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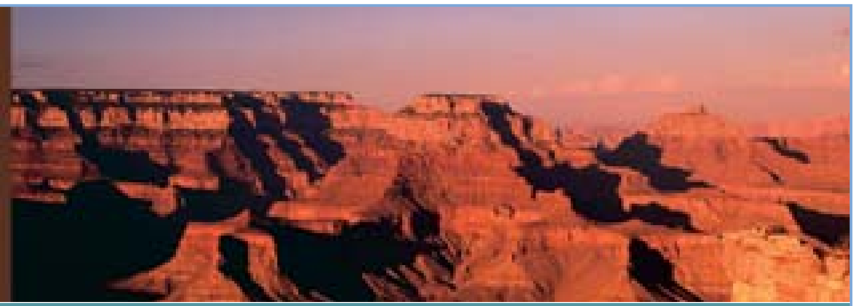

How To Avoid Becoming A Victim Of Identity Theft

How bad is the identity theft crisis? In yearlong studies by Gartner Research and Harris Interactive in 2003, seven million people said they'd been victimized. That's more than 19,000 a day, almost 800 per hour, and 13 every minute. And according to the Identity Theft Resource Center, the average identity theft victim spends 600 hours, $16,000 in lost wages, and $1,400 in out-of-pocket expenses trying to repair the damage.

Though there are ways to limit the harm if someone steals your personal information, prevention beats any cure. Here's how to reduce your vulnerability.

Don't give out personal information. Unless you know the person you're dealing with, limit the information you provide. If you get a call from a telemarketer or even a government agency, ask for a customer service number and check whether the caller is legitimate. If you are still in doubt, contact your Better Business Bureau. If it's a company you've dealt with before, make sure the caller's information matches what's written on past correspondence.

Guard your mail. Identity thieves may sort through trash or raid your mailbox to find bank numbers and other personal information. To protect yourself, shred discarded mail. If you're going to be away, ask the Postal Service (800-275-8777) to hold your mail until you return. And don't leave outgoing mail in your mailbox; use a secure collection box or take it to the Post Office.

Keep track of credit card receipts. Though most merchants limit the amount of personal information printed on receipts, they're still valuable to identity thieves. So ask store clerks to hand you your receipt rather than sticking it into a bag, where it's more likely to be misplaced.

Know what you have in your wallet. Keep an inventory of the credit cards you carry and make sure you have the numbers written in a safe place. Leave your Social Security card safely at home, and be very careful with health insurance cards, which may also list your Social Security number—the holy grail for identity thieves.

Clear your hard drive before you dispose of your computer. Make sure all personal information is non-retrievable before you give away an old computer. If in doubt, remove the hard drive and have it destroyed.

Lock up your personal items. At work or the gym, always secure your wallet or purse in a locked drawer or locker. Left unattended for even a minute, these items could give an alert thief all that's needed to make you the next victim.

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Welcome To Our First Quarterly Newsletter!

You might ask, "What took you so long to start publishing a newsletter?" The answer is that it took me a while to find a company that I could partner with to develop a publication that was consistent with my goals. I wanted to bring you a newsletter with worthy content regarding sophisticated estate planning, income tax, and investment topics.

In this and future issues, you will find interesting articles regarding subjects that we work with on a daily basis in order to increase your wealth, save taxes, and accomplish your goals. To bring you all this content, we've hired the services of a veteran personal finance journalist, Andrew Gluck. Andy spent five years covering Wall Street as a staff writer and columnist for the Daily News of New York and five more years as senior writer for Worth. He now writes a monthly news column for Investment Advisor magazine.

If you think this newsletter might be of interest to a friend or colleague, feel free to pass it along—or simply refer them to our website, where these newsletters will be available for review. And if you have any comments or suggestions, we would happy to hear them! We are looking forward to a continuing relationship and helping you build wealth.

Make Settling An Estate Less Unsettling

It's a familiar television scene: A family in mourning hovers around a lawyer, each member waiting to hear what's been left to him or her in a will. Some walk out pleased; others disappointed.

