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Got A Sizeable Estate? Time To Reduce It For Your Heirs

With the 2010 repeal of the federal estate tax looming, the tax hit on inherited assets is gradually declining. But, Congress has yet to determine whether the so-called "death tax" will disappear permanently or for just one year.

Why would legislators obliterate a tax that could provide an estimated $850 billion in federal revenue between 2011 and 2020? That's what opponents of the repeal are asking. They say getting rid of the tax will reward rich families at the steep cost of a deeper federal deficit. Repeal supporters, on the other hand, think it's unfair to tax income twice—once when it's earned and a second time when it goes to heirs. There's also concern about small businesses, which often fail for lack of funds to pay estate taxes. A proposed Senate bill that keeps the tax but reduces its bite may be the final compromise.

Meanwhile, maximizing your bequest requires an estate plan that keeps in mind both current estate laws and possible future changes.

Mark these dates on your estate tax calendar. Strange as it sounds, when you die could have a major impact on how much estate tax your heirs will pay. From 2006 through 2008, you can pass $2 million of your property estate-tax-free and the exempt amount jumps to $3.5 million in 2009. Though there's no estate tax in 2010, the following year could see the tax return, with a sharp drop in the exclusion ceiling to $1 million.

Your heirs' potential tax burden is also affected by declining estate tax rates. The maximum rate, 50% in 2002, is now 46% and will drop to 45% for 2007 through 2009. After the estate tax holiday of 2010, the rate could spurt to 55% in 2011.

Consider giving assets now, not later. One good way to reduce estate taxes is to transfer assets during your lifetime. Both you and your spouse can make annual tax-free gifts of up to $12,000 in cash or property to as many people as you wish. For example, if, for four years, you and your spouse each gift $12,000 per year to each of your three children—that's $24,000 per child per year—you'll reduce your total estate by $288,000.

Estate Taxes Through 2011

	Exclusion Amount	Tax Rate
2006	$2 million	46%
2007	$2 million	45%
2008	$2 million	45%
2009	$3.5 million	45%
2010	n/a	n/a
2011	$1 million	55%

Under the Uniform Gift to Minors Act and the Uniform Transfers to Minors Act, an adult custodian holds the purse strings until a recipient reaches the age of 18, 21, or 25, depending on your state's laws. However, it's crucial they receive unfettered access to the account once of age, lest you suffer tax consequences.

You can give away additional assets totaling $1 million during your lifetime without owing gift tax. (Your

(Continued on page 4)

What's The Right Number For Your Retirement?

Few financial planning books catch my interest after nearly 30 years in the financial advisory business. However, in his new book *The Number*, Lee Eisenberg has come up with a completely new and useful way to think about financial planning and its role in the rest of your life.

Whether you are in life's early stages, changing careers, about to retire, or already retired, *The Number* will help you understand how your psyche will affect the results of your financial planning (or the lack thereof). Since the book is named after numbers, I expected a lot of math and confusing formulas that have little relevance to the quality of one's life. I was very pleasantly surprised when Eisenberg used plenty of humor, insight, and very few actual numbers to produce a most provocative guide to help you think about the kind of life you want and the kind of advice that can help you get there.

This book is on the top of my recommended list for clients, their children, financial advisors, and those simply wanting to have better financial conversations—with themselves and their loved ones—that they know they need to have in order to live a better life.

The Number is published hardcover by Free Press and is clearly a bestseller.

Bob Keats
President

Getting Help To Care For Mom And Dad

After years of taking care of her elderly parents, Maria Thompson needed help. Juggling her obligations as a mom, wife and clothing store owner with overseeing her parents' medical and financial affairs had become too much to handle. It's an increasingly common story. At least one in four American families provides care for an older relative, according to the AARP. For Maria, the solution was to hire a geriatric care manager (GCM).

"Many people who care for a parent are overwhelmed and exhausted and can use an advocate on their side," says Mary Ann Higgins, a GCM and board member at the National Association of Professional Geriatric Care Managers. "Finding someone who understands your situation and can help you through the maze of options makes things much easier."

As a professional with training in gerontology, social work, nursing, or counseling, a GCM should be familiar with the cost, quality, and availability of services in your parents' community and can help you make prudent choices. GCMs conduct care-planning assessments to identify problems, evaluate your loved one's eligibility for government assistance, and can even screen, arrange, and monitor in-home help. Some GCMs also provide family or individual therapy or guardianship assistance. Emotions, flare-ups among siblings, and resentment between parents and children can boil over when making decisions about how to care for parents. An objective outside expert may be able to defuse tensions with clear thinking and good communication and by simply taking the time to research and suggest solutions that the family may not have known to explore.

> GCMs serve as the family quarterback, guiding those caring for mom or dad through a maze of complex challenges.
>
> -Linda Johnson,
> Geriatric Care Manager

For many adult children, the miles that separate them from Mom or Dad compound stress and concern. Can you be certain an elderly parent or relative is eating properly, taking medications on time, paying bills, and keeping up with the chores of running a household? When you're far away, can you properly assess whether someone can continue to live independently or—often despite a strong desire to stay at home—really belongs in an assisted living facility or nursing home? For families living at a distance, a GCM can serve as a liaison, alerting you to problems.

