

# THE WEALTH ADVISOR

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## It's Time to Review Your Estate Plan

For most people, tax season is over and their taxes have been filed. This is a great time to review your personal financial plan. Many decide that is necessary to take the time to get their financial and personal affairs in order or revisit the plans they have already established. It is important to evaluate your wealth management plan and needs, and how these factors interact with each other.

One aspect of financial planning consists of balancing your needs and risk tolerance to help you grow and protect your assets. The process should be started as early as possible, and continue throughout your working years and into and after retirement. Proper financial planning covers areas such as college funding, money and debt management, retirement, insurance and estate planning.

Estate planning is a way to ensure your family will be taken care of, and it is important to remember that it is more than just the preparation of a will. Whether it is assessing a current estate plan, or implementing a new estate plan we are available to assist you. We will develop this plan and work with an experienced estate planning attorney to assist in the document preparation phase.



The Prosperity Consulting Group, LLC  
Donald N. Hoffman, Erin Ansalvish, Carol Pfab, Joanne Sherwin, William Martin, Jr. and Donna Gestl.

It is necessary to periodically review your estate documents. This will insure that your estate plan reflects changes that occur with you and your family and estate tax laws.

We are available to provide you with assistance to help achieve your goals and objectives by offering holistic wealth management planning. A solid and feasible financial plan is undoubtedly one of the most important things you can offer yourself and your family.

### Contact Us

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### OUR MISSION STATEMENT

To provide comprehensive wealth management solutions tailored to meet the unique needs of our clients that emphasizes value added services aligned with our clients' best interests. We are committed to our clients' success.

*Our Best Compliment is a Referral From You.*



## 529 Plans: College Tomorrow, Estate Planning Today

Over the past few years, qualified tuition programs, or 529 plans, have become very popular as a vehicle for college savings for children, grandchildren and others.



by Joanne Sherwin  
Director of Business Development  
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529 plans are sponsored and maintained by individual states and any taxpayer, regardless of income, may contribute to them.

Contributions are made in cash to 529 accounts which have a designated beneficiary. The lifetime contribution limits vary in each state, but typically range from \$100,000 to \$250,000 per beneficiary.

While taxpayers are not limited to the state-sponsored plan in their state of residence, some states do offer state income tax deductions for contributions made by residents. Contributions to 529 plans are not deductible for federal income tax purposes.

If used to pay “qualified higher education expenses,” withdrawals from 529 plans are excluded from the recipient’s gross income. These qualified expenses include tuition, books, fees, and room and board. In addition, services for a special needs beneficiary attending a qualified education institution are also eligible for 529 programs. Any earnings distributed for purposes other than to pay these qualified higher education expenses are taxable to the contributor with an additional 10-percent penalty tax.

As popular as 529 plans have become as a funding mechanism for college expenses, contributors can realize significant gift and estate tax benefits as well. One of the main goals of estate planning is to give individuals as much control over assets as possible without having the value of the assets included in their estate and exposed to estate taxes. The beauty of 529 plans is that they accomplish this goal simply and cheaply.

Contributions to 529 plans are treated as “present interest gifts” to the beneficiary. As a result, the contributor may shield up to \$12,000 (\$24,000 for married couples) from gift tax liability by utilizing the annual gift exclusion

against the contribution. In addition, IRC Sec. 529 permits the contributor to amortize the contributions over a five-year period, allowing a contributor to donate between \$12,000 and \$60,000 in a single year (\$24,000 and \$120,000 for married couples) and to remove these assets from the contributor’s estate. As an example, a married couple with four grandchildren could reduce their estate tax exposure by \$480,000. However, if the contributor passes away within that five year period, the unamortized portion would be includable in the contributor’s estate.

Another important benefit of 529 plans is the ability to change the beneficiary if necessary. This flexibility is beneficial should the original beneficiary not require the funds. The account owner can change the beneficiary to either another student or to himself if desired and use the money for classes at a local university. 529 plans can be a useful wealth management vehicle, both for education planning and for tax and estate planning.

It is important to consider, before investing, whether your home state offers any state tax or other benefits that are only available for investments in your state’s qualified tuition program. Other benefits may include reduced or waived program fees, matching grants, and scholarships to state colleges. Any state-based benefit offered with respect to a particular 529 college savings plan should be one of many appropriately weighted factors to be considered in making an investment decision. We are available to consult with you to discuss more about how state-based benefits (including any limitations) would apply to your specific circumstances.