Now for a reality check: Dividing up assets is never that simple. It can take months, or years. And if you're named executor, you'll have the overwhelming task of making it happen—at a time likely to be emotionally difficult for you and your family.

Knowing your responsibilities in advance can help get you organized, ease anxiety, and keep your role in perspective. Remember, this is an honor. Anyone over 18—and, in some states, who is also a U.S. citizen and relative—can serve as executor, unless he or she is a judge or a felon. Your loved one chose you as the best person to carry out his or her wishes.

When you learn that a friend or relative has designated you as executor, try to have a discussion about his or her intentions for a legacy and the estate. At the very least, find out where important documents and accounts are kept. Also, develop an executor checklist that includes the administrative tasks you'll handle. Store it in a safe place, perhaps with your own personal documents. After the death, you'll need to:

❑ Obtain an application to appear in probate court by contacting the court clerk listed in the telephone directory.

❑ Call the local health department to request certified copies of the death certificate, and locate the original signed will. You'll need both documents in probate court, to prove there was a death and that you're executor.

❑ Notify Social Security, Medicare, and other government agencies of the death.

❑ Send death notices to the post office, utilities, banks, and credit card companies.

❑ Let beneficiaries know you have applied to the court. (They have the right to contest the will until a deadline set by the court.)

❑ Distribute assets in this order:

- Pay court fees, funeral expenses, and other costs of administering the estate—including the 2% to 5% fee you're entitled to collect.
- File taxes and pay any medical expenses, debts, rent, and wages owed by the deceased.
- Divide the remaining assets. You'll need to appraise tangible objects, collect debts owed the estate, and file for life insurance and other benefits. Also check with the employer of the deceased for unpaid salary and insurance. Then you'll be ready to make payouts to the beneficiaries.
- Save receipts and records of all transactions—a judge will require them to finalize the estate. Hold on to copies for at least two years.

You don't have to go through the probate process alone. Consider using an attorney to prepare income and estate tax forms, an accountant to file taxes, and getting guidance from your financial advisor. While the cost of hiring professionals can take a chunk out of the estate, your primary goal is to ensure the deceased's wishes are respected.

As you face inevitably challenging moments as an executor, take satisfaction in doing a final favor for someone you cared about. ●

Confusing Fees And Expenses On 529 College Savings Plans

One of the toughest parts of comparing 529 college savings plans is determining their total costs. There are so many different fees and expenses, and they vary so widely, that trying to find the best value among several dozen state-sponsored plans can be an exercise in frustration. But making the wrong choice could drain big money from your account.

Most 529 plans, which allow you to save tax-free for college, assess an enrollment or application fee, which could be waived or reduced for state residents or during special promotions. Next, there's an annual account maintenance fee of $5 to $50; this, too, may be waived under certain circumstances.

Then come annual fees to cover operating and marketing costs. They range from 0.10% to 0.20% of your account, or are wrapped into fees charged by investment managers. If you buy your 529 from a financial advisor who is not fee-only and receives a commission, you may also pay a sales charge of as much as 5.75%.

Finally, there are investment management and other fees charged by the plan's underlying mutual funds or investment managers. Levied as a percentage of assets, these costs increase as your account balance grows.

In a recent analysis of 529 costs, fund-tracker Morningstar tried to make sense of myriad 529 cost structures by determining what different plans charge for the same portfolio option—a 50/50 allocation between stocks and bonds. Expenses ranged from a low of 0.7% to almost 3%. Morningstar concluded that anything below 1% is reasonable.

In a similar study, Annette L. Nazareth, director of market regulation at the Securities and Exchange Commission, compared a $10,000 investment in each of two 529 plans holding the same Standard & Poor's 500 index fund. One plan had a $20

"Defective" Trusts Work For Biz Owners

The way the IRS sees it, trusts that break the rules don't exist—they're "defective." To owners of small businesses looking to transfer the companies to their heirs, such trusts—known as intentionally defective irrevocable trusts, or IDITs—are a marvel of efficiency for minimizing capital gains, gift, and estate taxes.

