May 2008 Newsletter

Estate Planning for the Worst Possible Scenario: The Death of Both Spouses While the Kids Are Young
By the Financial Planning Association

The reason why some parents hesitate to make an estate plan is understandable. It calls into consideration your worst fears – the possibility of your death or your kids facing life without one or the other parent.

But what about an even worse scenario – the possibility that you and your spouse could die at the same time or in close succession by accident or illness. One might be reminded of the situation of actor Christopher Reeve and his wife Dana; Dana died of cancer within two years of her husband's death and they left a teenaged son behind.

From the standpoint of individuals, planning generally gets done with the mindset that one parent will be left to raise any minor children and continue earning and investing for the family. But in reality, you both should consider a plan that accommodates the absolute worst scenario -- the loss of both parents and what would happen to your kids' lives and finances if that happens. Most financial experts advise you to revise your estate plan every five years or as lifestyle issues change. It's important to get help for the financial aspects of your estate plan as well as legal instructions for the support, education and general well-being of your kids. Here are some general topics to explore with tax and estate attorneys as well as a financial planner:

Talk first about who would best raise your kids: This is clearly the most important decision you'll make. You need to find the best person – or couple – to raise your kids if something happens to both of you. You know better than anyone else what hard and soft skills that will require – they need to be people whose own lives won't blow apart by adding your kids to the mix. It's also wise to name alternates in case the people you name have a change of heart for any reason, or if something happens to them.

Then talk about who will handle the money: After you choose your guardian and your alternate, you need to build a financial plan that will support those decision makers in the best way possible. Many experts advise you to split the responsibility of handling the kids and the money. This is a personal decision, obviously, but the concept is a good one. Absorbing someone else's kids into a new family in a tragic situation is a tremendous responsibility with plenty of margin for error. For some time, it will be a full-time job. The appointment of a sharp financial trustee will allow you to allocate resources for day-to-day living expenses, education expenses and if there's money left over, for investment.

Start thinking through an estate plan: For most of us, it's going to be a challenge simply to stretch what we have to help our kids after we die. After all, when we go, there goes the weekly paycheck. For individuals who own businesses or have more substantial assets, the idea is to protect first those assets and then continue to grow them as investments. The trustee and whatever advisers you attach to this process will be key. But the first step is to get some general advice on managing the assets you can leave behind or backstopping your kids' anticipated needs with various insurance options you can put in place now.

About those insurance options: Some married couples may elect to buy insurance together within the same policy. These policies take the form of either a joint first-to-die or a joint second-to-die (survivorship) design. With first-to-die, the death benefit is paid at the death of the spouse who dies first. With second-to-die, no death benefit is paid until both spouses are deceased, and that makes them a useful estate-planning vehicle in the right situation. Ask which policy choices are right for you from a qualified agent.

Make sure you figure this a worst-case scenario into your education savings plans: Elementary, secondary and college education costs – particularly if all are in private schools -- need to be factored into the estate picture, and a financial professional might be useful in getting a savings plan in place while you're alive that covers all possible events.

Referrals to qualified attorneys are available upon request. Please contact Capital Advantage, Inc. at (925) 299-1500 to speak with your Financial Advisor or to discuss your particular situation.

A Long-term Care Insurance Primer
By the Financial Planning Association

As millions of Baby Boomers head into their retirement years, it's surprising how few actually know that the government provides little more than a few weeks of financial support for home-based or nursing home care when the average person needs it for at least a year.

A 2006 Genworth Financial Survey says the national average private room rate at a nursing home – the most expensive care option – was $194.28 per day/$70,912 annually. Long-term care insurance (LTC) may be one solution for those who need to bridge the gap between their savings and the actual costs they'll face.

Determining and paying for long-term care is almost too complex a topic to be covered in a short article like this, which is why it makes sense to discuss your individual situation with a financial planner. Here are some of the questions you need to answer before investing in long-term care insurance or other options:

What resources do you have? We're not just talking about money here. While care giving puts a strain on family, it's important to consider whether family and friends are truly willing and able to help with your care, which can provide a considerable financial and emotional benefit. Also, if you live in a community with reliable volunteer resources to help, that's something to note, though today's services may not be there tomorrow.