*For more complete information about the 529 savings plan, including investment objectives, risks, fees and expenses associated with it, please read the issuer’s official statement. The issuer’s official statement can be obtained from your financial advisor. Please read it carefully before investing.*

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# Municipal Bonds and Wealth Transfer

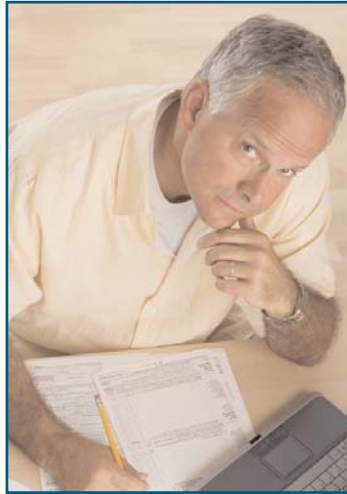
Volatility in the equity markets and the uncertainty surrounding the estate tax laws have caused many people to question the wisdom of making annual gifts of cash to children, grandchildren or other family members. However, it is important to remember that long-term estate and legacy planning should not be put on hold or eliminated.

An important goal for many people is to transfer wealth to the next generation and beyond in the most tax efficient manner possible. One strategy to accomplish

this goal is to convert municipal bond holdings to a single-premium immediate annuity (SPIA).

Even though municipal bonds generally provide tax-exempt income, their returns are often less attractive than other investments. In addition, the full value of a municipal bond portfolio is includable in the taxable estate of the owner and could trigger higher estate taxes. Individuals who have a need for supplemental retirement income can purchase an immediate annuity that may provide certain advantages over municipal bonds.

A SPIA with a life-only payout option can provide income for life, but the value of the annuity is not includable in the owner's taxable estate. One additional option is to apply some or all of the distributions from the annuity to fund an irrevocable life insurance trust for wealth replacement and transfer purposes.



This SPIA solution addresses two major concerns that most people have — supplementing retirement income and leaving an inheritance to their family members or educational or charitable institutions. By converting

municipal bonds to an immediate annuity, in combination with funding life insurance inside an irrevocable trust, an individual can achieve income and estate tax savings at the owner's death and thereby increase the amount of wealth that can be passed to beneficiaries.

**To recap, the advantages of this strategy are the following:**

- The municipal bond portfolio is no longer a part of the taxable estate.
- The life-only annuity will be excluded from the owner's taxable estate.
- Annuities can typically provide an individual with a higher level of income than municipal bonds.
- Life insurance death proceeds inside an irrevocable life insurance trust (ILIT) are generally passed to heirs income and estate tax free.

**Some of the disadvantages of this strategy to consider include:**

- There is a loss of flexibility as annuities are long-term investments. There could be penalties for early withdrawal and if made prior to age 59 ½ may be subject to a 10% IRS tax penalty.
- Increased expenses - annuity products have internal fees and

expenses including M&E (mortality and expense) fees, annual contract fees, administrative fees and contingent deferred sales charges. This strategy calls for the purchase of insurance products incurring a cost for insurance.

- Tax issues - most municipal bonds are tax-exempt. Earnings inside of the annuity will be taxed as ordinary income at withdrawal.

If you would like further information on this concept or other income maximization strategies, please contact us.

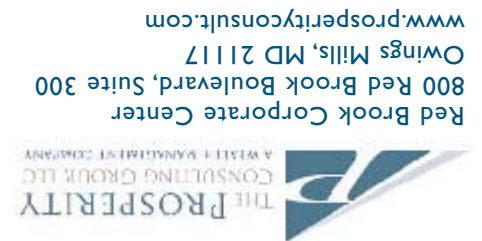
## Did You Know...

During the American Revolution inflation was rampant. In an attempt to slow it, in November of 1780 a "Committee of Merchants" went through Philadelphia and tried to dictate the value of the Continental money. This was not successful however and by mid 1781 the value was depreciated by nearly 90%.

Thomas Jefferson died penniless. Always cash poor, building Monticello had been much more expensive than he had planned and he owed many people money.

Source:

<http://www.financeprofessor.com/trivial/FinanceProfessorcomtrivia.html>



## Estate Planning

You may not realize that your heirs could inherit a substantial tax burden with your estate. While legislation is working to reduce the estate tax, there are still income taxes or inheritance taxes that your heirs may face. There are strategies you can implement to reduce those taxes and get your estate in order.

We can help you to organize your estate documents and sort through the details. Many people don't know their true net worth, how much life insurance they own, or whether it is structured properly. There are a number of tools available to help in estate planning, including wills, trusts, living wills, insurance and health care proxies. We can help you understand your options to protect your heirs by using the right tools.

Visit us for a free, no obligation financial check-up, so we can help put your estate in order. We can identify ways to reduce your taxes and improve your estate's potential. At the same time, we can work together review your financial plan.

*Securities offered through 1st Global Capital Corp., member FINRA/SIPC. Investment advisory services offered through The Prosperity Consulting Group LLC. The Prosperity Consulting Group LLC and 1st Global Capital Corp. are unaffiliated entities.*

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