The best way to understand the benefits of an IDIT is by looking at an example. Say you own a business:

● Valued at $6 million.

● Your tax cost-basis—the original price you paid—is $1 million.

● It's an "S" corporation, so earnings are added to your personal income and taxed at your rate.

● You are approaching retirement and decide to transfer ownership to your three children.

To reduce the taxes you'd pay on transferring the business to your heirs, you create three IDITs and move one-third of your company's stock into each trust in exchange for interest-bearing promissory notes using the stock as collateral. Because each IDIT receives a minority interest in the business—and because the shares aren't publicly traded—the IRS permits you to discount the value of the business by about 35%, to $3.9 million. Here's what happens:

● **Income tax.** The IRS does not treat an IDIT as a separate income-tax entity. However, they're valid for non-tax purposes, such as holding and distributing business profits. Because the trusts now own the business, they receive its earnings, which pay down the promissory notes. But because the IRS doesn't recognize the IDITs, the company's taxable income continues to be added to your own. By paying the company's taxes, you further reduce your estate while effectively increasing the value of the business. Meanwhile, you don't owe tax on the loan payments from the trusts—because, in the IRS's view, you're paying it to yourself.

● **Gift tax.** Before transferring your business, it must be independently appraised. That's essential in avoiding gift taxes. As long as the business was "sold" to the trusts for its discounted value in exchange for the promissory notes, you owe no gift taxes. But if the value of the business exceeds the value of the notes, the IRS may consider it a gift and you could owe gift tax. You are, however, entitled to a $1 million lifetime gift-tax exemption.

● **Estate tax.** If the notes are paid off before you die, the sale of the business to the trusts is considered a "completed transfer"—the business is out of your estate and won't be subject to estate tax. If money is still owed at your death, however, it could be taxed, to the extent it exceeds your estate-tax exemption—$1.5 million in 2004, rising to $2 million in 2006 and $3.5 million in 2009. (The estate tax is scheduled to disappear in 2010, only to return the following year, with a $1 million exemption.)

● **Capital gains tax.** Ordinarily, you would owe a 15% capital gains tax on the difference between your cost basis of $1 million and the $3.9 million sale price. But because the IRS doesn't recognize the trusts, it's as if you sold the business to yourself. So there was no gain, and you owe no tax. Moreover, once the transfer is complete, all future income and appreciation of the business is outside of your taxable estate.

If you're considering an IDIT, you'll need the help of an experienced trust attorney

These tax rules stem from the days when the top personal income rate was 91%, and many high-earners shifted income to trusts in order to take advantage of their lower rates. The IRS branded such transfers shams, and ruled that diverted income would still be taxed at an individual's personal rate. The idea of making trusts intentionally defective—and thus useful for wealth-transfer purposes—came later, after personal tax rates came down substantially.

If you're considering establishing an IDIT, you'll need the help of an experienced trust attorney. If a trust isn't correctly structured, the IRS could disallow some or all of its tax advantages—for example, by asserting that your payment of income tax for the trust amounts to a taxable gift. It's also a good idea to create an IDIT early enough so you can complete the transfer during your lifetime, and so that you'll be around to teach your children the ropes of your business as they take control. ●

Make It Important To Get The Right Help

annual fee, a program management fee of 0.60%, and an expense ratio of 0.10%. The second, cheaper plan charged a $25 annual fee but only 0.27% in other expenses. Assuming an 8% average annual return for 18 years, lower fees of the second plan would translate into an extra $2,113 in college savings.

In another comparison of two plans with similar though not identical investments, Nazareth found that an extra 20.7%, or about $7,728 could be gotten from the less expensive plan. So seemingly small variations in fees do add up.

In some cases, though, tax advantages may offset higher plan costs. For example, two dozen states and the District of Columbia give residents a state tax deduction for contributions to in-state plans. You also need to determine whether a particular plan charges for reallocating assets, switching to another state's plan or changing beneficiaries.

