

# BFAS Money Line

**INVESTMENTS**

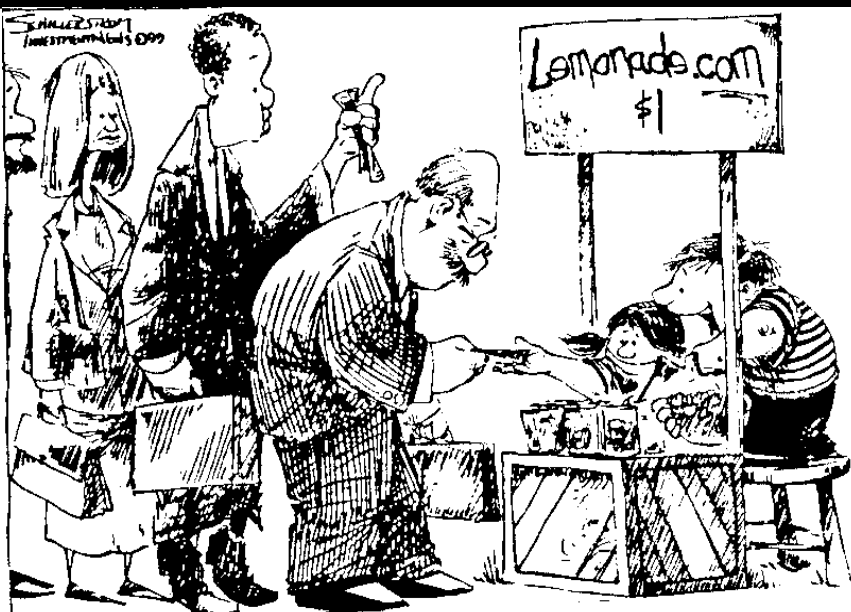
## The Worm has Turned!

The benefits of a diversified portfolio have been hard to see in the recent past. The incredible performance of growth stocks, especially large cap (with emphasis on technology and the Internet), has countered the historical data which shows value stocks beating growth stocks over the long term.

It is easy to see why investors would question why they should be invested in asset categories not currently performing well. **Why not load up on those large cap growth stocks and forget foreign stocks, small cap stocks and any value stocks?**

Two quick reasons. First, buying into large cap growth is buying high. Buying most of the other asset categories is buying low. Which would you rather do, buy high or buy low?

Second, no one can predict when the worm will turn as it did in April. If



**“Business has been totally awesome since we changed that sign!!!”**

you’ve bet the farm on the asset category now out of favor, your performance will significantly lag. Take a look at the following tables:

April 99	Value	Growth
Lrg Cap	7.20%	.59%
Mid Cap	9.11%	3.77%
Sml Cap	9.18%	4.41%

Selected Others	April 99
Latin America	14.95%
Emerging Mkts	13.30%
Real Estate	10.49%
Foreign Stock	4.88%
Europe Stock	2.87%
Technology	2.87%

In fact, **Emerging Markets have out-performed all other categories year-to-date (22.05% versus 21.26% for Technology)**. Those asset categories which are super hot typically fall, right after you buy them – don’t they?

In a well diversified portfolio, there will almost certainly be some asset categories down at any one time. Choosing an optimum portfolio is an effort to minimize risk while maximizing returns over the long term. **Short-term, brilliant returns in one asset class can be seductive, however a properly balanced portfolio will smooth out the ups and downs and outperform over the long term.**

## TAXES

## Income Shifting

Now that you have, hopefully, finished your 1998 taxes, here are some things to consider for 1999. **One of the best strategies to reduce taxes is income shifting.**

**The best income-shifting device is hiring a child, grandchild or some other family member.**

Someone who owns a business or a professional practice can hire a low-bracket relative and pay prevailing wages.

**Money that's paid is fully deductible at rates up to 39.6%. Yet the child or grandchild can earn over \$4,000 without owing any income tax.** Since earned income isn't subject to the "kiddie-tax", even children under 14 can have substantial amounts of tax-free earned income, provided they actually perform work and get paid at a suitable rate.

**This works especially well if the child is under 18 and the business is a sole proprietorship since no Social Security, Medicare or unemployment taxes need be withheld.**

If the child does work, you should encourage contributions to a Roth IRA (up to \$2,000). Either the child can contribute the \$2,000 or a parent can contribute \$2,000 for the child. With years and years of compounding, the child can receive tremendous

amounts of tax-free income at retirement.

To a certain extent, **this strategy works for low-income parents as well.** You may pay them for babysitting (and they can put it into a Roth IRA) or you can gift low-basis securities to them. If you gift low basis securities, they can sell them and pay taxes at their lower tax rate.

## Charitable Split-dollar Plans

According to the February issue of Financial Planning magazine, charitable reverse split-dollar insurance plans have seen amazing growth in the last few years. Yet, there are **grave concerns about the technique.** There are persistent rumors that **the IRS may be preparing to crack down on them.**

At least **one major insurance carrier has indicated it will no longer issue policies used in such plans;** other carriers are expected to follow. Even the **board of directors of the National Committee on Planned Giving has urged its members to refrain from participating in the plans.**

An IRS crack down could cause a host of problems for donors, charities, tax preparers and plan promoters.

**Donors could have their gift made taxable with possible gift taxes, penalties and interest.** Also, this could

significantly complicate estate tax plans.

**Charities could lose their tax exempt status.**

Their could be violations against the charity's charter with officers liable.

