Financial & Estate Planning 2006

Insights from Leading Financial and Legal Advisors

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How to Exit Your Business Gracefully

Small businesses make up a large percentage of the total number of businesses in the United States. However, the success rate of these businesses making it through a transition is less than inspiring. Typically, only one in three will survive transition to a second generation. Of those that survive, approximately one-half will survive the transition to a third generation.

If you are a small business owner, you are likely wondering how you can improve the success rate in the transfer of your business. The answer is planning.

The first step in the successful transfer of your business is to identify your successor. For many, family will take control. For others, an unrelated party will become involved. Whomever your successor, identifying a new owner is imperative in the planning process.

Once you know who will be taking over the business, you can begin focusing on how to effectuate the transfer. There are a myriad of options for owners transitioning their business to family, including gifts, trusts, private annuities, and corporate recapitalizations. The most appropriate alternative will depend upon the particulars of your situation, your family dynamics, and will often include a review of your overall estate plan.

A sale of the business will be the likely approach for owners transitioning their business to an unrelated party. A sale to a partner, key employee, independent party, or even to an employee stock ownership plan (ESOP) are all options. How you structure the sale will be based upon your negotiations with the purchaser and should involve consultations with your tax and financial professionals in order to arrange the most tax advantageous transaction.

You have worked hard to establish your business, now plan to ensure its continued success by preparing for its transition.

To read the full report, go to www.finance-insights/fulton.asp

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Asset Allocation: The Road to Retirement

The road to retirement isn't driven overnight, so there's no sense in taking shortcuts with an investment strategy. By choosing a thoughtful asset allocation strategy and maintaining a disciplined approach, investors achieve results while minimizing risks.

Asset allocation requires spreading investments across multiple asset classes and forecasting long term expected returns; all the while assessing the investors' risk tolerance, time horizon, desired returns and overall investment objectives.

While asset allocation is a straightforward investment approach, there are common mistakes to avoid. It's important that investors not compartmentalize wealth into investment areas (e.g. 401K, IRA, individual accounts, etc.) or have a large portion of wealth in a single stock position. It's also critical that investors periodically rebalance to the original strategic investment plan.

Asset allocation is about discipline, and more specifically, the ability to avoid the temptation of headline-making hot stocks, sectors and strategies. An investment advisor can be a voice of reason when word on the street lures investors to risk their nest egg on a whim.

With asset allocation, an investor and his wealth management advisor can take a holistic approach in examining the investment portfolio, so as not to lose sight of the ultimate investment goals.

Asset allocation is part art and part science, which many investment advisors are skilled in but may approach differently. Some advisors are comfortable with a diversification strategy of one asset class while others advocate a broader set of investment strategies. Differing views on what to include could lead to substantial return and risk differences. Advisors also differ on portfolio implementation, with some favoring indexing and others believing active management will lead to greater value.

Regardless of philosophy, it's critical that investors adhere to the principles of asset allocation for the long haul in order to take the most direct route to retirement.

To read the full report, go to www.finance-insights/bridgewater.asp

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Retirement Income: Uncommon Approach To Common Question

For many retirees and near-retirees, the "golden years" often give rise to an unexpected question:

Just how do I turn my retirement savings into retirement income?

They're not alone in wondering. Seventy-eight percent of retirees have no income plan, according to LIMRA International's Retirement Planning Study, 2003.

Two common answers to that question often raise reservations. Retirees can opt to invest their nest eggs in mutual funds and draw on them year after year, but some worry that they might outlive their savings. Alternatively, they can purchase a lifetime annuity with a lump sum payment, but some worry that they are giving up flexibility to address future needs.

Now, however, a new approach provides a balance of security, control and flexibility by giving retirees a way to turn tax-qualified retirement savings (e.g. 401(k) and IRA accounts) into inflation-adjusted monthly payouts that last their lifetime -- like a pension, in some respects.

Here's how it works: Working with an advisor, a retiree rolls over tax-qualified retirement savings into an IRA, where the money is invested in mutual funds (whose value will fluctuate with the market over time). A special calculator determines the hypothetical amount of lifetime monthly income those savings can sustain based on such factors as life expectancy, investment amount and survivorship needs.

The retiree then decides how much of that monthly income he or she wants to guarantee through the purchase of an income annuity within the same IRA. Retirees can purchase the guarantee in a lump sum, or, more likely, transfer assets in smaller increments over a number of years from a mutual fund model portfolio to the income annuity. They can stop, speed up or slow down the transfers at any time.

With this program, currently available only through certain investment advisors, the retiree gets the convenience of a single IRA account, a single statement, and a single income check that includes mutual fund withdrawals and annuity payments.

To read the full report, go to
www.finance-insights/massmutual.asp

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DRA: New Implications for Estate and Long-Term Care Planning

The Deficit Reduction Act of 2005 (DRA), signed by President Bush in February 2006, aims to reduce government spending by cutting federal Medicaid funding. Included in the DRA are provisions to tighten Medicaid's long-term care eligibility requirements, which shift the responsibility for paying long-term care costs away from the government and back onto the individual.

Where families will most likely feel the DRA's affect is in their bank accounts. Narrowed Medicaid eligibility guidelines will leave more people faced with paying long-term care expenses out-of-pocket at a time when nursing home costs continue to rise.

Retirement planning tools, such as long-term care insurance plans, may be appropriate for those concerned about draining their retirement savings and other investments. Consulting an insurance agent or financial advisor about these important changes is recommended.

Consumers also should be familiar with the DRA changes to eligibility guidelines for Medicaid nursing home benefits that affect asset transfers and the treatment of home equity and annuities.

The Medicaid penalty period, or look-back period, has been extended from three years to five years for individuals that transfer assets at less than fair market value (divesting assets, giving cash gifts or transferring mortgage titles to family). The look-back period effective date now begins on the date of the Medicaid application, not the date of the asset transfer, which can limit transfers pre-planned solely to create a Medicaid qualification.

Under the DRA, treatment of home equity and annuity transfers are no longer exempt from penalty period consideration. Medicaid applicants with more than $500,000 in home equity may now be ineligible for long-term care benefits, as determined by individual state guidelines. Asset transfers to annuities are currently prohibited during the look-back period except when the state is listed as the annuity's named beneficiary for at least the amount of the Medicaid benefits provided.

To read the full report, go to
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