

PERSONAL WEALTH REPORT



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Why You Need a Professional Guide MONEY MANAGEMENT



It's an investment jungle out there. With so many options and so many pitfalls to avoid, it's a wonder why anyone would try to go it alone. Here are several potential benefits of using a financial professional to guide you along.

*Comfort level: Everyone has a different tolerance for risk. Some investors take a relatively aggressive approach while others

have a more conservative nature. In either case, a financial professional can help you discover your personal comfort level through a combination of different types of investments. Added benefit: A professional can help you adjust your investment plan to meet changing circumstances.

*Problem solving: No matter how sound your investment plan is, you can expect a

few bumps and bruises along the way. It's good to know you can fall back on expert advice to navigate through rough waters. For instance, you may rely on a professional to help you meet short-term liquidity needs or address potential tax ramifications. Alternatively, the financial professional can direct you to another resource for problem-solving assistance.

*Realistic expectations: Frequently, novice stock investors expect to make a bundle overnight. But it's actually better to seek a consistent level of growth that takes risk factors into account—such as fluctuations in the equities market, purchasing power and global economics—as well as your investment time horizon. *(continued on page 3)*

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Is A Life Insurance Trust Right For You?

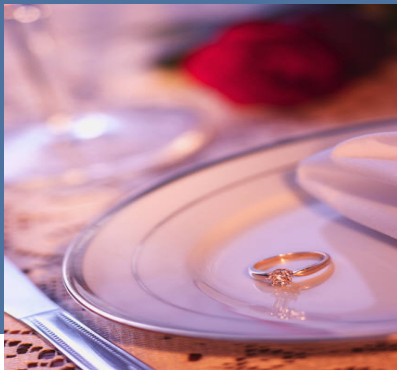
INSURANCE IDEAS

It's well known that the beneficiaries of a life insurance policy do not have to pay federal income tax on the proceeds. But what about estate tax? That may be another story.

If things are handled the wrong way, the proceeds may be substantially eroded

by federal estate tax. However, if things are done the right way, there may be a minimal estate tax bill to pay or no estate tax at all. For example, one popular planning technique is to utilize a life insurance trust. Key point: Assuming the trust is set up properly,

the insurance policy won't be in your name. Since you don't "own" the policy, it is not included in your taxable estate. Result: The proceeds can pass to the designated beneficiaries without any estate-tax erosion. That's true even if you give the trust *(continued on page 3)*



For Love, Honor and Prenuptial Agreements ESTATE ANALYSIS

Naturally, you would expect someone like Donald Trump to have his fiancée sign a prenuptial agreement before taking their wedding vows. But prenuptial agreements—sometimes called premarital or antenuptial agreements—are not just for the rich and famous. A “prenup” can be especially beneficial for someone who is getting married for the second or third time.

What exactly is a prenuptial agreement? Basically, it is a contract between an intended bride and groom. This contract lists each person’s personal and real property, and outlines a plan for distribution of that property in the event that the marriage doesn’t pan out.

It may seem unromantic for engaged couples to take steps that will provide for an orderly divorce. But here are the facts: About half of all marriages entered into today end in divorce. A prenuptial agreement actually may lessen pain and suffering in the long haul. It can also offer financial

protection for the children of a prior marriage.

Usually, a prenuptial agreement can be prepared in about the same time it takes to prepare a will. And, like a will, the agreement assures that your property will be distributed in the manner you desire. In effect, this is a form of “marriage insurance.”

The foundation of a successful prenuptial agreement is full disclosure of all assets. Both parties must be meticulous in listing everything of value that they own or in which they have an interest. Once that is done, the parties must agree on a fair distribution of these items after divorce. In many cases, especially in second and third marriages, the prevailing philosophy is “what’s mine is mine and what’s yours is yours.”

However, where the respective wealth of the parties is substantially unequal, some compromise may be necessary. Reason: In some states, the marital assets of both parties are figuratively “put into the pot” upon divorce. The

couple then splits the pot equally. Thus, one spouse could walk away with substantially more than he or she had when the marriage was entered into.

Note: In some cases, a prenuptial agreement may be funded by the purchase of a life insurance policy similar to the way that life insurance is used to fund a buy-sell agreement.

Finally, you must consider the impact of state law in this area, including differences in community property states. Prenuptial agreements are now valid in all states. Furthermore, more than half of the states have adopted the Uniform Premarital Agreement Act which provides certain standards for prenuptial agreements. Assuming these standards are met, the agreement is enforceable.

For a full understanding of these issues, consult with your financial and legal advisers. They can help you observe all of the technicalities.

TAX TALK New Tax Directions For Car Donations



Starting January 1 of this year, new tax rules went into effect for charitable donations of automobiles. The IRS intends to strictly enforce these new rules.

Background: Prior to 2005, you could deduct the full fair-market value of a vehicle you donated to a qualified charitable organization. However, under the American Jobs Creation Act signed into law last year, deductions for donations made after 2004 are restricted. Specifically, if the car’s value exceeds \$500 and the charitable organization then sells it, your deduction is limited to the amount received in the sale. Note: If the charity materially improves the vehicle (e.g., it repairs dents or installs new features) or it “significantly” uses the car and certifies this use, you can still deduct its fair-market value.

Note that the tax crackdown applies to charitable donations of boats and aircraft as well as to automobiles.

What’s next? The IRS has continued to keep a watch on overly aggressive valuations of automobiles. It recently issued a news release warning taxpayers about the following points:

*The charity that received the donated car must be a charitable organization qualified to receive deductible contributions.

