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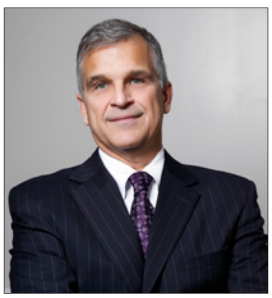
FINANCIAL
Planning Strategies

A Financial Planning Update

HOUGH JOHNSON
PROTECTING WEALTH FOR SUCCESSFUL ENTREPRENEURS



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Managing Your Benefits When Changing Jobs

Starting a new job can be exciting. But, as you look forward to your new opportunity, consider carefully how you will manage your employer-provided benefits while transitioning from one workplace to another.

When you leave a job, your employee benefits generally end, unless you elect to continue them. While you may receive benefits from your new employer, they will most likely differ from your previous employer's benefits package. So, if there are any benefits you want to take with you, for example, accumulated savings in a 401(k) plan or similar retirement account, you will need to decide how to manage those funds before you exit.

Insurance Conversions

Your new employer may not offer **health insurance**, or there could be a waiting period before health coverage begins, which sometimes can be from 30 to 90 days. To avoid becoming uninsured, even for a short period of transition, explore the possibilities of continuation or conversion under your former employer's health insurance.

Under a Federal law known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), you are permitted to continue as a member of your previous company's health plan for up to 18 months after termination of employment, unless you are terminated for cause. Under COBRA, you are responsible for paying the entire premium, including the employer's contribution to the insurance, making COBRA premiums generally expensive. However, premiums may be less than you would pay for an individual policy. To continue coverage under COBRA, you must advise your employer that you are electing COBRA coverage.

COBRA continuation rights may not apply if you work for an employer with fewer than 20 employees. But, you may be able to convert your group health insurance policy to an individual policy without having to undergo a separate application for individual coverage. There may also be "interim" or "short term" policy options that could provide coverage for a couple of months for people between jobs. Or, you may need to secure individual health insurance coverage with a new provider that is not tied to your place of employment.

You may also have the option of converting other types of employer-sponsored insurance into individual policies. Depending on the group plan, you may be permitted to convert **life insurance**, **disability income insurance**, or **long term care insurance**. Be sure to talk with your benefits administrator about all your options.

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Practical Uses for Practical Trusts

Trusts are valuable tools that can help you meet a variety of financial and estate planning goals. As you plan your long-term strategies, you may find many practical ways to use trusts to manage your investments, retirement, children's education, and your estate. Let's look at several types of trusts that may be helpful to you.

Revocable Trusts. Assets in a revocable trust avoid probate, which is the judicial process that determines the validity of a will and ensures it is faithfully executed. Incorporating a revocable trust into your estate plan may save your heirs time and money, as well as preserve your family's privacy. Furthermore, with advance planning, these trusts can also be used to help married couples minimize estate taxes.

Irrevocable Life Insurance Trusts (ILITs). When properly implemented, the proceeds of an ILIT will not be included in your estate. They will be payable to the ILIT's **beneficiaries** (generally, children and grandchildren) without incurring any estate tax consequences. In more advanced uses, an ILIT can be a useful strategy to help ensure continuity in a closely-held business. Passing a family-owned business of substantial value to heirs may be hampered by potentially large estate taxes. These taxes, in some instances, may require a forced sale of the business in order to raise the necessary cash to pay them. However, an ILIT can purchase a life insurance policy on the owner, with the death benefit providing the cash needed to help meet estate tax obligations and keep the business in the family.

Qualified Residence Trusts. Putting your home in a trust can help reduce the potential estate or gift taxes on your personal residence.

Education Trusts. If you hope to help fund your grandkids' college education, you know how challenging it can be to determine how much each grandchild will need. You could simply give money directly to your children, with instructions for them to use the money for that purpose, but that doesn't guarantee the money will be available when your grandchildren need it. To help ensure this objective is met, consider establishing a trust and give the trustees (possibly your children or a financial institution) discretion to allocate the funds among your grandchildren as appropriate to provide incentives for them to pursue their higher education.

Trusts for Creditor Protection. Many parents have had the unfortunate experience of making large gifts to a married child who subsequently gets divorced and much of those assets go to the former in-law. In other instances, the child may be subject to claims from a lawsuit. A trust can be an excellent vehicle for making gifts to your children in a way that makes the assets available for their use, but prevents them from being depleted to satisfy the claims of potential creditors.

Spendthrift Trusts. You may have a child or relative who needs your financial support, but cannot effectively manage the assets. A trust can be established that will help assure both you and your intended beneficiary that the funds will be available when they are truly needed. The trust can be structured to distribute assets when the beneficiary reaches a certain age or to allow the beneficiary to become a co-trustee. With the latter approach, the beneficiary may participate in, but not have sole responsibility for, management of trust assets.

