DAVID A. SCHNEIDER'S

WEALTH MANAGEMENT REPORT

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Fourth Quarter 2006 David A. Schneider, CFP® (212) 659-7784

Why Plan For Retirement If You Don't Plan to Retire?

Forget all those warnings about not saving enough. Baby boomers' No. 1 retirement planning mistake is, well, planning to retire.

In his book *The New Retirementality*, Mitch Anthony calls retirement, "a short-sighted political machination and social manipulation, which is no longer relevant and is hopelessly out of touch with our times." Just because surveys show the vast majority of Americans can't wait to quit their jobs, Anthony argues, that doesn't mean they are mentally or emotionally prepared to quit working.

According to research from the AARP, it's just the opposite. A study conducted for the group by Roper Starch Worldwide shows more than 80% of today's pre-retirees plan to continue working long after their so-called retirement. Yes, some will be working because they need the money, but 75% of respondents say they will continue working because they want to.

So what about all those dire warnings that boomers aren't saving enough? "The big reason people haven't saved enough for retirement is they don't have a vision for what retirement means," says Anthony, president of Advisor Insights, a Rochester, Minnesota firm that trains financial advisors.

Anthony has spent years asking thousands of people about their retirement vision, and most answers mention two overriding themes—freedom and balance. People speak of the freedom to do what they want and a balance between work and leisure. Nobody reports they want to play golf and sip margaritas in Arizona for the next 30 years. That means any financial plan built around the golf-and-margarita thesis is immediately irrelevant, he says. "One of the great tragedies in America is having enough money to do absolutely nothing and doing exactly that," says Anthony.

Men and women over the age of 50 earn almost $2 trillion in annual income and own more than 70% of the financial assets in U.S. accounts, controlling more than $7 trillion in wealth, according to Ken Dychtwald, president of Age Wave Inc. and the author of several books on aging and trends among baby boomers.

So the risk is not that you won't have enough money. The real risk boomers face is that without a clear idea of what you want to do with those 30 years or so after you leave the traditional work force—years Dychtwald calls "the power years"—you are more likely to become depressed, get divorced, or die younger than your counterparts.

> *The "new retirement" means planning to work into your 60's and 70's*

"If you look at the underbelly of retirement, what the ads don't show is the number of people who die during the first year of retirement. People bored out of their skulls," Anthony says.

That's why so many retirees today are struggling—not financially but emotionally. Their planning was focused exclusively on the financial aspect of retirement. "Money is an issue," Anthony says. "But all money does is give you choices. The question is what you are

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The New Roth 401(k): It's Not A No-Brainer!

Employers can start off 2006 with a new kind of retirement plan, a Roth 401(k). Unlike a normal 401(k), funded with pre-tax dollars, a Roth 401(k) uses after-tax contributions but provides tax-free distributions during retirement.

Although you can put a total of as much as $15,000 per year into a 401(k), beginning in 2006, and an additional $5,000 if you're over age 50 or more, if your company offers both traditional and Roth versions, you'll have to decide whether to contribute to one or both, and how much.

The Roth 401(k) could be appealing. Investment earnings compound free of taxes, just as in a traditional plan, and it could be an advantage to pay taxes on the money now, when you may be in a lower tax bracket.

However, because you're taxed on the salary deferral that funds a Roth 401(k), you'll take home decidedly less than if you were putting the money into a traditional 401(k). And your higher reported income could put you above the ceiling for child tax credits and other current tax breaks.

Moreover, your employer may have different rules for matching your contributions to a Roth 401(k), and the investment opportunities may not be the same. If your company offers this new retirement plan option, we can help you decide how to maximize your benefits.

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Rates Drop On Term Life Insurance

It's a buyer's market for term life insurance. Increased competition, courtesy of Internet sales, and longer, healthier life spans have combined to slice the average cost of term life coverage by 50% or more during the past 10 years, says Steve Weisbart, an economist with the Insurance Information Institute.

A healthy 45-year-old male can buy a 10-year, $500,000 policy for just $450 a year—less than the annual cost of that cup of coffee you buy on the way to work every morning. A healthy woman the same age can buy that policy for $400.

That makes this the perfect time to review your insurance coverage, Weisbart says. If your term life policy is more than five years old, you could save hundreds of dollars a year by replacing it with one carrying a lower premium. Or you could buy more insurance for the price you're paying now.

"Our studies show average American adults carry insurance covering only two to three times their annual income," says Brian Ashe, a director and past-president of the Life and Health Insurance Foundation for Education. "But a family is likely to need to replace 10 to 15 years of income if the breadwinner dies. That means the vast majority of Americans are underinsured."

Still, as attractive as today's rates are, there are several issues to consider before jumping to a lower-cost policy.

Term life rates have plunged, making replacement policies more attractive

How much is enough? If you have young children or own a business, you could need substantial protection. But assess your insurance coverage in the context of your entire financial and estate plans.

How long will I need it? These discounted rates look good today, but read the fine print. A policy costing $600 a year for the next 10 years could jump to $5,000 in the 11th year and go up every year after that. And though you could buy a new policy then, in 10 years you may not be as insurable as you are today. If you need longer-term coverage, you might consider permanent life.

