Home Care: Factors To Consider

Home is where the heart is, and it's also where most of us would choose to live out our days, even when illness makes it difficult to take care of ourselves. But home care isn't always viable, and when it can work, the quality of life for you or an aging parent will depend on getting the right kind of help and being able to pay for it. Consider these issues:

Does home care make sense? A nursing home may be the eldercare option of last resort, but it does promise comprehensive care. Residents don't have to worry about running a household, paying bills, or getting to the doctor, and they are supposed to get all the help they need with activities of daily living (ADLs)—such things as bathing, eating, dressing, and using the bathroom. At home, you may need assistance in any or all of those areas. Someone who is physically feeble but mentally sharp may be able to coordinate services from a variety of sources, particularly if there's a relative close by to help, whereas someone with Alzheimer's will probably need a more closely supervised environment.

What kind of help is needed? In-home help can take many forms. You could employ someone to assist with ADLs; to do cooking, cleaning, laundry, or shopping; to make sure you take your medication on time and get to the doctor; and even to provide companionship. You might also consider hiring a case manager who can find and manage a variety of services and determine eligibility for government entitlement programs. Start by making a list of everything you or a parent might need, and consider the preferences of the person who will receive the care. What kind of people will she be comfortable having in her home?

Agency or individual? When you're ready to start hiring, you'll have to decide whether to work through a home care agency or to hire someone directly. With an agency, you won't have to worry about hiring, firing, or managing workers, or dealing with payroll taxes and other paperwork. Moreover, you may need to use an agency in order to get reimbursement from Medicare, Medicaid, or private long-term care insurance. But you'll pay more to an agency, which may use several employees, preventing the kind of one-on-one bond that can develop with a single individual. Still, hiring someone privately has its own headaches, and you'll have to scramble for coverage if the worker is out sick, on vacation, or suddenly quits.

Where will the money come from? Hiring home care workers can be expensive. But if you're homebound and your doctor orders the services, Medicare will pay for such things as skilled nursing care and physical or speech therapy, if provided through a Medicare-approved agency. Home health services are also a mandatory Medi-caid benefit, as long as they're ordered by a physician. But to qualify for Medicaid, you'll have to spend down almost all of your assets. Finally, most long-term care insurance policies include provisions for home care, and while typically that means using an agency, some insurers are getting more flexible about paying non-agency workers. ●

Drive To Strong Yields

(Continued from page 1)

Municipal money market funds. In today's environment of micro-scopic interest rates, the difference between higher taxable yields and the lower yields of tax-free municipals has been compressed, particularly for short maturities. So even if munis never made sense for you before, they may now. You can find the current yields of both taxable and tax-free money funds at www.imoneynet.com.

To gauge the difference between taxable and tax-free funds, divide the muni's yield by 1 minus your tax rate (as revised under the recently enacted law). The result is the yield that a taxable fund must offer to match the muni's performance. If a fund is touted as "double tax-free" for residents of your state—that is, free from state as well as federal income tax—use your combined tax rate in the formula.

Treasury Inflation-Protected Securities. TIPS are U.S. government –issued instruments that boost your principal to keep up with inflation. Because you're money is tied up for the term of the note, TIPS aren't generally considered money-market substitutes, but they can protect your purchasing power. If the Consumer Price Index rises 2%, a TIPS' $1,000 face value turns into $1,020—and although your fixed interest rate doesn't change, the larger principal translates into higher interest payments. But you're taxed on the principal growth in the year it's calculated, even though you won't receive the money until the bond matures. So TIPS may work best in taxdeferred retirement accounts.

The interest rate for a TIPS, added to the expected inflation rate, roughly equals the rate you'd get with a conventional U.S. Treasury security. If inflation is surprisingly tame, TIPS will underperform standard Treasuries. If prices rise more than the market expects, you'll earn more with TIPS.