How old are you and your spouse and what's your health history? People in good health purchasing long-term care insurance at the age of 55 usually get the most affordable deal in LTC insurance. But an individual's family health history and current health status are the real determinants of what your LTC insurance policy will cost – or if you'll qualify for coverage at all. Also, it's important to note that 40 percent of long-term care is provided to individuals between the ages of 19 and 65, so the need for care can strike at any time.

Are you a single female? Again, personal and family resources come into play here, but since women typically live longer than men – and they still earn less on average than men – women should take a heightened interest in providing for their long-term care safety net. Long-term care insurance might be a good solution given their other investments and their health history.

What types of services are covered? Over the course of time, long-term care policies have evolved to place more emphasis on home-based care or assisted living, since most people would choose to recover or live out their last days in a familiar environment. A basic LTC insurance policy pays for assistance with activities of daily living including eating, dressing, bathing, toileting, incontinence, and transferring (bed to chair, etc.). Each policy lists the types of services that are covered under nursing home care and under home health care. Homemaker services are generally covered and other services as listed in the policy.

What triggers coverage? A qualified LTC policy won't go into effect until the covered individual can't perform two tasks of daily living for a period, typically 90 days, or when that person needs substantial supervision related to cognitive impairment. This is where you have to read the fine print since some policies are more restrictive than others. More affordable policies generally take longer to kick in. See if coverage for other physical ailments is available as part of the policy and what per-diem or monthly allowances are offered.

What if I never want to go to a nursing home? The idea is to cover every eventuality. The best-designed LTC policies will pay the same amount of benefit whether care is received in a long-term care facility, an assisted living facility, an adult day care center, or in the home. Some policies do offer reduced percentages for home health care versus nursing home care, but it's a better idea to keep full percentages on home health care benefits since most people would rather stay in their homes.

What's the record of particular companies in this business? Over the past generation, more companies have gotten involved in the LTC insurance business, and it makes sense to see not only who the leaders are at the time you're buying and what they're offering, but how financially healthy these companies are and have been over the course of time. You've probably heard of insurance companies that have gone out of business and stranded customers. There's no restriction on that happening with LTC providers, so check their ratings and financial history very carefully.

Buying or owning Long Term Care Insurance has been a popular question for many of our clients, please don't hesitate to contact our office at (925) 299-1500 if you or your family has any concerns about this topic.

Capital Advantage Gives Locally

By Jackie Johnston, CCC EHSD

John Hayman is the owner of Capital Advantage, Inc., retirement planning and investment management specialists, in Lafayette. He found VESTIA in 2005 when he and his employees were looking for a way to give to local families. He says, "I'm charitably inclined as I think most people are, but I don't want to just give a donation to a big agency. I like to see my hard-earned money used in the community locally, and I told VESTIA that I wanted to be involved in what goes on. It's different when you can see what your contribution means to a local family."

"Everyone here has a family," explains Aimee Schwartze, Capital Advantage's Director of Client Services. "We wanted to do something, and I thought we could adopt a family for the holidays. I did some research and found VESTIA's Angel Tree that first year. We bought toys for that program, and then in 2006 and 2007, we contributed gifts and cash donations to VESTIA for the Holiday Helpers Warehouse."

Aimee is the organizer of the holiday campaign at Capital Advantage, and she recruited coworkers and clients to give to VESTIA too. "We sent a letter to everyone on our client list asking for their donations. We made it easy for them to drop things off at our office, and set up cookies and coffee for them when they came by. If they also wanted to meet with us or ask questions about their investments while they were here, we made ourselves available to talk business too. We had a good response to our letters."

John believes, "People want to give, but they don't know how or where. Our firm has a circle of influence, and we do make certain representations, so we want to be sure that the agency we contribute to is really giving the donations to the people who need help the most. I personally want to talk to the mom I'm helping and see what she needs."

