Protecting Your Health and Wealth

A MONTHLY RESOURCE FOR PROTECTING YOUR ASSETS

JERRY HILL
PUBLISHER
BENEFLEX FINANCIAL GROUP

WWW.BENEFLEXFINANCIAL.COM

JANUARY 2006

Creditors Will Have a Tougher Time Getting to Your IRAs

No one likes to think about bankruptcy. But it can happen to the best of people. In fact, the Administrative Office of the U.S. Courts reported that for the 12-month period ending March 31, 2005, there were almost 1.6 million bankruptcy filings.[1]

A study by Harvard University showed that medical problems caused half of these individuals to seek protection from creditors.[2] And according to the Congressional Record, seniors (65 and older) are now the fastest growing age group filing for bankruptcy protection.[3] If circumstances force you into bankruptcy, you can take comfort in knowing that some of your assets might now be better protected.

On April 20, 2005, the President signed the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. The purpose of this new legislation was to revise existing laws to help make credit more affordable for Americans.[4] Part of the regulations expanded the language regarding retirement plans.

All money that you have in qualified retirement plans, such as 401(k)s and profit sharing plans; and 403(b)s are now exempt from bankruptcy. And your IRAs and Roth IRAs will have a $1 million limitation that is adjusted for inflation. Now you may think that this isn't a particularly large amount since many investors get big rollovers when they retire. The government took care of you there. The $1 million limitation applies only to your contributions and the associated appreciation. It does not include funds rolled into your IRAs from qualified plans, which have unlimited protection.

For example, suppose that over the last 30 years you had faithfully contributed the maximum into your IRA. Now that account is worth $400,000. What if you still have $800,000 sitting in your former employer's 401(k) and were afraid to roll it into your IRA because your state had poor bankruptcy protection laws? The new federal law has changed all of that.

For even though the IRA will be worth $1.2 million after the rollover, only the original $400,000 will apply to the $1 million limit. The balance falls into the unlimited protection category. However, this only applies to bankruptcy. Not to judgments awarded in other courts where state creditor protection laws could possibility prevail.

Thanks to the new provisions, your IRAs will have more creditor protection and be there when you need the money. Therefore, you can have greater peace of mind when you roll your qualified plan funds into an IRA. Plus you'll have the flexibility that an IRA can offer, such as more investment options, less restrictive rules, and tax-savings provisions for your beneficiaries. I strongly recommend all investors consult with their own qualified tax and financial advisors prior to making any investment decisions.

If you would like help in rolling over your retirement plan into an IRA, just check off and drop the enclosed coupon in the mail.

Do You Want To Reduce Income Taxes And Get More Income From Your Investments?

Do you own an asset that you wished paid more income, yet you don't want to sell because you'll face a hefty capital gains tax? For example, maybe you have a piece of raw land or stocks that don't pay the dividends you are looking for. In such a case, you might be able to convert them into another investment that provides more income while avoiding the capital gains tax. This could be accomplished through a Charitable Remainder Trust (CRT).

Through a CRT, highly appreciated and/or low-income producing assets are transferred to a trust that will pay you an ongoing income for your life or for a specified time period. Here is a basic summary of how it works:

- Your attorney draws up the trust;

1 http://www.uscourts.gov/Press_Releases/news61005.html
2 http://www.hms.harvard.edu/news/releases/2_2Himmelstein.html
3 http://www.senate.gov/~feingold/statements/05/03/2005415658.html
4 http://www.whitehouse.gov/news/releases/2005/04/20050420-5.html

- You transfer assets that have appreciated significantly to the trust but are producing an income that is lower than your current expectations or needs;
- The trust sells the asset and pays no capital gains tax;
- The trust then reinvests the proceeds in investments that could possibly pay a higher income (e.g., bonds or preferred stock) Please note that investments in preferred stocks and bonds involve risks, including the possible loss of principal invested.

Some people overlook this technique because they believe that they must leave the trust's entire principal to the charity. That, however, is not always the case. As a practical matter, the present value of the remainder interest to the charity must equal at least 10% of value of the donor's income interest. This calculation is largely based upon the age of the income beneficiaries, trust duration, value of the contributed assets and the Applicable Federal Rate (AFR) published by the Treasury Department. Although the trust must be irrevocable, the donor can serve as the trustee of the trust, which can allow you some discretion over the trust investments.

Furthermore, the trust can be designed, in some cases, to provide children and grandchildren with some benefits. In some cases, these trusts have been drafted to provide children, grandchildren, and other relatives with the benefits associated with the income interest. In other cases, the income from these trusts has also been used to fund the premiums of a life insurance policy to support the younger relatives at the donor's death.

In addition to the potentially higher income payments, the donor is usually entitled to an income tax deduction, which is tied to the value of the charities' remainder interest. Also, when the trust is properly created, the assets remaining in the trust at the end of the donor's life (or predetermined term of years) can pass to the charity free of federal estate taxes. Of course, certain income limitations and deduction restrictions will often apply to the amount and timing of the income-tax deduction. For this reason, careful planning is required to determine the extent of the donor's income and estate tax benefits. As these benefits are subject to several federal tax rules, professional assistance from an established estate-planning attorney is highly recommended.

Please call for a review of how this strategy could potentially benefit you from an income and tax perspective. Additionally, a list of established estate planning attorneys can also be provided if you need it. Please check off and return the enclosed coupon to schedule an appointment.

Over 80? Should You Forget Long-term Care Insurance?

You have probably seen the statistics on the cost for long-term care in your community, as well as the probability of needing that care. And you may have even thought about buying insurance to cover such expenses. But what if you are over 80-years of age and have a few health problems? Is coverage out of the question?

Long-term care insurance companies generally will conduct medical underwriting before issuing a policy. After all, they want to know the odds of possibly paying a claim. In many cases though, they will go beyond medical questions and give you an opportunity to explain your lifestyle. This could be especially beneficial for older seniors.

For example, suppose that you are 80-years-old and had a heart attack three years ago with little damage. Since then, medication has kept your blood pressure under control and you take a daily aspirin. Your history could indicate that you have a greater chance of needing special care than someone without your medical problem. But there could be more to the story.

Perhaps you are active as a volunteer for a charity or religious organization. Maybe you swim four times a week in the community pool or participate in other exercise. Do you manage your own finances, drive, or work in the yard? Do you have an active social life? These are points that many long-term care insurance companies will consider when reviewing your application.

Medical history will certainly play a big part in determining your eligibility for coverage. And you must tell the truth. But don't let age or health problems prevent you from protecting your assets from the high cost of long-term care.

For a no-obligation proposal based on local long-term care rates, check off and return the enclosed coupon. Please include your birth date.

Get this Valuable Free Information

Mail back to:
Jerry Hill
Beneflex Financial Group
11811 East Freeway Ste 545
Houston, TX 77029
800-926-9107 or 713-455-7087

Please send me information on these items mentioned in your newsletter:

- ❑ I would like to have more control over my taxes
- ❑ I am interested in any form of guaranteed income and would like to know about the GMP rider. I (check one) ____do _____do not own a variable annuity
- ❑ I am interested to know more about hedge funds—I've heard of them and would like to understand them

I think these people would like to receive your newsletter and an invitation to your next public presentation:

Name
Address

Name
Address

Name
Address

(*Please provide names and addresses with zip codes*