Other advantages: TIPS' prices often move independently of those of stocks, bonds, or conventional Treasuries, and so can help diversify a portfolio. Also, because TIPS are less volatile than regular government issues, their market value declines less than that of other Treasuries when interest rates rise. ●

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Don't Park Your Cash — Drive To Strong Yields

These days, with money market funds paying less than the inflation rate—before taxes—it's hardly worth the trouble to move cash out of your checking account. But if you have a substantial sum wasting away, there may be ways to double, triple, or even quadruple your yield. And, if you are willing to substitute a longer-term investment for a portion of your cash position, it opens up a number of alternative high-quality investments. You could employ a combination, allocating different amounts to each vehicle, depending on your needs and comfort level.

Fund Alternatives. The best place to start is where you are. Many fund companies have a higher-paying premium money fund for invest-ors who maintain lofty balances, and if you're holding more cash these days, you might qualify. You could earn an additional 0.15% to 0.20% (15 to 20 basis points) simply by making a phone call.

Exchange Traded Funds (ETFs). You might consider the Lehman 1-3 Year Treasury Bond Fund iShare, an ETF that tracks the Lehman index. You can buy or sell whenever markets are open, and you'll receive monthly interest payments that recently yielded about 1.5%. Keep in mind, ETFs, like mutual funds, are subject to market risk and potential loss of principal.

Stable, Not So Simple. You may also want to consider a stable-value or capital-preservation fund, which uses complex derivatives and insurance arrangements to protect your principal and typically offers rates slightly higher than a money fund's. Ultra-short-term bond funds, another cash-alternative workhorse, proved a bit volatile last year. Here are some of today's best money-market alternatives.

Depository Products. Compare accounts offered by banks, thrifts, and credit unions. If you shop around you ought to be able to snag a better-than-money-market rate. Internet market-places such as bankrate.com can point you to savings vehicles available across the country. Before placing moneywith an institution, however, make sure it offers the Federal Deposit Insurance Corp. guarantee, and be careful that the principal you deposit plus the interest you earn won't exceed the $100,000 protected amount.

You may be able to double, triple, or even quadruple the yield you make on money market funds

Fixed annuities. Sold and backed by insurance companies, a fixed annuity is a contract that pays a set return, with the interest compounding until you make a withdrawal. There is a 10% penalty for pulling out earnings before age 59½, but even if you lose that portion of the income, a 3% fixed contract, for example, can net you considerably more than a money fund.

(Continued on page 4)

LifePlan Launches Its First Quarterly Newsletter

Welcome to the first issue of our new quarterly newsletter, *LifePlan*. We're big believers in keeping you informed about what's going on. This publication is another way for us to stay in touch and keep you on top of financial planning topics.

Stories will focus on timely issues that affect you. You can expect to see us cover retirement and estate planning, taxes and insurance as well as investing. We'll often tackle thorny issues that are too technical for most magazines and newspapers — subjects like funding a revocable living trust and how a sophisticated asset allocation program diversifies investments and cuts risk.

To bring you this publication, we've hired the services of a veteran personal finance journalist, Andrew Gluck. Andy spent five years covering Wall Street as a staff writer and columnist for the Daily News of New York, and five years as senior writer for Worth. He now writes a monthly news column for Investment Advisor magazine.

Please let us know if you have some friends who would enjoy receiving the newsletter, and we'll be happy to send it to them. We're excited about this project and look forward to your input on it.

Thank you for your support,

Debra Johanson, CFP™

Limits Of Family Limited Partnerships

During the past 10 years, family limited partnerships (FLPs) have become an increasingly popular way to give assets to children. You could discount the value of assets you transfer to an FLP—for instance, a gift to your children—by 20%, 30% or even 50%. The less a gift is worth in the eyes of the IRS, the more you can pass along with little or no tax liability. Thus, you can transfer an interest in a business, real estate, securities, or other holdings to your children and pay lower gift and estate taxes.

Now, however, a U.S. Tax Court decision has called into question some advantages of FLPs—in particular, the ability of those who establish FLPs to retain management control. That had been a key attraction—that you could give away discounted interests in your assets yet continue to manage them.

