SEPTEMBER 2005

PERSONAL WEALTH REPORT

11 Hanover Sq., New York, NY 10005 T: (212) 742-7900 F: (212) 742-9416 www.traversokeefe.com

Travers, O'keefe

MONEY MANAGEMENT

What Is Your Investment Horizon?

You will often hear financial-planning experts refer to an "investment horizon" (also called a "time horizon"). What does this term mean? Simply put, an investment horizon is the length of time -- generally spelled out in years -- in which you have to invest before you will need to draw on the funds. For example, if you are age 45 years and investing for your retirement in 20 years, your investment horizon may be stated as 20 years.

Your investent horizon is also affected by the duration of time over which you expect to use the money.

Case in point: If you expect to retire in 20 years and live for another 25 years after that, your investment horizon is 20 years, but your actual need for income is extended 25 years. Although you may need some of the money upfront, the balance can be invested for future withdrawals.

As a general rule, the longer your investment horizon, the more aggressive you can be as an investor. That's because you have more time to recover from the inevitable ups and downs of the equities markets. That's not to say we are advocating mere speculation. But investors with a long time horizon are more likely to aim for higher returns than investors who are near or in retirement. Conversely, the conventional thinking is that investors with a short time horizon tend to be more conservative.

Of course, everyone has a different risk tolerance. Your risk tolerance, in combination with your investment horizon, will have a major impact on your investment decisions.

Note that your circumstances may change as time goes on. For example, you might extend your investment horizon by postponing retirement for a few years. This extra time earning a salary gives you a chance to increase your nest egg for retirement. On the other hand, you may decide that you want to retire early -- perhaps in your early to mid-fifties -- which could drastically reduce your *(continued on page 3)*

Inside This Issue:

RETIREMENT REVIEW

Meet The New Roth 401 (K) Plan

Both the 401(k) plan and the Roth IRA (individual retirement account) have proven to be popular among retirement-savers. Why not combine the two? Beginning in 2006, you will be able to take advantage of the new Roth 401(k), which features elements of both types of plans.

The Roth 401(k) plan was authorized by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Recently, the IRS issued initial guidance on Roth 401(k) plans in the form of proposed regulations.

Basic premise: As with a regular 401(k) plan, an employee can elect to defer salary to a Roth 401(k), but in this case the contributions are made on an after-tax basis. There is no current tax on any accumulations within the Roth 401(k). As with a Roth IRA, qualified distributions may be *(continued on page 4)*

ESTATE ANALYSIS

No Shortcuts For Long-Term Care

Good news: People are living longer than ever. But there's a potential downside: Your family may face devastating consequences -- both financial and emotional -- due to a prolonged life for infirm individuals.

Because the risk of needing long-term care increases with age, it is important to plan for your care needs now, while you are younger and healthier.

More details: Advance planning is needed to help pay for the long-term care services that may be required in the future. Without adequate coverage, the cost can deplete an individual's or family's financial resources. A long-term care need can happen to anyone -- you might need the care yourself or find yourself in the position of the caregiver.

Long-term care is the type of help people need when they are unable to perform activities of daily living such as eating, bathing and dressing. Typically, it is not provided by doctors or by skilled nursing professionals. Long-term care doesn't try to cure an illness.

Frequently, it is assumed that long-term care means care in a nursing home. While some people do require such specialized care, most long-term care takes place in the home and community. Family members, adult day-care centers and assisted living facilities are among the most common care providers. Long-term care is not defined by the setting in which it takes place, but by the type of care that is needed.

The family dynamic today little resembles that of even a generation ago. Children live half a world away, single-parent homes are more common and more women are finding success and financial rewards in their careers. The safety nets that many relied upon in the past -- such as family caregivers -- may no longer be realistically available to those requiring care.

Long-term care impacts the entire family, not just the person who needs care. A family member -- usually, a middle-aged adult with children of his or her own -- often takes on the role as unpaid caregiver for an aging parent or spouse. These caregivers typically must make adjustments at work and in their careers, such as taking leaves of absence or turning down promotions, in order to provide the needed care for an ailing relative. If you are a caregiver, this may also have an impact on your own family life and overall personal health.

By planning ahead, you may be able to preserve your savings, assets, lifestyle, independence and your family life in the event you or someone you love needs long-term care.

TAX TALK

Tax Lessons About Scholarship Grants

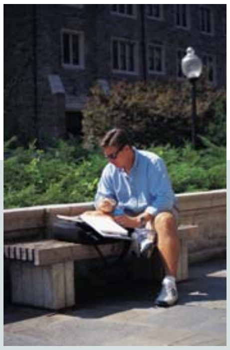
Is your child starting school or returning to college this fall? With the ever-escalating cost of funding a college education, every penny of financial aid you receive can help. For instance, if your child is awarded a scholarship or fellowship grant, the extra money will be put to good use.

What are the tax ramifications? As a general rule, these grants are completely or partially tax-free.

Details: The tax law provides a special tax exclusion for amounts received by degree candidates for qualified tuition and related expenses at an educational institution that meets certain basic requirements (e.g., a regular faculty and student body). This covers (1) tuition and fees for enrollment and (2) fees, books, supplies and equipment that are required for study.

