Financial & Estate Planning 2006

Insights from Leading Financial and Legal Advisors

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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 www.finance-insights/bankerslife.asp

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Asset Allocation: Growing Your Bond Portfolio

One of the most important aspects of total return for investors is asset allocation. Many investors will purchase bonds for generating income. However, during periods of rising interest rates, they can damage the total return if you don't have a defined strategy within your investment policy.

When creating an investment policy, determining how much money you will need for maintaining your lifestyle is the place to start. The first step is to look at the most conservative asset class i.e. insured municipal bonds. Once conservative allocations are decided upon, we move into riskier classes such as corporate bonds, equities or limited partnerships.

Fixed income securities tend to be viewed as more conservative investments. During a low interest rate environment, investors should purchase bonds that have short duration and higher coupons. As interest rates begin to go up, investors tend to become nervous and often will trade out of a short duration premium bonds thinking they are protecting their cash flow. In fact, these bonds have a higher cash flow, which will offset the negative effects of higher interest rates. The focus of this strategy should be on taking the higher cash flow and reinvesting into new higher yielding securities thereby increasing the total value of the account.

> "...determining how much money you will need for maintaining your lifestyle is the place to start."

Most individual investors seek higher yields when rates are low and don't focus on the total return. This causes the portfolio's risk to increase, as investors hunt for higher yield and lower credit quality securities at the very time they should be reducing risk. Remember the old Wall Street saying: return of principal is more important than return on principal.

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

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Draft a Quarterback for Your Estate Planning Team

A great football team is led by a talented quarterback who executes a game plan with the confidence of his coach and teammates. Similarly, a successful estate planning team is led by a talented Lead Advisor who "quarterbacks" the estate planning process with the confidence of the client and team of financial, legal and tax professionals.

A well selected Lead Advisor provides advantages throughout the estate planning process. The Lead Advisor draws on a wealth of knowledge to ask tough questions, prioritize issues, keep focus, communicate goals, coordinate meetings and provide qualified assessment of team members. In addition, a Lead Advisor provides access to a broad range of products, services and solutions. Ultimately, the Lead Advisor's goal is to service the estate plan for generations, efficiently and with best execution.

Important considerations when picking a Lead Advisor:

Professional Disciplines – An advisor with multiple disciplines, such as tax, investment and insurance, is better suited to lead an estate team than a single disciplined advisor.

Track Record – Years providing estate planning services? Demonstrated success through economic cycles?

Client Base – Number of active clients?

Testimonials – Reputation with past and present clients?

Network – Can advisor access the best professionals in the country? Will advisor customize the estate team to suit the client?

Internal Resources – Does advisor have internal capability to analyze tax, legal, investment, insurance, foundation and charitable concepts?

Transparency of Fees – Will advisor provide full disclosure and explanation of fees associated with all professionals on the estate team?

Draft a talented Lead Advisor to quarterback your estate team, call your plays, and place the burden of running the estate process on a professional. The Lead Advisor will help you realize your estate and legacy goals with better results, less hassle and more peace of mind.

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