Typically, parents establish an FLP to hold a particular asset. They serve as general partners and manage the FLP, while the children are limited partners. Because the children couldn't easily sell their interests in this private vehicle managed by their parents, the IRS considers interests in an FLP to be worth less than the actual market value of assets it holds. So, for example, a gift of a 99% limited partnership interest in an FLP owning property worth $1.5 million might be valued at just $1 million for tax purposes.

For wealthy families with many children and grandchildren, an FLP can be a good way to move assets out of parents' estates. Because anyone

can make annual tax-free gifts of up to $11,000 to an unlimited number of recipients, parents could slowly transfer assets to their family's younger generations without paying gift tax. An FLP can also be an effective way to transfer real estate incrementally without having to file a new deed every year.

The Tax Court decision in May 2003 invalidated an FLP established by Albert Strangi. The problem, the court ruled, was that Strangi, through his attorney, still had use of the assets he was transferring, and as general partner retained the right to determine who could enjoy them. The court threw the full, undis-counted value of property cont-ributed to the FLP back into Strangi's estate for tax purposes.

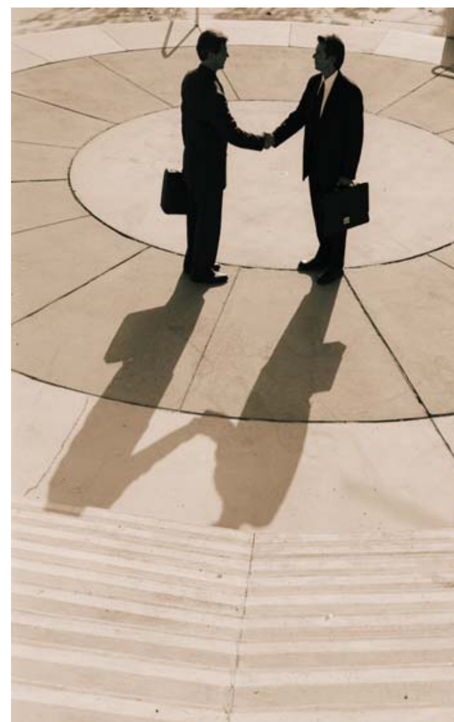
Some attorneys believe the Strangi decision could eventually be reversed. In the meantime, however, parents transferring assets to children may have to give up management control of the FLP, say estate tax attorneys. One way to do that could be to name your spouse as general partner, says Gideon Roth-schild, chairman of the American Bar Association International Estate Planning Committee. But you, and not your GP spouse, would have to transfer the assets, Rothschild says. Another approach would be to name a trust with an independent trustee as GP. Rothschild says that another recent court case confirmed the validity of FLPs, when the transferring party didn't retain an interest in the assets. He maintains the Strangi case doesn't negate the benefits of FLPs; it just requires more careful crafting and a rethinking of the management structure. ●

Planning To Retain Key Employees

If you own a business, you need to recruit and retain top talent. Large companies reward key employees with stock options or grants. But for your closely-held business, handing out stock options or company shares may not be desirable, because it would dilute your voting control and other ownership rights. An alternative: phantom stock.

You can give employees the same kind of financial incentives they'd get with actual shares without the risk or complication of sharing equity. Phantom stock, also known as shadow or mirror stock, isn't equity, but it is tied to the value of a company. Typically, a business will promise to pay certain employees a bonus equal to the appreciation in company shares during a specified period. The worker is credited with a certain number of phantom stock units based on the value of the company. The value of the units is formulated based on the company's profits or sales, or established by a formal valuation of the company. If participating employees stay with the company for a prescribed period and the value of the company increases, they get to cash in the phantom shares and at a profit. The company could pay out the bonus in installments over several years.

Phantom stock plans provide a business owner with flexibility. You decide who gets to participate and



how much phantom stock each employee receives. You could create a vesting schedule providing partial benefits to all employees staying for a specified minimum number of years.