Before hiring a GCM, meet with several candidates and thoroughly check their backgrounds and qualifications. It's crucial to find someone with formal training and experience. The National Association of Professional Geriatric Care Managers (*www.caremanager.org*) can help you locate licensed GCMs nationwide. The association's website also includes information about the role of a GCM, and provides other care management resources. Note that GCMs usually bill privately and are not covered by Medicare or Medicaid. However, your employer's Employee Assistance Program or flexible spending plan could help defray the cost.

Taking care of your parents may be something you wish you could handle on your own. But getting high-quality assistance from a professional care manager can be to everyone's benefit. ●

Thinking About The Unthinkable: Losing A Loved One

After a long battle with cancer, Michelle, a 53-year old mother of two, recently passed away. Months of treatments and hospital stays had drained her family emotionally. But their loss was made even more difficult to bear by financial paperwork.

Critical records could not be located and crazy problems cropped up. For instance, a form on file with her employer said that the names of beneficiaries of her retirement plan were listed in an attached memo. However, no memo was attached or could be found in company files. Michelle's husband, while grieving, was forced to cope with a bureaucratic nightmare.

People naturally feel uncomfortable thinking about the death of a loved one and often don't have a clear idea about how to prepare for such a loss. Here's a checklist that can help.

While this list is an urgent message if someone in your family is seriously ill, everyone should have these items in order, and anyone recently married, divorced or widowed should pay special attention to these matters.

The Will. Be sure your family knows where your up-to-date will can be found. Keeping the executed copy in a safe place at home will let your family work with a lawyer other than the one who drafted the will.

Empower Someone. Draft a durable power of attorney, which gives someone the right to handle your affairs if you become unable to do so.

The Paperwork. Bank and brokerage accounts, insurance information and other data must be easy to find. Financial organizers can help you systematically classify all your paperwork. For

Why A Financial Plan Can Make You Happy

Remember what it felt like to get that first-ever paycheck? What about the first time you made a tidy profit on a well-chosen stock? Chances are you don't get the same kick today. When you've gotten accustomed to success and having money becomes old hat, it may hinder your happiness and satisfaction, say psychologists and economists. A well-thought-out financial plan can help.

"The key to being happy isn't how much you earn," said George Lowenstein, an economist at Carnegie Mellon University. "Happiness comes from gaining control over your finances and figuring out what to do with your money."

Several studies during the past five years confirm that you can't put a price on happiness:

• The same level of personal happiness was experienced by the very wealthy individuals on the Forbes 400 list and by members of Kenya's Maasai tribe, a herding people without electricity or running water, according to a University of Illinois study.*

• In a University of Michigan survey, lottery winners and inheritors of sudden wealth had similar experiences. Within a few months or years, all that extra cash lost its ability to boost overall contentment.*

• In numerous reports, psychologists have found that gains in wealth often leave us feeling we're getting nowhere—because even though we have more, we're not gaining on our peers.

• Six-figure earners are no happier than those who make $50,000, according to a survey by economists at the University of Chicago. For those who were surveyed, once basic needs were met, additional assets didn't result in greater contentment. And greater access to luxuries only fueled the need for more and more and heightened peer competition.

Yet even if money can't buy happiness, few of us would turn down the chance to increase our bottom line. So exactly what are we seeking? "It's physically impossible for a piece of paper like money to make you happy," writes career coach Pamela York Klainer in her book, *How Much Is Enough? Harness the Power of Your Money Story*. "Instead, what makes people happy is the feeling of security money brings."

How secure your wealth makes you feel depends in part on how you use it. Economists at Harvard University have found that income accounts for only 1% of happiness; health, family, and community rank far higher in helping make us happy. Yet when you combine income with those values, income rises on the scale. That's where a financial plan comes in. Ideally, it will help integrate money with values.

To succeed in providing a road map to happiness, however, a financial plan must do far more than specify asset allocations, explains George Kinder in his book, *The Seven Stages of Money Maturity*. An effective plan should help shape your success according to your short- and long-term goals and personal values. In addition, because it's tailored to your individual needs, a plan can mitigate the extent to which you feel you must measure yourself against your peers.

For example, if you want to travel during retirement and provide your kids with a good education, you can develop a plan structured to maximize college and retirement savings opportunities. Similarly, if you feel strongly about certain causes or institutions in your community, you can put together a carefully structured charitable giving plan. Consider a lottery winner who donates some of his windfall to charity —he or she will likely feel greater long-term satisfaction than someone who uses the entire winnings to finance personal luxuries.

"We're now realizing that we have been too focused on the financial aspects of decision-making rather than the emotional ones," says Stephen Butler, president of Pension Dynamics Corporation, a California-based pension consulting firm. "Understanding emotions may represent a far greater contribution to the well-being of those preparing for, or enjoying, retirement."

Of course, you have worked extraordinarily hard to achieve success and deserve to treat yourself to a spontaneous shopping spree or luxurious vacation every now and then. But when everything happens in the context of a well-considered financial plan, you'll feel better about those special "occasions of consumption," as economists call them—and that can elevate overall contentment and satisfaction.

