

Personal Wealth Report

January 2005

Travers,
O'Keefe

11 Hanover Square
New York, NY 10005
T: (212) 742-7900
(800) 950-9477
F: (212) 742-9423

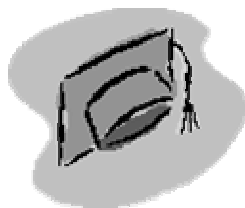
Inside this issue:

<i>How to Stockpile Funds for College</i>	1
<i>Five Ways for Improving Life Insurance</i>	1
<i>Make It a Record year for Charitable Donations</i>	2
<i>Navigating the Ins & Outs of IRAs</i>	2
<i>Do You Need a Living Will?</i>	4

Money Management

How to Stockpile Funds for College

According to a recent study by the National Association of Independent Colleges and Universities, tuition at private institutions for four-year students will increase on average 6% in the 2004-2005 year to more than \$18,000 a year. And that's not counting



room and board. The tuition at public schools for in-state students will rise about 10% to surpass the \$5,000 mark.

Depending on your

situation, you could easily pay more than six figures to put just one child through school. Double or triple that amount if you have several children.

How can you earn enough money to pay for your child's education? Even though the figures are daunting, you may be able to build up a sizeable college savings fund through astute investments. Of course, there are no guarantees and you must contend with various risks, but here are several common investment vehicles.

Mutual funds: This is a popular way to save for college among many parents, because mutual funds offer the advantages of diversification, professional management and simplicity. However,

the investment return and principal value of mutual fund shares may fluctuate. Your financial professionals can help you choose funds that match your tolerance for risk.

Stocks and bonds: If your child is still a tyke, you might allocate some of your investment dollars to stocks and bonds. Keep in mind, however, that liquidity becomes more of an issue as the child reaches his or her teens. Remember to balance the potential rewards against the inherent risks. By diversifying among different types of equities, you can provide more protection for the family. **Note:** There are no guarantees against loss of principal.

Zero-coupon bonds:
(continued on page 3)

Insurance Ideas

Five Ways for Improving Life Insurance

If you are like most adults, you already have some life insurance coverage. But is your coverage good enough for

your current situation? Since it's the start of a new year, now is a good time to review your policies. Here are five possible ways to improve things.

1 Name contingent beneficiaries. Usually,

your primary life insurance goal is to provide for your spouse in the event of your death. But what if you and your spouse die in a common disaster or your spouse dies before you? Unless there are other (continued on page 3)

Retirement Review

Navigating the Ins and Outs of IRAs

What goes up must come down. And, in the case of Individual Retirement Accounts (IRAs), what goes in must come out. Nonetheless, you can maximize the benefits for both IRA contributions and distributions with careful planning.

Contributions in: The maximum amount you can contribute to an IRA for the 2004 tax year is the lesser of 100% of compensation or \$3,000. (The dollar limit is increasing to \$4,000 for 2005.) In addition, if you are age 50 or over, you can kick in an extra "catch-up contribution" of \$500. The contributions may accumulate on a tax-deferred basis. (Of course, there are no guarantees of earnings and you run the risk of investment loss.) Also, your contribution is tax deductible if you are not an active participant in an employer-sponsored retirement plan.

The deadline for IRA contributions this year is April 15, 2005. In other words, you can still reduce your tax liability for 2004 after the year is over.

On the other hand, if you are an active

participant in a retirement plan, your IRA contributions are nondeductible--or only partially deductible--if your adjusted gross income (AGI) exceeds a certain level. For 2004, contributions for joint filers are phased out for an AGI between \$65,000 and \$75,000, and between an AGI of \$45,000 and \$55,000 for single filers. Nondeductible contributions to an IRA are not subject to tax when they are withdrawn.

If you are filing a joint return and only one spouse is an active participant in a retirement plan, the other spouse can still deduct his or her IRA contribution. This deduction is phased out for a joint AGI between \$150,000 and \$160,000.

Distributions out: The amounts contributed to your IRA accumulate on a tax-free basis until they are withdrawn. At that time, the distribution is subject to tax as ordinary income. Those who were born prior to 1936 may be able to elect favorable ten-year averaging on a lump-sum distribution from an IRA. Alternatively, you can avoid current tax liability by rolling over an IRA distribution into another IRA within

60 days. A trustee-to-trustee transfer avoids mandatory 20% tax withholding.

