



# HWM ViewPoint

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## Dear Friends of HWM:

Worrisome investors have had plenty to feast this year. The sub-prime mortgage crisis, which seemingly peaked earlier this year and drove investment banking giant Bear Stearns to its knees, now seems to have been supplanted by the far more reaching oil crisis.

One would think that stocks should be seriously beaten down because of these issues. The truth is that the S&P 500 index is down only 3.80% for the year-to-date period ending May 31.

Our clients are to be commended for discounting short-term pessimism in favor of what matters in the long-term; asset allocation, diversification and annual rebalancing and sticking to a plan.

Hope you and your loved ones enjoy a beautiful summer!

## In this issue:

Your Money and Your Life

Long-Term Care Partnership Policies

Tax-Wise Gifting Strategies for Seniors

Ask the Experts

## Your Money and Your Life

In the Dec./ Jan 2008 issue, I noted how important it is to get the proper amount of life insurance. As an example, we discussed John, who earns \$150,000 per year. If he died, his family would need \$2,200,000 to cover their mortgage and college costs, and generate \$90,000 of income per year. The amount of coverage was equal to 15 times his earnings, which is a good rule of thumb. Continuing with our insurance theme, we will discuss what types of insurance policies are available to John, and at what cost?

### Term Life Insurance

Term life insurance is pure coverage, without frills. It provides death benefit protection only, for a specific period of time, without any investment or "cash value" component.

Should you die during the coverage period, your beneficiary receives the proceeds. Statistics reveal, however, that only 1 percent of term policies purchased result in a death benefit. The other 99 percent are canceled or converted before death occurs.

Yet, if needed, for a fairly low premium, a large sum of funds can be delivered to your loved ones. Term coverage is available for periods ranging from one year to 35 years. Most policies offer a conversion feature that allows the insured to switch from term to a permanent policy, without submitting evidence of insurability.

### Permanent Life Insurance

If term is analogous to "renting" a policy, permanent life insurance is akin to "owning." Permanent coverage, which involves a substantially higher premium, at least initially, provides coverage for life and normally contains a "cash value" reserve. This reserve, subject to some potential restrictions, would be available during one's lifetime for borrowing or liquidation purposes.

Here are three popular permanent policy types: Whole Life (WL): The insured pays a fixed premium, and the policy provides a death benefit and a cash value feature. The insurance company selects how the premiums are invested, and to the extent that their investments perform well and the mortality risk expenses are low, dividends might be paid to augment the cash value growth and/or reduce the premiums you need to pay in the future.

Universal Life (UL): Similar to WL, but with one key difference: the insured gains flexibility in making premium payments. The death benefit may increase or decrease based on the amount of premiums paid and interest earned. With this flexibility comes the risk of the policy lapsing due to insufficient funding.

Newer versions of UL, referred to as Guaranteed or No-Lapse UL, provide the insured with certain assurances that the policy will never lapse, providing certain minimum premium payments are met.

Variable Universal Life (VUL): Similar to UL, but with one major difference: the insured chooses how to allocate premium payments into a wide variety of investment options. Thus, it has the potential to outperform UL, even as a stock may have the potential to outperform a bond. Yet, if the investments selected do not perform well, the policy could be in jeopardy of lapsing.

### Which is right for you?

Term and permanent life insurance each have unique advantages and disadvantages. Sometimes a combination approach is best, providing a base of permanent, long-term coverage, overlaid with lower cost and temporary protection. As always, a professional should be consulted, preferably one who is independent and has many insurance companies available to choose from. Remember, when considering outlays for life insurance, there is a cost to buy, but potentially, a far greater cost in not buying.



**HENRY**  
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**What is Medicaid?**

*Medicaid is a joint federal-state health insurance program that covers medical services (including long-term care) for eligible individuals who have low incomes and few assets. Residents who have assets that are higher than state mandated levels may have to "spend down" their assets to these levels in order to qualify for Medicaid.*

**Important notes:**

- *Make sure you can afford the LTC policy premiums and continue to pay them.*
- *Partnership states require that agents have special training. Be sure your agent has this training.*
- *Eligibility for Medicaid isn't automatic, even if you own a Partnership policy. To qualify, you must still meet state eligibility requirements.*

## Long-Term Care Partnership Policies

As the number of older Americans has grown, so has the need for long-term care. To encourage more people to buy long-term care insurance, states have teamed up with private insurers to develop special long-term care (LTC) policies. These "Partnership" policies combine the features and benefits of traditional LTC insurance with Medicaid asset protection.

Individuals who purchase Partnership policies will be able to protect a portion of their assets should they need to apply for Medicaid after using up their long-term care insurance benefits. Although they must meet other Medicaid eligibility requirements, they will not be required to "spend down" to the same asset levels as those who have not purchased Partnership policies.