However, qualified tuition and related expenses do not include amounts that are used for room and board.

Example: Dawn Green is awarded a $5,000 scholarship to attend a state university. Her tuition, books and supplies for the school year come to $4,000, while room and board for the year is $5,000. Since Dawn can show that $4,000 is spent on qualified tuition and related expenses, she must pay tax on only $1,000 of the scholarship.



What if the scholarship is specifically earmarked for room and board? The designation controls for tax purposes. For instance, if Dawn's scholarship specifically provided that $2,000 was to be used for room and board, then the full $2,000 would be subject to tax.

How about a grant that is received in return for providing teaching or research services? The amount of payment is fully taxable under the current rules. However, the tax exclusion may apply to a qualified tuition reduction received by an employee of the educational institution.

End of the class: If your child has to pay tax on a scholarship or fellowship grant, the amount received is considered earned income that can be offset by the standard deduction. The standard deduction for a single taxpayer on a 2005 federal tax return is $5,000.

PERSONAL WEALTH
REPORT

SEPTEMBER 2005

INSURANCE IDEAS

Do You Own Your Life Insurance Policy?

Do You Own Your Life Insurance Policy?

Typically, a family breadwinner may seek to protect the rest of the family by securing adequate life insurance. But what about federal estate-tax consequences? If you are not careful, it can dilute the benefits. However, with the proper planning, your beneficiaries should be able to receive the life insurance proceeds without any tax erosion.

Background: Your gross estate includes the proceeds from a life insurance policy on your life if those proceeds are payable to the estate (or are received by someone else for the benefit of the estate). Obviously, it's relatively easy to avoid a problem by designating beneficiaries other than the estate and giving them full control over the proceeds.

In other words, this condition is satisfied if you simply name a spouse or child as a beneficiary with the freedom to use the funds as he or she sees fit. But that is only part of the problem.

Even if the proceeds are not receivable by the estate, they are included in the insured person's taxable estate if he or she possessed an "incident of ownership" in the policy on the date of death. This also applies to any incident of ownership transferred within three years of death.

What is an incident of ownership? It does not just mean technical legal ownership. It refers to the right to the economic benefits of a policy. The list of incidents of ownership includes the power to:

o Change beneficiaries;

o Revoke an assignment;

o Obtain a loan against the cash value;

o Pledge the policy for a loan; and

o Surrender or cancel the policy.

On the other hand, the right to receive dividends or the right to veto the sale of an insurance policy by a trustee of an irrevocable trust is not an incident of ownership.

If you acquire a life insurance policy on your life and you transfer all incidents of ownership in your policy more than three years before your death, all of the proceeds are exempt from federal estate tax. While the transfer is subject to gift tax, the overall tax bite generally is much lower than the estate tax that would be imposed if you had retained the policy. Furthermore, the transfer may be sheltered from gift tax by the annual gift-tax exclusion and credit. Note: These rules may be affected by estate-tax reforms being contemplated by Congress.

Obviously, this requires careful planning and coordination between financial planning and tax planning. Seek professional assistance when it is appropriate.

What Is Your Investment Horizon *(continued from page 1)* time horizon.

Each separate financial goal has a separate investment horizon. If you are saving for a child's college education and the child is ten years old, your investment horizon for that objective is only around eight years. To help accomplish each goal, you might establish a separate savings plan.

Reminder: This is not a one-size-fits-all proposition. No matter what your investment horizon is, you should have your portfolio tailored to meet your specific situation.

GIVE US A CALL! DO YOU HAVE ANY QUESTIONS OR COMMENTS ABOUT **PERSONAL WEALTH REPORT** OR YOUR INDIVIDUAL SITUATION? CONTACT OUR OFFICE. WE WOULD BE GLAD TO HELP YOU.

Meet The New Roth 401 (K) Plan *(continued from page 1)* completely tax-free after five years if they are paid:

o After the recipient reaches age 59½;

o For a qualifying first-time home purchase expense;

o At or after the death of the contributor; or

o On account of disability.

Distributions from Roth 401(k) accounts will only be permitted to be rolled over into other Roth accounts, whether it is another Roth 401(k) plan or a Roth IRA.

The new proposed regulations have established three requirements for Roth 401(k)s:

1. The employee must make an irrevocable designation of a Roth contribution at the time of the deferral.

2. Contributions must be treated by the employer as taxable compensation as if the employee had received cash instead.

3. The Roth contributions must be maintained in a separate account. Separate accounting will apply to the contributions and earnings until all Roth contributions have been distributed.

Most of the usual requirements and rules for qualified plans also apply to Roth 401(k)s. However, unlike the Roth IRA, this contribution option will be available for all plan participants, regardless of the amount of their income. In addition, lifetime distributions from a Roth 401(k) will be mandatory.

Additional guidance from the IRS is expected shortly as we move closer to the date when Roth 401(k) plans will become available. It is recommended that you consult with a financial professional to see if this type of retirement plan is right for you.

GIVE US A CALL! DO YOU HAVE ANY QUESTIONS OR COMMENTS ABOUT **PERSONAL WEALTH REPORT** OR YOUR INDIVIDUAL SITUATION? CONTACT OUR OFFICE. WE WOULD BE GLAD TO HELP YOU.