Generally, you have to pay a 10% tax penalty if you make a withdrawal from an IRA before age 59½, but there are a number of special exceptions. For example, there is no penalty for withdrawals made due to death or disability, as a series of substantially equal periodic payments, and payments for deductible medical expenses, first-time home-buyer expenses (up to a lifetime limit of \$10,000) or qualified tuition expenses.

Conversely, you can't keep your money in an IRA forever. You must begin distributions no later than April 1 of the year following the year in which you turn age 70½ (or the year in which you retire, if that is later). The IRS has prescribed several methods for determining the amount of your mandatory distributions.

Final point: By learning all of the rules for contributions and distributions, you can squeeze the maximum benefits out of an IRA. Don't hesitate to seek professional assistance.



Tax Talk

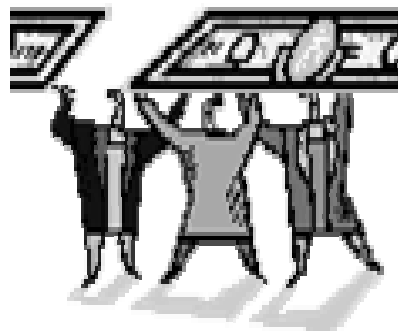
Make It a Record Year for Charitable Donations

The tax law permits you to deduct the charitable donations made in 2004 within generous limits. For instance, you can generally deduct the full amount of donations by check or credit card or the fair-market value of appreciated property. However, the IRS has imposed strict recordkeeping requirements on certain types of charitable donations.

If you don't measure up, you could be forced to forfeit all or part of your charitable deduction. Let's take a closer look.

Contributions of \$250 or more: Significantly, the IRS requires charitable donors to obtain a written acknowledgement from a charitable organization for gifts of \$250 or more. The acknowledgement must be obtained

by the time you file your tax return. It should include the amount of the check or cash donated, a detailed description of any property that was donated and the value of the benefit received if any goods or services were provided. Key exception: You don't have to establish a value for intangible religious benefits.



Contributions made through payroll deductions may be substantiated by

pay stubs or a W-2 form. Note: Substantiation is not required if the donee organization files a return with the IRS providing the information to be included in an acknowledgement.

Quid pro quo contributions: If you make a quid pro quo contribution (i.e., a contribution made partially or fully in exchange for goods or services) for an amount more than \$75, you must obtain a good-faith estimate from the charity detailing the value of the benefit received. For example, say you attend a fund-raising dinner where the tickets cost \$100 apiece and the dinner is valued at \$40. The charity must provide a written statement limiting the deductible amount to \$60 per ticket.

However, a written statement from a charity is not required if you receive token goods, minimal (*continued from page 4*)

How to Stockpile for College Funds *(continued from page 1)*

Interest on "zeroes" is deferred to maturity when you receive a lump sum. Nevertheless, you must report tax on the interest that accrues each year the bonds are held. Popular strategy:

You might "ladder" bonds by buying zeroes with varying maturity dates.

Certificates of deposit (CDs): A conservative approach towards college savings is to invest in CDs. With a federally insured CD, the principal is effectively backed by the auspices of the United States government.

U.S. Savings Bonds: You pay only half the face value of Series EE bonds at the time of purchase. Note: If Series EE bonds are bought in your child's name, they are exempt from income tax if used to pay for college tuition (within certain limits).

U.S. Treasury bills (T-bills): As with CDs, you can invest in T-bills with either short-term or long-term

maturities. T-bills are backed by the U.S. government and the income is exempt from state and local income tax.

Caution: Under the "kiddie tax," investment income received by a child under age 14 is taxed at the top marginal tax rate of the child's parents to the extent it exceeds an annual threshold (\$1,600 for 2004 returns). Be aware of this limit when planning investments for college. Also, note that the principal and yield of securities will fluctuate with changes in market conditions.

Final lesson: Investing to save money for college requires careful planning and a balance of risk versus reward. It is recommended that a financial professional help devise a plan for your circumstances.

The ABC's of Section 529 Plans

One of the innovative ways that parents can save for college is a Section 529 plan.

