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BFAS Money Line

The Lighter Side

INVESTMENTS

It Wasn't "Different This Time"!

For several years we have heard those besotted with technology say that highly valued companies with no earnings really were worth their inflated valuations because, "It's different this time." The dot.com rush to shed employees in a belated effort to earn a profit is an example of their change from hubris to reality.

The **NASDAQ's -39% return** last year was quite a shock to those who thought stocks only went up. Although the **S & P 500 return of –9%** was not as bad, it was still the **worst return since 1973/1974** when the **market declined 50% over two years**.

This was also the **first year since 1990 that bonds (10+%) outperformed stocks**. **Foreign (-14%)** and **Emerging Market Stocks (-33%)** were not helping offset the decline is U. S. stocks.

Hurt worst last year were those who decided bonds were boring and technology was the place to be. I have seen tech heavy portfolios decline in excess of 50%. Portfolios that were bond heavy and/or heavy in value stocks did much better.

I wonder how many of you heard friends or relatives crowing at Holiday dinners or parties this year about their amazing stock returns? Not many, I bet! The "grass is greener" or "portfolio envy" syndrome sways many people towards the latest "hot stock or category" with predictably sorry results. How many personal finance magazines fess up to their role in touting the hot stock/fund?

Few people understand that endowments, large trusts and estates are managed using asset allocation. Increasing the risk in their case is moving from a 60/40 stock/bond mix, which is generally the benchmark, to 65/35 or 70/30. Rarely will you see a 100% stock portfolio.

Indeed, a recent issue of *Economist* listed portfolio mixes recommended by the best minds at Julius Baer, Credit Suisse, Lehman Brothers ad Daiwa. They averaged 53% in stocks and 43% in bonds. The wild and crazy members of this group, Lehman Brothers and Standard

Life, have 60% of their client portfolios in stocks.

What does the future hold? The crystal ball is pretty murky. Conventional wisdom says there will be a sideways market for the first half, then a recovery in the second half of this year. However, more and more signs point towards a recession.

In addition, a Mid East war could significantly affect everything. Oil disruptions could have a profound impact on the world economy. In the long term, things will work out. In the short term, we have quite a bit of uncertainty.

RETIREMENT

IRA/403(b): New Rules

Probably for the first time in IRS history, they actually simplified their rules, in this case the overly complex rules for IRAs/403(b)s. Just like that, they wiped out hours and hours I invested in training as well as investments in books and software for the old rules!

No longer will unaware IRA account beneficiaries be forced to withdraw all IRA assets over one or five years. Everyone can use reasonable lifetime distribution tables.

Highlights of the new rules include:

- Simple, uniform table everyone can use to determine the minimum distribution required during lifetime.

- No longer need to name a beneficiary before age 70 ½ and live with that forever.

- Can actually change beneficiary at any time up to, and even after, death (by disclaiming assets).

In 2001 you can use the old rules or the new ones. Starting next year the new rules will be in force. Thus, a 71 year old with $100,000 in an IRA would withdraw $5,376.34 under the old plan and only $3,952.57 under the new plan. If the extra money is not needed, that leaves $1,424 in the IRA to continue growing tax deferred!

Nothing prevents you from taking more than the minimum! However, the IRS will be getting reports on all IRA distributions and can assess **a 50% penalty for distributions that don't meet the minimum requirement**.

Here is part of the table virtually everyone will use for determining distributions:

Age	Divisor
70	26.2
71	25.3
72	24.4
73	23.5
74	22.7
75	21.8
76	20.9
77	20.1
78	19.2
79	18.4
80	17.6

There is a different table (see IRS Pub 590 or www.irs.gov) if your spouse is more than 10 years younger than you. This table allows even longer distribution periods.

In summary, the new IRA rules are much more customer friendly. **Everyone should review their situation, how IRAs and 403(b)s fit into their estate plan and their beneficiary designations to make sure everything is correct for the new rules**.

TAXES

Taxes: Estate and Income

Since Estate Tax repeal nearly passed last year, some action in this area is likely this year. **Should the 70% of you who don't have a Will forget about it now? If you have an estate plan, should you junk it? Hardly!**

Estate Tax reform will probably come in one of two forms: total repeal over a number of years or adjustment of tax rates so that estates under some number (maybe $3 million) will pay no tax. I don't see estate taxes going away totally this year.

I would be happy to see estate taxes go away because I see extraordinary amounts of time and money used to avoid them. I would rather people focused solely on how their estate would impact their family, friends and charities.

You **should concentrate on what you**

want your assets to do, who should receive assets, at what stage in life, who should hold the assets (the person or a trust). How you leave these assets and their potential positive (and negative) impact on the heirs is more important, in my opinion, than trying to avoid estate taxes.

Until the new law is signed you might want to avoid some high cost devices like Irrevocable Life Insurance Trusts. They may or may not be useful in the future and the up-front costs are high.

In the meantime, **do get your Wills or Revocable Living Trusts drafted.** Then review them, if necessary, after the new rules come out.