**Background**

In the 1980s, Congress authorized the first long-term care partnership programs in four states: California, New York, Indiana, and Connecticut. The aim of these partnerships was to lessen the financial strain of long-term care on state Medicaid programs by encouraging the purchase of private long-term care insurance, especially by individuals with moderate incomes who may be less likely to buy long-term care insurance and more likely to eventually need to rely on Medicaid. However, the Omnibus Budget and Reconciliation Act (OBRA) of 1993 restricted further development of Partnership programs in other states.

The Deficit Reduction Act (DRA) of 2005 removed the OBRA moratorium and allowed all states the opportunity to implement Partnership programs. Currently, 22 states either have Partnership programs in place or legislation pending for program implementation.

**What is a Partnership program?**

A Partnership program is a collaboration or "partnership" between a state and private insurance companies selling long-term care insurance in that state. Each state determines if and when it wants to implement a Partnership program, and authorizes insurance companies to develop and sell LTC Partnership policies to state residents.

**What is a Partnership policy?**

LTC Partnership policies are very similar to traditional (non-Partnership) LTC policies. Although they generally include the same features and benefits, Partnership policies

authorized by the DRA must also have certain built-in consumer protections that traditional LTC policies are not required to have (Partnership policies in the original four states are exempt from these requirements).

**Dollar-for-dollar asset protection**

Partnership policies must include dollar-for-dollar asset protection. Under this model, the amount of assets that are protected from Medicaid spend-down requirements equals the dollar value of the benefits paid by the LTC Partnership policy. For example, you buy a Partnership policy with a lifetime maximum benefit of \$150,000. You eventually require long-term care and exhaust your Partnership insurance benefits, but you still need long-term care. If you did not have a Partnership policy, you'd likely have to deplete all of your remaining assets, subject to state exemptions and allowances, before you could qualify for Medicaid. However, because you have a Partnership policy, you can keep \$150,000 in assets in addition to any other assets allowed by your state's Medicaid program, and still qualify for Medicaid (assuming you meet income standards and other eligibility requirements), and the state won't seek recovery of those assets from your estate.

**Inflation protection**

While traditional LTC policies may or may not include inflation protection, all Partnership policies must include age-based inflation protection if purchased prior to age 76. Inflation protection helps policy benefits keep pace with the rising cost of long-term care services.

**Partnership policies must be tax qualified**

This means that they must meet standards specified by the Health Insurance Portability and Accountability Act (HIPAA). Tax-qualified policy premiums may be deductible as a medical expense if you meet certain requirements (check with your tax professional for details), and policy benefits received are generally not included as ordinary income for federal income tax purposes. Most, but not all, traditional LTC policies are tax qualified.

**Where can you find out more?**

State Partnerships are still being developed, and will vary from state to state. To find out if LTC Partnership policies are available in your state, contact your state's Department of Insurance or long-term care Partnership office.

## Tax-Wise Gifting Strategies for Seniors

You've spent most of your life building your wealth. Now, your concern may have shifted to reducing your estate and saving taxes.

Making gifts is one way to reduce your estate. But because gifting can trigger federal gift tax, as well as federal generation-skipping transfer tax (GSTT) if the gift is to someone who is more than one generation below you (e.g., grandchildren), you'll want to consider making gifts in ways that will minimize tax. Here are some tax-wise gifting strategies to consider.

### Take full advantage of the federal annual gift tax exclusion and lifetime exemption

For 2008, you can give tax free up to \$12,000 per recipient (\$24,000 if the gift is from both you and your spouse) under the annual gift tax exclusion. Gifts over that amount are tax free to the extent of your \$1 million lifetime gift tax exemption (\$2 million lifetime GSTT exemption).

### Contribute to 529 plans

If you fund a 529 plan for your grandchild's college education, you can contribute up to five years' worth of gifts at once; that's \$60,000 per child, or \$120,000 per child if you and your spouse elect to make the gift.

### Pay tuition and medical expenses

You can make unlimited tax-free gifts by paying medical bills or college tuition on behalf of a recipient. Payments must be made directly to the medical care provider or college.

### Make charitable donations

Donations to charity are completely free from gift tax and are also generally deductible for income tax purposes, subject to certain limitations.

### Make gifts and pay the gift tax

This may seem counterintuitive, but sometimes making gifts and paying the gift tax can be advantageous. The reason is that gift tax paid is removed from your estate. So, gift taxes paid on lifetime gifts can significantly reduce overall federal gift and estate taxes.