As long as certain requirements are met, the funds contributed to the plan can grow without current tax and may be withdrawn tax-free if they are used for qualified education expenses. The tax break for distributions applies through 2010 unless extended by Congress.

There are two basic types of Section 529 plans: prepaid tuition plans and college savings plans. Generally speaking, prepaid tuition plans enable you to lock in future tuition rates at current prices at in-state schools. College savings plans generally provide more flexibility for choosing a school but without the same guarantees.

Note: Investing in a Section 529 plan outside your home state may not qualify for favorable state tax treatment or incentives. If you are interested in either type of plan, consult with a financial professional.

Five Ways for Improving Life Insurance *(continued from page 1)*

provisions, your life insurance proceeds will be distributed to your estate. As an alternative, you should name one or more contingent beneficiaries. Otherwise, proceeds of your life insurance policy could pass to individuals whom you did not intend to be beneficiaries.

2 Specify who your beneficiaries are. You should identify all your beneficiaries by their full names and relationships to you. For instance, if you've been married more than once, there may be a contest over the life insurance proceeds if you don't specify which spouse is the beneficiary. Also, simply naming your children as primary or secondary beneficiaries can lead to problems, especially if there are stepchildren,



adopted children or children from different marriages.

3 Review your beneficiary designations. Your life insurance plan is a major part of your overall estate plan. Not keeping it in line with the other aspects of your estate plan can throw everything out of order. Be sure to update or change

beneficiary designations whenever there is a change in your family situation (e.g., birth of a child, death of a beneficiary, divorce and so on).

4 Stay flexible. Though you might not change your mind about the beneficiaries of your policy, try to avoid irrevocable designations. You may find it necessary to react to changes in your overall estate plan or your

family's situation. Consider designating beneficiaries to benefit your grandchildren. This approach may make it easier for you to make changes in the future.

5 Make sure your policies reflect current law. During the last few years, there have been numerous changes relating to life insurance planning and estate taxes. Consider all the available methods to keep the proceeds out of your estate.

Life insurance can no longer be viewed as a "get-it-and-forget-it" proposition. In this ever-changing world, review your policies regularly to see that they continue to meet your objectives.

Give Us A Call!

Do you have any questions or comments about **Personal Wealth Report** or your individual situation? Please don't hesitate to contact our office. We would be glad to serve you in any way that we can.



Estate Analysis

Do You Need a Living Will?

Once upon a time, a simple will was virtually all you needed to tie up the loose ends of your estate plan. But those days are long gone. Now it's also important to maintain a "living will" to provide guidance to your family.

What is a living will? It is a legal document specifying your intentions concerning medical treatment in the event you are mentally or physically impaired or become terminally ill. The document can be as short as a paragraph or two or as long as several pages.

Why would you need a living will? The primary purpose of a living will is to address health care concerns that could arise should you ever become incapable of making decisions. For instance, a living will might state that you are not to be kept alive on life-support systems if you fall into an irreversible coma. In essence, a living will enables you to make decisions about medical treatment in advance of a debilitating illness or injury.

Most significantly, the living will removes the strain of making emotional decisions from loved ones. Instead of having to agonize over what level of treatment you would have preferred, the guidelines are spelled out for family members in black and white.

Can a living will ever be revoked? Yes. In this case, you should destroy all known copies of the living will and notify the appropriate health care providers that you wish to revoke the living will instrument.

What's the best way to create a living will? You can find plenty of do-it-yourself forms online, but this practice is generally not recommended. Consult with an attorney to incorporate your personal desires into a living will. The laws vary widely from state to state, so expert assistance is required.



Make It a Record Year for Charitable Donations

(continued from page 2)
services or intangible religious benefits in exchange for your donation.

Other requirements: There are a few other points to keep in mind before your tax return is completed. If you gave charitable gifts of property exceeding \$500 in 2004, you must attach additional information to your tax return. In addition, if your donation on noncash property exceeds \$5,000, you are required to provide an independent appraisal of the property's value. Silver lining: The cost of the appraisal is deductible as a miscellaneous itemized deduction subject to the usual tax law limits for miscellaneous expenses.

Give Us A Call!

Do you have any questions or comments about **Personal Wealth Report** or your individual situation? Please don't hesitate to contact our office. We would be glad to serve you in any way that we can.