Your phantom stock plan agreement might say that in seven years, an employee who is still with the company would receive a cash payment equal to any increase in the value of the unit. Leaving in less than seven years could offer a partial benefit based on a vesting schedule. You might set up the plan so that vesting begins with a 33% benefit after five years of service, and the remaining 33% of the value of the unit could be granted in two parcels in years six and seven.

For example, suppose you grant 1,000 units of phantom stock to a key employee, with each unit valued today at $10—$10,000 in total. Based on your pre-set financial performance formula, let's say that each phantom stock unit appreciates to $40 in five years and to $50 by the end of seven years. An employee who left three years after the plan was established would have gotten nothing. One who resigned after five years, however, would be entitled to 33% of the appreciation in the unit, or $10,000. An employee staying beyond the seven years, is 100% vested, receiving the full $40,000 value of the unit.

Because a phantom stock plan counts as a "nonqualified" deferred compensation plan, you don't have to file anything with the IRS, and you aren't subject to nondiscrimination rules applying to tax-qualified plans. Payouts to your workers are taxed as ordinary income. In the year you make a payout, your company can write it off as a business expense.

One drawback to phantom stock plans is how they're accounted for. The value of phantom stock is treated as a compensation expense, and must be charged against company earnings in the year of the grant and prorated over the vesting period. The expense is adjusted each year as the value of the grant increases or decreases.

A phantom stock plan helps small companies retain key employees. It's a sound business planning strategy that can be integrated with your personal financial plan. ●

Here's A Painless Way To Build Your 401(k) Account Assets: You Won't Feel A Thing Until You Retire

Parents typically bear the brunt of their children's education bills. But other relatives can contribute to these tax-favored plans, and their benefits can be most generous to grandparents in particular.

If you are a grandparent, a 529 plan can be more than a way to help a grandchild pay for college. A 529 can also serve to funnel your assets to your grandchildren and out of your estate. Plus, you get assets out of your high income-tax bracket. Assets in a 529 grow tax-deferred, and at least through 2010, withdrawals used for qualified education costs are free of federal tax.

If Congress fails to extend this tax break in 2010, which would be politically unpopular, 529s would revert to pre-2002 rules. They provided tax-deferred accumulation on 529 assets but taxed withdrawals at the student's rate. Currently, a student who is single and has income of up to $6,000 falls into the lowest federal tax bracket, which carries a 10% rate, and anyone making from $6,001 through $27,950 pays income taxes only at the 15% rate. So, even in the worst-case scenario, any taxes owed on the money you give your grandchildren for college will almost certainly be assess-ed at a lower rate than you would pay.

A 529's multigenerational approach can cover a large, long-term family expense in one of the most tax-efficient ways possible. And you help your grandchild while you are still alive, rather than after you pass away.

Meanwhile, you'll reap estate planning rewards. Because funds you invest in a college savings account no longer count as your assets, contributing to your grandchild's 529 reduces the size of your estate and the federal estate taxes it will owe (assuming, of course, that the estate tax will still be in force when you die). You can trim your estate $11,000 per recipient per year (or $22,000 with your spouse) before gift taxes kick in. And 529s offer this special estate reduction deal: You're allowed to make up to five years of contributions, giving as much as $55,000 in one lump sum (or $110,000 with your spouse). Moreover, there's no limit to how many accounts you can set up—so if you have several grandchildren, you can set up 529s for each and considerably lighten your estate in the process.

You retain control over how the assets are used. The funds can be withdrawn only to pay for qualified college expenses— hot cars don't count. You can also transfer assets to another relative's 529, or you can withdraw them for your own use if you pay the taxes and a 10% federal penalty on the investment income. ●

Keep in mind: 529 Plans are subject to investment risk and do not guarantee that you will accumulate enough money to cover college expenses. Plans carry investment management and administrative expenses. Withdrawals for expenses other than education could be subject to negative tax consequences. Tax-free withdrawals apply to qualified educational expenses only and this tax-free benefit expires in December 2010, unless extended by Congress. Making a lump sum contribution of $55,000 to a 529 plan to maximize gifting rules would preclude you from making any further tax-free gifts to that child for five years.