a will is recommended.

So what exactly is probate? It is the legal procedure for winding up the decedent's affairs, paying debts (including medical or nursing home bills) and distributing the assets of the estate. Where there is a will, the heirs typically hire an attorney to have the will validated. During the probate process, the attorney for the estate advises the executor, who is charged with determining the assets and distributing them according to the will.

Since probate is a court-supervised process, there are legal fees and other administrative fees to be paid out of the estate. There is also the hassle and delay of a judicial process. For this reason, people often try to pass much of their estate to their heirs outside of probate. This is perfectly legal.

Case in point: Any property owned jointly with another person under a designation of "joint tenancy with a right of survivorship" will pass to the survivor automatically upon the death of the decedent without the probate process. Similarly, any assets such as

life insurance, retirement funds and bank accounts naming a beneficiary will also pass automatically without probate. In fact, if the decedent sets up a trust naming himself or herself as trustee and the heirs as beneficiaries, all of the assets transferred to the trust would pass outside of probate. Since the assets pass to the beneficiary immediately upon the decedent's death, they are never part of the decedent's estate and, thus, avoid probate.

Probate is governed by state law, so the actual process will differ somewhat from state to state. Some states have simplified probate for estates with assets under \$100,000. Others have provisions for simplified probate requiring the consent of all of the beneficiaries. In most states, probate is relatively painless, unless there is a dispute over the will or over the executor's actions.

Bottom line: Probate is not to be avoided at all costs, but it can be time-consuming for certain estates. If your family owns sizeable assets, you might investigate the benefits of a trust arrangement that can bypass probate. Be sure to obtain professional assistance in this area.

Tax Talk

Choosing the Way to Deduct State Taxes

Thanks to the new American Jobs Creation Act of 2004, individual taxpayers have a choice at tax return time—to deduct their state and local income tax or their state and local sales tax. For individual itemizers residing in states with a relatively high state income tax, the decision may be relatively easy: In most cases, it will make the most sense to deduct the state income tax. Conversely, individuals in states with no income tax or a low income tax will generally fare better by deducting state sales tax.

How can deductions for state sales tax be substantiated if receipts from early last year have not been retained? The IRS allows taxpayers to deduct either (1) the actual sales tax they paid or (2)

an amount from an IRS table plus the actual amount for any purchases of cars, boats and certain other items.



The IRS tables will be based on state-by-state consumption of residents. The IRS has provided new instructions for claiming the optional sales tax deduction on 2004 returns.

Note that it may be beneficial, in some

cases, to bunch together large purchases in the same year to maximize the deduction for state sales tax. Thus, you might decide to buy a car or another big-ticket item before the end of this year. Under the American Jobs Creation Act of 2004, the deduction for sales tax is only available for 2004 and 2005 (although this tax break may be extended to future years).

Practical advice: Unless there is a clear-cut difference, it makes sense to have the deduction for state income tax compared with the deduction for state sales tax. There is no prohibition against deducting one tax this year and the other tax next year. You should obtain professional tax assistance when it is warranted.

Do's and Don'ts for Investors

(continued from page 1) At one time, investing overseas was best left to sophisticated globetrotters. But today it is important to include international investments in your portfolio in order to balance out domestic economic trends. For instance, you may choose to invest in either (1) global or international mutual funds, (2) securities of foreign corporations or (3) American Depositary Receipts (ADRs). ADRs are certificates issued by U.S. financial institutions representing shares of foreign corporations.

Caution: There are several special risks associated with foreign investments, including problems relating to transaction requirements, conversion of currency and the possibility of political instability.

Don't overpay Uncle Sam. You may think that all the money you pocket from the sale of investments is yours. It's not. Uncle Sam still has to be paid his fair share at the end of the year.

On the other hand, you can use capital losses to offset your capital gains for

the year plus up to \$3,000 of ordinary income. With some astute tax planning, you may be able to minimize the tax damage. In addition, certain high-income taxpayers may benefit from investing in municipal bonds and/or municipal bond funds that produce tax-exempt income.

Do your homework. Simply put, there's no substitute for doing research. Although you may have been successful in the past by playing your hunches, sooner or later you are bound to guess wrong. Look over the offering prospectus and/or other information for each investment you are considering. Your financial services professional can provide assistance in this area.

Don't follow the crowd. All too often, investors jump from one investment to another looking for that hot stock or fast-rising fund. It makes more sense to plan for the long term. That is especially true when you invest in the stock market. Consider all the aspects of any investment, including past performance and the prospects for the future.