Can I get the discounted rate? As premiums drop, insurance companies are becoming a lot pickier about whom they'll insure, and at what price. If your health has changed since you bought your current policy, the new rate may not be so attractive.

Could the death benefit be denied? Most policies carry a contestability clause, which lets the insurer try to deny paying a death claim by contesting statements on your application. But that clause normally expires after a certain period, and your current policy may have passed that hurdle. Get a new one, and the clock starts ticking again.

Who is the insurer? There are plenty of cheap policies out there, but you want a company with a good name and rating, so you won't have to wonder whether the insurer will still be around when and if your beneficiaries ever need the payout.

Finally, consider whether you still need term life insurance, Weisbart says. Circumstances change, and there may be a better place for your money—in your retirement account, for example. So look at your entire financial situation before diving in. ●

Can You Leave More Money To One Child Than Another?

Did you treat all of your children the same when they were growing up? Probably not. Every child is different and often one needs more attention and support than another. So when crafting an estate plan, it often makes sense at least to consider the possibility of treating children unequally.

In some families, where one child is developmentally disabled or unable to care for himself, making special arrangements for that child is an easy decision. But most of the time, differences among children are more subtle, and choosing to address their needs in different ways in a will or estate plan can be difficult.

Maybe one child is a doctor, while another is an artist or social worker or is content to stay home to raise a family at the expense of a successful career. Which child will need more help after you're gone? And which will make the best use of what you leave? Every family has its own dynamic, and there are no easy answers. But you owe it to your family to consider alternatives to the obvious equal split.

First, give yourself permission to treat your children differently. To make this easier, think about when they were growing up. Maybe one child was a great ice skater and you got up at 5 a.m. countless mornings to take her for lessons. Perhaps your son went to an expensive private school, while your daughter thrived in public school. You surely tried to give all your kids the emotional and financial support they needed, some may have been needier than others. Why should it be different now? Why should it be different after you're gone?

Five Financial Ideas For Grandparents

Spoiling your grandchildren with extravagant gifts may be fun, but you're not really doing them—or yourself—any favors. Instead, it may be wise to look for ways that help grandchildren but that also make financial sense for all of you.

Your long experience handling money matters is one invaluable gift you can pass along. Sharing your savvy not only helps grandkids develop healthy financial habits but also to understand family and cultural values. So tell them about your first job, how you started a business, and financial goofs you've made. "There's a big legacy gap," says Nathan Dungan, author of *Prodigal Sons and Material Girls: How Not to Be Your Child's ATM*. "Grandparents aren't having these conversations with the grandkids."

But don't leave your own children out of the loop. Make sure your advice and giving strategies don't conflict with their plans or guidance for your grandchildren. Here are several ways you might help:

Leverage your gifts. A grandparent can now give as much as $12,000 a year tax-free to each child and grandchild. If you have a large family and make such gifts for several years, you could substantially reduce your taxable estate. But rather than simply putting cash in the grandchildren's pockets, consider creative alternatives. For example, you might open a custodial savings account for a grandson and match what he saves. Or you could establish a brokerage account and use your contributions to help your granddaughter learn about investing. But stick to broad mutual funds rather than individual stocks. Choosing the wrong stock could lead to deep losses and discourage your would-be Warren Buffett.

Take care of college. Setting up a state-sponsored 529 college savings plan for your grandchild brings benefits for both of you. Start early and kick in the annual gift-tax-free maximum, and your grandson or granddaughter should be in fine shape when tuition comes due. Money in 529 plans grows tax free and withdrawals for qualified college expenses aren't taxed, either. And if you want to accelerate giving, you can make five years' gifts—a maximum of $60,000—all at once. Moreover, because you control the plan, you don't have to worry about a spendthrift scion squandering the money. And if you didn't get around to starting a 529? Consider sending a tuition check directly to your grandchild's college. It won't count against your $12,000 annual gift-tax exemption.

Put a roof over their heads. First-time homebuyers often earn enough to qualify for a mortgage but lack cash for a down payment and closing costs. Your gift could make up the shortfall. But there are other options, too. You could make a low-interest or interest-free loan, though that may raise complicated tax issues. Or, if qualifying for a home loan is a problem for your grandchildren, you could co-sign a mortgage. Some financial companies offer programs allowing grandparents to pledge securities as collateral for a grandchild's mortgage, so you can lend a helping hand without the expense and taxes of liquidating personal holdings.

Guide with your gifts. One alternative to direct giving is to fund one or more type of trusts, which can be customized to fit many financial and personal situations. An incentive trust, for example, could be instructed to distribute funds to your grandchildren in installments, at specified points in their lives, and may tie payouts to your grandchild's accomplishments—reaching a certain income level, for example, or getting a college or graduate degree. But tread carefully, warns Dungan. "You need to help a grandchild develop healthy financial habits before trust distributions start," he says. And be careful about the kinds of hurdles you set up. "You want your grandchildren to be connected to their life passions, not yours, so don't strive for too much control," he suggests.