**Tax preparers and plan promoters could be liable for penalties** due to understatement of tax liability.

One potential solution includes terminating the plan and paying the charity the Unearned Premium Account balance. In any case, **be concerned about your possible liabilities.**

## HEALTH INSURANCE

## Medicare Options

Medicare is changing. The **Medicare+Choice** plan is an effort to **encourage greater competition and more choices** for health care coverage. Most of you may have received the *Medicare and You* bulletin from the Health Care Financing Administration.

Choices are great, but does that equate to better health care for you? Some of these new programs are supposed to offer **preventive care such as annual mammograms, pap smears, diabetes glucose monitoring, colorectal cancer screening, and bone-mass measurement.**

The plan is supposed to result in a number of companies vying for your services. Thus, **in addition to traditional Medicare there might be several companies offering Medicare HMO**

plans or a Provider-Sponsored organizations (PSO) or a Preferred provider organizations (PPO).

Alternatively, you can enroll in a **private fee-for-service (PFFS) plan** where you choose a private insurance plan that accepts Medicare beneficiaries and receive care from any provider. You would still pay the Part B premium to Medicare, and Medicare would pay the plan a premium for Medicare-covered services. The PFFS plan, not HCFA, would decide the amount of payment for covered services. Providers could charge a maximum of up to 115% of the plan's contracted rate.

**Which plan is best for you?** First, you must find out **what plans are available in Virginia.** The period for accepting proposals has been extended due to the very few received thus far. Once all the proposals have been received, you will be notified as to those options available here.

The **option you choose will depend upon your personal preferences as well as your medical and financial situation.** You can **always keep the traditional Medicare coverage.** Make sure you understand all the ramifications (both good and bad) before making a change!!!



"Someday, my son, 45% of all this will be yours."

Editor's Note: 55% estate taxes start at \$3 million.

#### ESTATE PLANNING

## Carrots and Sticks

One option available to **parents who are concerned about their children inappropriately using trust assets** (drugs, etc.) is to use an **incentive trust.** Rather than an unconditional, lump-sum inheritance, an incentive trust can distribute assets to reward the development of character traits and behavior parents want to foster.

**For example,** a parent could create a trust that would allow distributions to a child who reached specified income levels. **An heir between the ages of 25 and 35 could get a dollar-for-dollar match of any earnings**

**exceeding \$50,000.** As the child grows older, the income level needed to achieve matching could be ratcheted up.

**Other incentives could benefit a child who turns into a thrifty saver or skilled investor.**

It could also be used to discourage unhealthy behavior. For children with a history of drug or alcohol abuse, the **trust could reward sobriety** (maybe require blood tests or counseling). To prevent total abandonment, there could be a subsistence-level payout for the child who backslides.

**A caution about using family members or close friends as trustees.** They could allow emotions to cloud their judgment when making incentive distributions. Independent

trustees might be a better choice.

### DISABILITY ISSUES

## Caregivers

Some time back, I mentioned a \$500 tax credit on state taxes for caregivers. Recently passed legislation is quite different from a tax credit.

The governor recently signed the **Virginia Caregivers Grant Program**. Initially funded with \$1.4 million, the program **will offer \$500 grants to caregivers**.

The **disabled person** being cared for must be a **mentally or physically impaired relative either in the caregiver's home or their own home**. The disabled person must not be receiving Medicaid-reimbursed community long-term care services or living in a nursing home or other assisted living facility where assistance with Activities of Daily Living is already provided and included in monthly fees.

**Grants will be administered by** (I believe) **Social Services** with **applications due between February 1 and May 1**. More information will be available soon, probably including income restrictions. Please note that this is a grant program. When all the money is allocated, no more is available until the next year. So, **be sure to check in with Social Services later this year to inquire about the program**.

## Jobs

A survey conducted by the **National Organization on Disability** last year show some of the disparities in jobs. **Only 29% of disabled persons (18-64) work full or part-time**, compared to 79% of the non-disabled population.

Not surprisingly, **72% of non-working persons with disability want to work!!** What is surprising is that only 30% of persons with disability cited inadequate transportation as a problem. (They must not live in our area!)

Finally, 34% of adults with disabilities live in households with total income of \$15,000 or less.

There is legislation being worked on in this congress to address jobs and government benefits. Get educated on the issues and advocate!!!

## Personal Care Providers

Not everyone understands that they have **choices in their care providers** even though the Community Services Board may be contracting for them. In fact you do.

**You have control over who provides care to your loved one.** Listed below are potential providers and phone numbers. If you are unhappy with what you have, shop around.

Ameri're Plus H'm Hlth 627-1921  
Arcadia Hlth Care 397-0290  
Arvon Staffing 499-9900

At Home Care 467-3901  
Best & Dep H'm Hlth 363-7542  
Best & Dep Nurs Care 363-7547  
Bon Secours H'm Hlth 889-5455  
Children's H'm Hlth 668-7196  
Comfort Care H'm Hlth 312-6470  
Commonw'th Hlth Care 499-2306  
Hand'n Heart 490-1223  
Home Care Nursing 399-9700  
In Home Hlth 490-9323  
Interim Hlth Care 466-1401  
Int'l Home Care of Tide 631-0332  
Jewish Fam Services 489-3111  
Kelly Assisted Living 490-1203  
Maxim Hlth Care 490-3009  
M. E. Cox Center 340-4388  
N-Care, Inc. 484-0420  
Norfolk Senior Center  
Ghent 625-5857  
Restmere 489-3111  
Olst Kimb Qual Care 499-2303  
Personal Touch 855-1488  
Reliance H'm Hlth 366-8717  
Senior Svcs (SEVAMP) 461-9481  
Sentara H'm Hlth 461-5649  
Staff Builders 466-1340  
Xtra Care 531-9421

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