Trusts for Medicaid/SSI "Supplemental Needs." If your child has disabilities that may qualify for government assistance, the receipt of an inheritance or gift normally will disqualify them from such benefits until the gift is "spent down" and only exempt resources remain. In that situation, it's critical to leave assets in a carefully drafted discretionary trust that permits the trustee to expend needed resources for the child's benefit in a manner that supplements, but does not replace, governmental resource payments.

There are numerous ways for people with different income levels to use a trust in their estate planning and normal life circumstances. For specific guidance, be sure to consult your qualified financial, tax, and legal professionals. $

Why a Home May Still Be Your Best Investment

While everyone's situation is different, buying a home that you plan to live in for many years may still be one of the best investments you can make. An uncertain market should not necessarily deter prospective buyers, but rather prompt them to develop a more realistic perspective on homeownership.

Instead of viewing real estate primarily as an investment vehicle for the short term, potential buyers can recognize homeownership for what it really represents: a long-term financial commitment that can provide a secure, comfortable place to live for many years.

Buying a home can provide a sense of stability because you are no longer subject to the uncertainty of the rental market. Paying a mortgage each month can be likened to a forced savings account. As the mortgage principal shrinks, you accumulate more equity in the home and, eventually, you will own the asset outright.

When you buy and live in a home, you can reap the benefits of what is known as "net imputed rent." Basically, the money you would have paid on rent contributes to the equity you accumulate over time, after maintenance and taxes. The U.S. Department of Commerce calculates this at approximately 6% per year, which is better than any savings account or CD available today.

Finally, homeowners have the opportunity to minimize their tax liability by taking a tax deduction for any mortgage interest paid for their primary residence.

Although there is no guarantee that your home will increase in value or even hold its value in the short term, it can provide a place for you and your family to live that you can continue to afford and to enjoy for many years to come.

Providing New Opportunities

Even in an unpredictable economy, the real estate market can provide opportunities for those with good credit and the funds for a down payment. With mortgage rates still relatively reasonable and housing prices potentially rising over the coming years, this may be one of the best times to buy a home.

Currently, housing inventory is low and experts project that the demand for housing may increase in the years ahead. Although new home construction has slowed, the U.S. Census Bureau projects that the number of American households will increase each year by 1 to 1.5 million. Eventually, demand may realign with the supply of new houses.

No one knows what's in store for today's real estate market. However, it does present opportunities for those with a long-term plan to buy a home that will provide a stable lifestyle for years to come. $

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Retirement Plan Rollovers

If you have a retirement savings account in your current employer's 401(k) plan or comparable account, you will have the choice of reinvesting, transferring, or cashing in the funds.

To keep your retirement savings on track, you may want to consider rolling over the funds into another qualified retirement savings account, such as a rollover IRA. There are two ways to roll over funds. With an indirect rollover, your former employer makes the distribution payable to you, less 20%, which is withheld for Federal taxes. You must then reinvest the distribution into an IRA or other qualified plan within 60 days. In order to achieve a tax-free rollover, you must reinvest the full distribution amount, which includes the 80% you receive in cash, as well as 20% from your own funds to cover the amount that is withheld. Your withheld funds are refunded after you file your tax return, provided your rollover occurred within the 60-day time limit. Failure to reinvest the 20% withheld may result in income tax and a tax penalty if you are under the age of 59½.

To avoid the 20% withholding requirement, you may request a direct rollover to an IRA set up in your name or another qualified plan. Be aware that not all qualified plans accept this type of transfer. Because this method is considered a distribution option, spousal consent and other similar participant and beneficiary rules of protection may apply.

Another option is to roll over your funds from your previous employer's retirement plan into your new company's plan. In some cases, however, it may make sense to leave the funds where they are. Ask both employers about restrictions on these options, as well as any tax implications.

You have the option to take the funds in your 401(k) account as a cash distribution. For most people, however, this is not the best choice. After cashing in, you owe taxes on the funds, and you may also be required to pay a 10% tax penalty if you are under age 59½. Further, you forfeit the long-term benefits associated with tax-deferred earnings, making it more difficult to build the financial resources for your retirement income.

Your decisions regarding benefits when changing jobs can have a great impact on your financial future. Before making such important decisions, be sure to discuss your circumstances with the benefit administrators at both companies and consult your professional advisors. $

Inflation and Your Retirement

Even if your retirement is years away, it's important to understand how **inflation** can affect your retirement savings. You probably know that inflation can depreciate your savings over time. But, how seriously do you consider the impact of a decrease in the purchasing power of your money on your future plans? At 3% inflation, $100 today will be worth only $67.30 in 20 years, which is a loss of one-third of its value. At 35 years, this amount would be further reduced to just $34.44. Therefore, in order to outpace inflation, your long-term retirement strategies must account for a decrease in the purchasing power of the dollar over time. $