Encourage philanthropy. There are several options for helping your grandchildren learn the value of charitable giving, and many of these vehicles also offer estate tax advantages. For example, you could transfer assets from your estate into your own family foundation, though to be effective, a family foundation needs an initial commitment of as much as $1 million. Your grandkids could get involved by helping screen grant applications or serving on the foundation's board. A less expensive alternative is a donor-advised fund, which also lets grandparents and grandchildren confer about what charities to support. "This is like having your own foundation to support causes you believe in, but without the hassles and paperwork that go along with operating one," Dungan says.●

Yes, You Can Treat Children Unevenly

One way to be uneven but fair is to leave a baseline amount to each child. For instance, if your estate is worth $3 million and you have two children, leave each one $1 million for starters and consider an uneven split for the remaining $1 million.

Another idea: Consider giving one child more while you are alive. Maybe there's an immediate need—buying a home, say, or starting a business. Help with that now and make it up to the other child in your will. And while you may be confident one child can handle a no-strings-attached bequest, you may need to place assets for another child in a trust so they're not squandered.

Making such decisions can be painful. And treating children unevenly could cause disharmony and must be carefully considered. Yet confronting tough choices now may actually help preserve relationships among your children after you die. Just don't ambush your children when your will is read. Talk now, as a family, perhaps with us or your attorney as moderator, about why you've done things as you have. ●

Helping Out Adult Children Financially

A recent University of Michigan study revealed something you may already know from personal experience. These days, one in three young adults rely on parents for financial help.

According to the survey, 34% of those age 18 to 34 are getting assistance. In some cases, Mom and Dad make a one-time gift, financing a vacation or the down payment on a house or car. In other instances, parents provide monthly checks to cover expenses such as rent and groceries.

Though you may be surprised to find your financial obligation to your children extending well beyond age 18, there is an upside. Playing a financial role in your child's life gives you the opportunity to teach valuable lessons about financial responsibility. Your guidance, as much as your dollars, can help ensure your children's future financial health.

What's the most instructive way to dole out the cash? One option is to have Junior send you certain bills you agree to pay. You'll see how he's spending his money, and you may be able to suggest strategies for cutting his phone bill, say. But this can undermine your child's sense of independence and discourage him from taking responsibility for himself—a failing that may become more crucial as he acquires a family and larger financial burdens.

Playing a financial role in your child's life gives you the opportunity to teach them a valuable lesson

Another possibility is to transfer a lump sum into your child's bank account. This could be pegged to a particular need, or you could step in whenever cash runs low. This implies less ongoing dependence than the bill-paying route. It also encourages careful budgeting to make the money last—or at least demonstrates what happens without careful budgeting.

But probably the best approach is to provide monthly, salary-like payments gauged to fill the gap between the child's income and expenses. This mirrors the way your son or daughter receives money in the real world, via paychecks. You're just providing a supplemental salary, helping meet ongoing financial obligations for rent and utilities, car payments, and other expenses. This can also help your son or daughter get used to the ebb and flow of earning money and paying bills.

To avoid the awkwardness of handing over a check each month, you could set up an automatic funds transfer to your child's account. Like a direct-deposit paycheck, the money will be part of your son or daughter's normal income. Of course, this can be habit forming, and you may want to strike a deal to reduce your support proportionately when the child gets a raise. ●

Why Plan For Retirement ?

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going to choose."

That is something you need to answer long before you start crunching numbers and trying to figure out how much you need to save. Only then can you begin pulling together a "financial life plan" that incorporates strategies to occupy your mind, time, and energies during retirement. And you can decide how you define success once your financial goals are met.

Anthony argues that no financial or investment decision should be made without considering how it will affect our lives. By the same token, though, no life decision should be made without understanding its impact on our financial situation. When both elements are fully integrated into a comprehensive plan, chances are the word "retirement" will be erased, replaced by a broader concept of a life transition that for most of us will include some kind of work.

To plan for your successful transition, you need to throw away outmoded financial models, including the infamous "three-legged stool"—having Social Security, your pension and your personal savings support you. Instead, Anthony suggests four cornerstones:

1. Your history (including your history with money)
2. Your principles and values toward life and money
3. Your present life transitions
4. Your hopes and your goals

With that foundation in place, you can begin constructing an income-for-life model built on an adaptation of psychologist Abraham Maslow's "hierarchy of needs." Anthony calls it "Maslow Meets Retirement."

- **Survival income.** How much money do you need to make ends meet?
- **Safety income.** Money to meet unexpected expenses
- **Freedom income.** Money that pays for the things that bring enjoyment and fulfillment to your life
- **Gift income.** Money for the people and causes you care about
- **Dream income.** At the top of the pyramid is money for everything you've dreamed of doing, being, and having.

From there, you can engage in a financial process that incorporates each element of your life plan. "Once you reach balance in your life, you don't have to retire from anything," Anthony says. ●

David A. Schneider, CFP® Raymond James Financial Services, Inc. 730 5th Avenue, 9th Floor, New York, NY 10019
(212) 659-7784 Fax: (212) 659-7785 david@davidaschneider.com www.davidaschneider.com

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