*The deduction is strictly limited to the car’s fair-market value. That does not mean the highest value listed in a used car buyer’s guide for the make and model without regard to other factors such as the car’s condition.

*The donation and the fair-market value must be properly documented. The recordkeeping requirements in this area depend on the value claimed and the total amount of your annual charitable donations.

The message the IRS is conveying is clear: Do not overstep the boundaries on charitable deductions of cars. Consult with a professional tax adviser for further assistance.

Recordkeeping rules: When you deduct charitable gifts on your tax return, you must obtain a contemporaneous written acknowledgement for every donation of \$250 or more. In addition, you must attach a written appraisal to your return for property donations of more than \$5,000.



Why You Need a Professional Guide
(continued from page 1) A competent financial professional can devise a plan that is designed to meet your objectives.

***Regular investments:** You are not likely to be successful as an investor if you adopt a random hit-or-miss attitude. Investing on a regular basis is generally recommended because it enables you to develop the mindset for saving and growing your assets. Of course, there are no guarantees with any investment, but you cannot rely on stock tips

you overhear by the water cooler. Follow a methodical method that your budget can afford.

***Emotional issues:** When your hard-earned money is at stake, you may tend to become emotional. A financial professional can help you stay the course if you might be inclined to take drastic actions. You are less likely to get caught up in the latest craze or continue to throw good money after bad.

That's not to say that every financial

professional is worth his or her weight in gold. As with any service provider, some are better than others. Consider factors such as experience, credentials and reputation when you choose the person who will be guiding the way. When you find someone who is trustworthy and satisfies the other criteria, you are way ahead of the game.

RETIREMENT REVIEW

Take Comfort in Planning for Retirement

Do you want to secure a comfortable retirement for the future? It won't just happen overnight. Retirement takes planning. Consider the following obstacles to a safe retirement and how you can try to overcome them.

1. Retirement is costly. It's been estimated that you will need about 70%–80% of your current income to maintain a similar standard of living in retirement. Although Social Security benefits may provide some relief, that will not be enough on its own. In fact, there is a great concern that the growing number of baby boomers who will become eligible for Social Security over the next couple of decades will place an unmanageable strain on the younger workforce.

2. You could outlive your assets. Due to medical advances and increased education about healthy living, life expectancies have been on the rise. Currently, Americans are expected to live around 20 years on the average in retirement—maybe more. If you do not have a retirement plan that can provide a stream of income, you might exhaust all of your funds. *(continued on page 4)*

Is a Life Insurance Trust Right for You? *(continued from page 1)* the funds to pay the policy premiums each year.

Are life insurance trusts right for everyone? Of course not. For one thing, there are costs and other factors to consider. Whether or not you should use a trust depends upon your particular situation. For example, to achieve the desired tax results, the trust must be irrevocable. If your family's financial condition changes significantly, you cannot recover the policy or other trust assets.

Possible alternative: Suppose that your spouse is well provided for and your adult children, whose judgment is sound, are the intended beneficiaries of your insurance policy. You could give cash to your children and they could take out a policy on your life naming themselves as beneficiaries. If you have an existing policy, you can transfer it and all powers over to them.

In that case, the proceeds are not included in your taxable estate and they don't have to pass through probate. But proceeds are subject to estate tax if you die within three years of the transfer.

What about gift tax on the cash gifts that go toward the premium payments? The transfers may be sheltered by the annual gift-tax exclusion. Cur-

rently, transfers of up to \$11,000 per year per recipient are exempt from gift tax (\$22,000 for joint gifts by a married couple). To take advantage of the annual gift-tax exclusion for a transfer to a trust, the children must have a limited right to withdraw the funds from the



trust. With a straight cash gift, there are no such problems.

Other estate-planning techniques may be more suitable for your situation. So when is a life insurance trust the right thing for someone to do? It may be particularly appropriate when insurance needs are high (e.g., a business interest makes up a large part of an estate), or additional assets are needed to provide support for a surviving spouse and minor children.

Final word: When you have the facts at your disposal, you will be able to make an informed decision about life insurance trusts.

Take Comfort in Planning for Retirement *(continued from page 3)*

3. Health insurance costs keep escalating. There is no end in sight to spiraling health care expenses. Considering the growing number of aging Americans, it's important to ensure you have adequate coverage to last through your retirement years. Medicare alone probably won't do the trick.

4. Inflation can rear its ugly head. Since inflation has been relatively low the last few years, it's easy to forget its potential impact. Inflation can affect your purchasing power and, eventually, your standard of living. Just think back to the rampant inflation of the late 1970s and early 1980s. Furthermore, even without a period of double-digit inflation, the cost of goods and services generally increases over time. For example, a single United States postage stamp, which cost only six cents in 1970, now goes for 37 cents—with another increase soon to come.

The bottom line is that retirement planning isn't a luxury—it's a necessity. You can improve the odds of secur-

ing a comfortable retirement by saving diligently through your working years. Start by taking advantage of tax-advantaged retirement planning vehicles such as qualified retirement plans and traditional individual retirement accounts (IRAs) and/or Roth IRAs. Allow for emergencies and other big-ticket expenses like a child's college education. Complement your retirement plans with a sound investment plan that balances your need for income during retirement with your personal tolerance for risk.

Social Security benefits may be used to complement your other income sources, but they should not be your primary means of support.

Best approach: Sit down with a trusted financial professional to devise a comprehensive plan for your future retirement.

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.