Come in to talk with us about your hopes and dreams. Together we can create a financial road map to help achieve them so you can enjoy happiness and fulfillment. ●

*The University studies cited in this article used a similar equation to measure happiness: Happiness = reality – expectation. Generally, respondents were asked to rate satisfaction and success in certain aspects of their lives on a numerical scale.

Planning For The Worst Is Prudent

information about different organizers,call *HomeFile* at (800) 695-3453 or *The Beneficiary Book* at (800) 222-9125.

Beneficiary Check. If you've been married, divorced or widowed in recent years, this is particularly important. Without a named, living beneficiary, retirement plan and insurance payoffs go into your estate and will be probated. If you're married, a spouse is usually the beneficiary, and a secondary beneficiary is usually an adult child or a trust for the benefit of a minor.

Employer Info. Include the name of a person at your company who can help your family collect retirement plan money, life insurance and any final health care costs covered by insurance.

For The Seriously Ill. When someone is terminally ill, you may want to put bank accounts under joint control (unless they're held individually for estate planning). You can also transfer cash to a spouse. If you have no spouse, gifts to adult children are wise. The family will need cash for funeral and living expenses while the estate settles, which can take months. ●

Helping Out Adult Children Financially

A recent University of Michigan study revealed something you may already know from personal experience. These days, one in three young adults rely on parents for financial help.

According to the survey, 34% of those age 18 to 34 are getting assistance. In some cases, Mom and Dad make a one-time gift, financing a vacation or the down payment on a house or car. In other instances, parents provide monthly checks to cover expenses such as rent and groceries.

Though you may be surprised to find your financial obligation to your children extending well beyond age 18, there is an upside. Playing a financial role in your child's life gives you the opportunity to teach valuable lessons about financial responsibility. Your guidance, as much as your dollars, can help ensure your children's future financial health.

What's the most instructive way to dole out the cash? One option is to have Junior send you certain bills you agree to pay. You'll see how he's spending his money, and you may be able to suggest strategies for cutting his phone bill, say. But this can undermine your child's sense of independence and discourage him from taking responsibility for himself—a failing that may become more crucial as he acquires a family and larger financial burdens.

Playing a financial role in your child's life gives you the opportunity to teach them a valuable lesson

Another possibility is to transfer a lump sum into your child's bank account. This could be pegged to a particular need, or you could step in whenever cash runs low. This implies less ongoing dependence than the bill-paying route. It also encourages careful budgeting to make the money last—or at least demonstrates what happens without careful budgeting.

But probably the best approach is to provide monthly, salary-like payments gauged to fill the gap between the child's income and expenses. This mirrors the way your son or daughter receives money in the real world, via paychecks. You're just providing a supplemental salary, helping meet ongoing financial obligations for rent and utilities, car payments, and other expenses. This can also help your son or daughter get used to the ebb and flow of earning money and paying bills.

To avoid the awkwardness of handing over a check each month, you could set up an automatic funds transfer to your child's account. Like a direct-deposit paycheck, the money will be part of your son or daughter's normal income. Of course, this can be habit forming, and you may want to strike a deal to reduce your support proportionately when the child gets a raise. ●

Sizeable Estate

(Continued from page 1)

spouse can do the same.) And, gifts to pay recipients' tuition or medical expenses neither qualify as annual gifts nor count against your lifetime exemption. The same is true of gifts to a spouse who's a U.S. citizen. In addition, a recent private letter ruling held that pre-paid tuition payments to a private school do not count as a gift nor affect your $1 million lifetime exemption.

You could also transfer property to your grandchildren, though you might run afoul of the complex rules of the generation-skipping tax (GST). The GST is added on top of any gift or estate tax; the GST rate and the amount you're allowed to shield from this tax, are the same as the estate tax rates and exemptions.

Watch for this rule change on inherited capital gains. Though heirs who receive property such as stocks or real estate may owe estate tax, they get a break on capital gains, with the tax on appreciated assets based on the market value of the assets at your death, rather than on what you paid for them. For example, suppose you leave your daughter stock you bought for $100,000. When you die, it's worth $500,000. That's the stock's "step-up basis," as it's called for tax purposes. If she ultimately sells the stock for $1 million, she'll owe capital gains tax on a profit of $500,000, not $900,000.

But the rules will be different in 2010, the year there's no estate tax. Taxes then will be based on what you originally paid for the assets, plus a maximum total increase in tax basis of $1.3 million, with an additional $3 million allowed for a surviving spouse. Consider assets you bought for $1 million that have appreciated to $6 million when your son inherits them. If he sold immediately, he'd owe tax on a $3.7 million gain—$6 million minus $2.3 million (the $1 million original cost plus the maximum step-up of $1.3 million). If your spouse inherited and sold the property, he or she would be taxed on a gain of only $700,000.

For as long as the "death" tax is alive, estate planning will remain an uncertain art. We can work with you and your attorney to find the best strategies for passing along your hard-earned wealth. ●