John and his wife Nicola contributed $1,000 to VESTIA at the holidays, and John says he also made a few calls to clients to urge them to match that contribution. Aimee made numerous trips back and forth to Martinez to deliver all the donations Capital Advantage received for the Holiday Helpers Warehouse. And John made good on his intention to be involved in seeing where the money goes by spending some time at the Holiday Helpers Warehouse as a volunteer. He says "I was the only man there the day I volunteered, and I talked to people and saw for myself how it worked. It was a good experience."

Aimee also volunteered at the Holiday Helpers Warehouse, and came away with her theme for the 2008 drive. "We noticed that no one donated blankets," she says, "And a lot of people asked for them. It's sad to me to think that someone needs a new, warm blanket, and we didn't have that to give. So, we're going to ask for new blanket donations this year. I'd like to set a goal for us, and try to get 1,000 new blankets."

John responds a little hesitantly to Aimee's lofty goal. He suggests, "Maybe we should try for 500 blankets…1,000 might be a little high."

Aimee though is enthusiastic about her plan, "We could call stores and ask them if they could donate blankets too. It's something we could do year-round. If we start getting them early, maybe we'll just rent a storage unit to keep them in! We could do that, couldn't we?" John agrees, "Sure, sure. You just start calling those stores, and we'll see what they say." VESTIA thanks John, Aimee and all the employees and clients of Capital Advantage for their generous support of VESTIA.

If you would like to help Aimee with their 2008 Blanket Drive, please feel free to call her at (925) 299-1500.

Get A Head Start On Tax Planning For 2008

By the Financial Planning Association

Now that most of us have filed our 2007 tax returns, now's a good time to keep in mind some key tax changes that will affect your 2008 returns. Here are some of the highlights:

Wider tax brackets: In one of the rare cases in life where inflation looks like a good thing, all tax-bracket thresholds will be increasing. For a married couple filing a joint return, for example, the taxable-income threshold separating the 15-percent bracket from the 25-percent bracket is $65,100, up from $63,700 in 2007.

Personal exemption: The personal exemption – which you're allowed to claim for yourself and each dependent you have -- will go up $100 to $3,500 for 2008.

Standard deduction: Single filers will see this deduction increase $100 from 2007 levels to $5,450. Married couples filing jointly will see their standard deduction rise to $10,950, $200 more, and the amount for heads of households who don't itemize will be $8,000, up $150. For married taxpayers age 65 and older, they'll be allowed to add $1,050 to the regular standard deduction – unchanged from 2007, and singles will get an extra $1,350 compared to $1,300 in tax year 2007.

Phase-out of itemized deductions: Taxpayers will start to see the value of their itemized deductions go down after their taxable income exceeds $159,950 in 2008. That's $3,550 higher than in 2007.

Retirement plan contributions: The contribution amount allowed for Roth IRAs begins to phase out for joint filers with incomes exceeding $159,000 (up from $156,000 in 2007) and $101,000 (up from $99,000) for singles and heads of household. For contributions to a traditional IRA, the deduction phase-out range for an individual covered by a retirement plan at work begins at income of $85,000 for joint filers (up from $83,000) and $53,000 for a single person or head of household (up from $52,000). The annual contribution limit for most defined contribution plans rises to $46,000, up from $45,000 in 2007.

Hope education credit: The maximum Hope credit, available for the first two years of post-secondary education, is $1,800, up from $1,650 in 2007.

Energy breaks: The federal government extended its credit on 30 percent of qualified solar generators for residential use.

The Kiddie Tax: The amount of investment income a child under age 19 -- or a full-time student under 24 -- can earn before excess earnings are taxed at his or her parents' rate will go up $100 to $1,800 in 2008.

Tax-free parking and transit passes. Employers will be allowed to give employees parking valued at $220 a month as a tax-free fringe benefit in 2008, up $5 from 2007.

This article is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Capital Advantage, Inc., a local member of the FPA.