Do review your portfolio on a regular basis. You need to constantly keep an eye on market movements and other significant current events. Reason: When the situation changes for the better, you will be poised to react quickly and reap the benefits.

You can usually track your investments quite easily by checking the financial section of your newspaper. In addition, you might want to sit down and review your portfolio at regular intervals.

Don't invest more than you can afford. Give yourself a cushion if worse comes to worst. Typically, you should have a cash reserve to pay about six months' worth of expenses. In other words, you shouldn't be investing heavily in the stock market if you are worried about paying this month's utility bills.

Final word: Do seek professional assistance when necessary. Don't try to do it all by yourself.

There's More Life in Survivorship Insurance

(continued from page 1) has often been linked to estate-tax planning.

Although the cost varies among insurance companies and types of products, premiums for survivorship life insurance are generally reasonable. Since the policy is based upon the joint life expectancies of both spouses, the annual premiums are typically less than the cost of two individual policies with the same total death benefit.

Caution: In certain situations, the premiums of a second-to-die policy may increase as both spouses become older, while other policies have premium schedules that remain level year-to-year. Make sure you read all of the fine print in a particular policy.

Under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the top federal estate-tax rate is being gradually reduced in conjunction with a gradual increase in the estate-tax exemption.

After 2009, the federal estate tax will be repealed outright, only to be revived again in 2011 unless further legislation is enacted. Although the future is uncertain, survivorship insurance remains a viable solution to estate-tax concerns.



In addition, a survivorship insurance policy may be used in a variety of other situations, including:

1. The policy may provide protection against the forced sale of a closely held business or other business assets held

2. Life insurance can provide beneficiaries with income to pay estate taxes, help protect the value of your estate, replace income and minimize the debt load of survivors, and provide beneficiaries with income tax-free proceeds.

3. The policy may help meet the insured's philanthropic inclinations without a substantial reduction of other assets.

4. A survivorship policy can fund the special needs of a family member with a disability.

In short, the proceeds of a survivorship policy become available precisely at the time when the surviving family members may be most economically or emotionally vulnerable.

Of course, survivorship life insurance is not for everyone. Be sure to discuss your personal situation with your trusted insurance advisers.

Retirement Review

New Retirement Plan Limits for 2005

It happens every year. The federal government makes cost-of-living adjustments (COLAs) in certain retirement plan limits based on the current rate of inflation. With inflation staying relatively low, most of the limits have remained the same or increased only slightly in the last few years. However, it is a different story for 2005.

Good news: Almost every threshold is going up this year. The increases are essentially due to the cumulative effect of inflation rather than a one-year upswing. Furthermore, other increases in the retirement plan limits have been mandated by law. For instance, the dollar limit for 401(k) plan deferrals jumps from \$13,000 to \$14,000 under a provision in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

The table to the right is a summary of the key retirement plan thresholds.

Finally, you should be aware that the annual limit for contributions to traditional IRAs and Roth IRAs is increasing from \$3,000 for the 2004 tax year to \$4,000 for 2005. However, the annual limit on "catch-up contributions" to IRAs remains at \$500. Note: You still have until April 15, 2005 to make an IRA contribution for the 2004 tax year.

Give Us A Call!

Do you have any questions or comments about **Personal Wealth Report** or your individual situation? Please don't hesitate to contact our office. We would be glad to serve you in any way that we can.



	2004 Limit	2005 Limit
Maximum Annual Dollar Benefit For A Defined Benefit Plan	\$165,000	\$170,000
Maximum Dollar Limit On Contributions To A Defined Contribution Plan	\$41,000	\$42,000
Maximum Amount Of Compensation Taken Into Account For Qualified Retirement Plans	\$205,000	\$210,000
Dollar Limit For Definition Of "Key Employee" In A Top-Heavy Retirement Plan	\$130,000	\$135,000
Dollar Limit For Definition Of Highly Compensated Employee	\$90,000	\$95,000
Dollar Limit For Elective Deferrals To A 401(K) Plan	\$13,000	\$14,000
Dollar Limit For Elective Deferrals To A Savings Incentive Match Plans For Employees (SIMPLE) Plan	\$9,000	\$10,000
Dollar Limit For Elective Deferrals To Deferred Compensation Plans Of State And Local Governments And Tax-Exempt Organizations	\$13,000	\$14,000
Dollar Limit For "Catch-Up Contributions" To A 401(K) Plan*	\$3,000	\$4,000
Dollar Limit For Catch-Up Contributions To A SIMPLE Plan*	\$1,500	\$2,000

*Catch-up contributions only permitted for individuals age 50 or over.