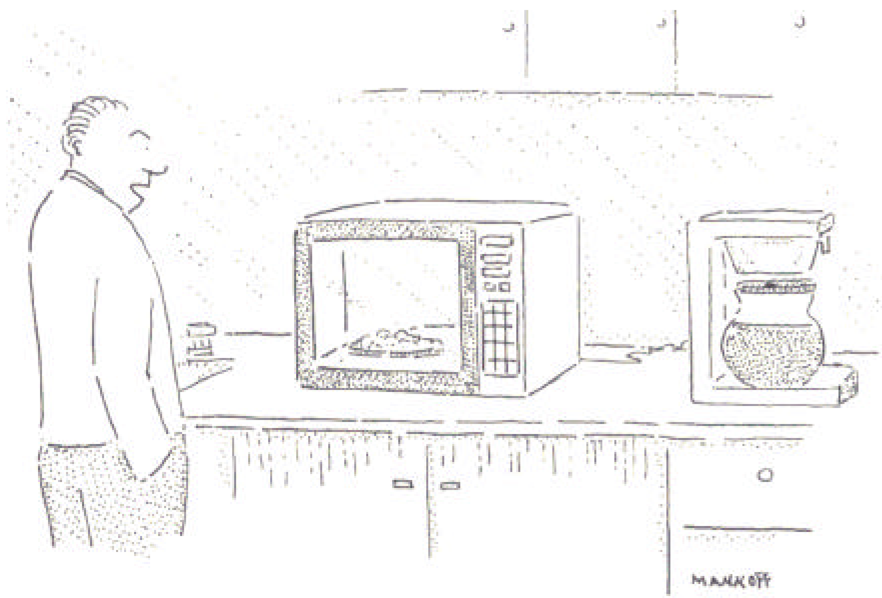
Income taxes are in the news these days. Looks like we will receive at least some tax relief, possibly this year. You may get to adjust your estimated tax payments later in the year.

Some of you have **children in college**. If your **income is too high to take the tax credit for college costs**, **consider dropping the student as a dependent** (assuming you meet the criteria). Then, the **student can take the tax credit to offset any income they earned.**

Commonly missed deductions to consider include investment expenses such as asset management fees, commissions, etc and mileage for charitable activities.

The Tax Foundation (www.taxfoundation.org) has shown that the single largest bill for families today is their tax bill. **Federal taxes (including Social Security and Medicare) make up 26% of the expenses for the median two-earner family (income $68,600)**. **State and local taxes make up another 13%. This total of 39% compares to 18% of income going to taxes in 1955**. It also compares to housing costs of 15%, medical costs of 12% and food costs of 9%.

When you think of the **nearly forty percent tax cost on two earner couples**, you can see that, **in many cases, the spouse is working for the government, not for the family**. I have seen families take a hard look at the difference in after-tax/after-child-care cost of the spouse working and decide it is not worth it. Obviously, circumstances vary widely, but it is certainly something to think about!



"No, I don't want to play chess. I just want you to reheat the lasagna."

INSURANCE

TriCare for Life

Those of you who are **retired military**, or have parents who are retired military need to know about the new Tricare for Life coverage becoming available October 1, 2001. Previously, **those covered by Tricare lost it at age 65 when they became eligible for Medicare.** This meant the loss of prescription coverage, and increased costs, as well as the necessity to purchase a Medicare Supplement.

Tricare for Life also covers retired reservists and medically retired persons. **To qualify you must apply for Medicare Part B upon becoming eligible for Medicare and be enrolled in the military's DEERS system**.

Tricare for Life is free. No Medicare Supplement insurance is necessary. **Prescriptions in network pharmacies cost 20% (25% after $150 deductible in non network pharmacies).** There is also a mail-order pharmacy program. Check it out, this could save big dollars!

DISABILITY

A Quiet Hero

I have the opportunity to meet many families coping with children with disabilities. There are many heros out there. This is the story of one I'll call **Mary**.

Like many moms in this situation, **Mary is the sole caregiver for her son John**. John's father provides neither monetary nor emotional support.

John is nearly 21 years old with a mental age of less than 1. He also has **multiple medical problems requiring skilled nursing care**.

Fortunately, John was awarded **several hundred thousand dollars** as a medical settlement after his birth. This money, managed by a bank in another state, **paid for John's house as well as a wheel-chair accessible van**. The money also paid for Trigon medical insurance, extra medical costs for therapy and all living expenses.

When I met Mary and John, their **living expenses were $50,000 annually, largely medical expenses for John**. The bank-managed pot had about $300,000 left in it. I calculated they had about **seven years before they were bankrupt and had to sell the house**.

What to do? The **solution included Mary being named guardian and conservator for John, placing John's remaining assets into an OBRA '93 qualifying trust, applying for Supplemental Security Income (SSI) and Medicaid, obtaining skilled nursing home care via Medicaid Waiver, and Mary going back to work.**

As if trying to deal with all that is not enough, there were all the doubting Thomas' to deal with. Both the father and the bank (in another state) hired lawyers locally to fight Mary's guardianship/conservatorship.

Mary hired a lawyer in the other state, then had to educate the lawyer as to John's best interests. This **lawyer finally convinced the father and the bank that the plan was solely to help John, not enrich Mary**.

After eighteen months of delays, Mary was named guardian/conservator and the money was transferred from the bank into an OBRA '93 trust locally. Applications for SSI and Medicaid were then made and approved.

The SSI payments of $6,000 annually and Medicaid coverage helped reduce John's living expenses. However, regular Medicaid does not provide the skilled nursing care necessary for Mary to return to work.

Mary applied for the **Medicaid Waiver program**. Due to funding constraints, the program was **not accepting any new entries and put her on a waiting list**. This could take years, during which she could be bankrupt.

Thus, Mary applied for services on an **emergency basis**, **since she had to work or go bankrupt**. Still, she was denied until repeated appeals to State Senators and State Agencies resulted in approval.

John is now receiving skilled nursing care and Mary is scheduled to start work next month. While Mary's situation is still precarious, it is much better than it was when she started this process three years ago.

The real miracle in the whole three-year-saga is Mary's calm persistence. Throughout, **she has dealt with John's numerous medical crises while steadfastly dealing with every disappointment**.

So many people would crumble just dealing with John's problems. Adding all the complexity of restructuring their legal and financial life was a huge burden. **Mary's ability to keep it all in perspective and focus on the long term goal while caring for John was heroic**.

There are many quiet heros out there. This is just one of their stories.

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