### Types of property to gift

Selecting the type of property to gift can be very important. Here are some things to consider:

- Gift property that may grow substantially in value over time, such as common

stock, antiques, art, and real estate. This strategy removes any future appreciation of this property from your estate.

- Be careful when gifting appreciated property. Because a property's basis (generally its cost) is carried over to the recipient, gifts of appreciated property can be good in some circumstances but not in others. You may not want to give highly appreciated property if the recipient will recognize a substantial capital gain when the property is sold. On the other hand, you may want to make that gift if the sale of the property is imminent anyway and the recipient would owe less tax than you upon the sale.
- You should avoid giving property that is likely to lose value after the gift has been made. Also, it's not generally a good idea to give away depreciated property. The recipient's basis for recognizing a loss is the lower of your basis (carryover basis) or the current fair market value. The recipient may be unable to recognize the loss on the property. Both you and the recipient may lose the loss deduction.
- Gift assets that yield higher amounts of income instead of those that yield lower amounts. This will prevent the buildup of income in your estate. Similarly, gift assets that produce taxable income instead of those that produce less taxable income, such as municipal bonds.
- It may be possible to reduce your ownership interest in a closely held business (or an interest in real estate) so that it may be valued at a discount. For example, if you have a minority interest (49% or less) in the stock of a closely held business, you may qualify for a discount. Also, a fractional interest in real property may be valued at a discount. It may be beneficial to make a gift of stock or an interest in real estate to qualify for the discount.
- Be careful when giving S corp stock to a trust, as the business may lose S corp status.



### When giving to charity:

- Only give to "qualified" charities. See IRS Publication 78.
- Avoid giving cash, unless you get a receipt.
- You must obtain a "qualified appraisal" for donations of property worth over \$5,000 (other than cash and publicly traded securities), and you must attach an appraisal summary (IRS Form 8283) to your tax return.



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## Ask the Experts



### What are the pros and cons of online banking?

Online banking: faster, better, and cheaper? As with anything, there are pros and cons; here are some to think about.

#### Pros

**Convenience:** Online banking sites are open 24/7. You can check your accounts and pay your bills in the middle of the night or on the weekend, all while sitting comfy in your jammies and bunny slippers.

**Organization:** All your account information is displayed in an organized fashion. You won't need to keep a shoebox full of old monthly statements, canceled checks, and ATM slips --you can go paperless.

**Automation:** You can schedule bill payments to occur automatically, and once you've entered pertinent information, you won't have to keep doing so for subsequent transactions.

**Bells and whistles:** Many online banking sites offer account aggregation (managing several accounts from one site) and compatibility with money-management programs. Some also

offer stock quotes, portfolio management programs, and e-mail alerts of various types.

#### Cons

**Fear of cyberspace:** Not everyone is computer literate. Setting up online banking accounts can take time, and using them requires a bit of savvy.

**You still have to go to the bank:** To make deposits (other than direct deposits), you generally have to mail in a check, or go to a brick-and-mortar office or an ATM. (These last two options get a little tricky if the bank is an online-only bank.)

**Where's the beef?:** Because online (especially online-only) banking services may not keep "real" records of transactions (and may keep online records only for a certain period), you may want to "call for backup" by printing out copies of your online statements and images of your canceled checks, particularly important ones, such as those that show tax payments. While this somewhat defeats the idea of going paperless, you may be able to get by with fewer shoeboxes.

### How can I protect my online finances?

Whether banking, managing a portfolio, or shopping, taking care of business on the Internet can be convenient, but it can also be fraught with danger if you aren't careful. Here are some tips to help you keep your finances safe in cyberspace.

**Protect yourself first:** Install a firewall on your computer. Also install anti-virus and anti-spyware software, and keep them up to date. Create strong passwords (long combinations of letters, numbers, and symbols) and personal identification numbers (PINs) that are hard to guess. Change passwords and PINs on a regular basis, and don't leave a list of them out in plain view in your home or office.

**Know where you're going:** To make sure you're getting to where you want to be, navigate to websites by typing the URL in your browser's address bar or using bookmarks you have set up. Don't navigate to websites by clicking on links embedded in e-mails; being the victim of a phisher or pharmer isn't fun, and can cost you a fortune.

**Security check:** Make sure you're doing business on portions of websites that are secure. If they are, the URL begins with "https," not "http," and/or a small lock icon appears in a corner of the site. In addition, read the privacy policy on the website to see if your data is encrypted (protecting it from theft by either hackers or unscrupulous employees).

**Back up your data:** No matter how secure your computer or the sites you visit, your computer may crash or you may be "hacked." For that reason alone, it's a good idea to back up any important information you have on your computer to a removable disk or external hard drive that can be stored in a safe place.