An SEC task force is investigating whether 529 investors receive enough information about fees and expenses. Please feel free to call our office for help sorting out your options. Working with us will allow you to get objective advice on a fully-disclosed fee-only basis. ●

Maximum Savings? Try A Solo DB Plan

For years, entrepreneurs have discovered that a defined-benefit (DB) retirement plan lets them save much more on a tax-deductible basis than they can put into any other retirement vehicle. And now, thanks to relaxed tax rules and pre-packaged deals offered by several financial institutions, plans for one-person businesses—the solo DB—have enjoyed a sudden surge in popularity.

Consider Susan, a fictional 53-year-old real-estate professional with no employees. As the accompanying chart shows, a DB plan would allow her to contribute—and avoid current income tax on—a much larger portion of her earnings than she could funnel into an individual 401(k) plan, another popular option for the self-employed. The tax savings of a DB plan can be particularly striking if you have a day job or spouse who works, because second incomes are often taxed at high marginal rates.

In addition, a solo DB can cut your taxes dramatically even if you're over age 70½ and must take minimum withdrawals from the account.

Your DB contribution is calculated by an actuary, who considers your age, life expectancy, assets in the plan, projected investment return, and a target annual retirement benefit of as much as $170,000 (adjusted for inflation). The goal is to accumulate a nest egg large enough to fund the target retirement benefit for life, explains actuary Jeffrey J. Berends, executive vice president of CCA Small Business Group, an affiliate of Chicago Consulting Actuaries.

What's Your Maximum Contribution?

2005 Business Income *	Solo Defined-Benefit Plan**	Solo 401(k) Plan ***
$50,000	$50,000	$28,000
$150,000	$150,000	$46,000
$250,000	$166,112	$46,000

* Net earnings from self-employment, minus one-half of self-employment tax
** Assumes business owner was born October 1, 1952, will retire in 10 years, and will earn a 5.5% return on plan assets.
*** Includes a $4,000 catch-up contribution for owners age 50 or over.

Source: Chicago Consulting Actuaries

The principal drawback? Contributions are mandatory. Although you may be able to make a reduced contribution, or perhaps none at all, you should only adopt a DB if you anticipate making high-dollar contributions for several years. So this is best for established, profitable businesses with predictable cash flow. Also keep in mind that if you later hire full-time workers over age 20, you'll have to contribute for them, too.

Before signing up for a solo DB, review the provider's investment menu. Plans offered through investment companies, for instance, generally restrict your choices to their funds, which may not match your needs. Also look at fees for plan set-up, account maintenance, and yearly actuarial work and other expenses. Finally, ask whether you'll be presented with a fully prepared, signature-ready IRS Form 5500, which must be filed for the plan each year.

To reduce your 2005 tax bill, the plan must be established by December 31, though you don't have to fund it until your business files its tax return—no later than September 15, 2006, if you receive filing extensions. Of course, the sooner you put tax-deferred money to work, the bigger the potential benefit. ●

Avoid Identity Theft

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Routinely check your credit bureau report. If an identity thief uses your credit card number, the transaction should show up on your credit report. So, at least once a year, request a report from each of the three credit reporting agencies: Equifax (800-525-6285 or www.equifax.com); Experian (888-397-3742 or www.experian.com); and TransUnion (800-680-7289 or www.transunion.com). Reviewing these reports regularly could help you catch a thief before the damage is too great.

Review all bank and credit card statements. Before you pay your bills and file your statements, check carefully to make sure you recognize all the charges. If you find a discrepancy, report it to your credit card company or bank right away. In most cases, they will work on your behalf to help resolve the problem.

Follow Internet safety rules. Your computer and your online transactions are great sources of information for identity thieves. These measures can limit your vulnerability.

- Purchase virus protection and "adware" software. Some viruses can send out information from your computer to a perpetrator.
- Don't download files from unknown sources. You might be opening up a window of opportunity for a thief to browse your computer.
- Purchase or create a firewall to block unknown Internet sites from getting access to your files. This may be especially important if your computer is always connected to the Internet.
- If others have easy access to your computer, avoid automatic log-on features that could enable an unauthorized user to exploit your personal information. Use password options that limit accessibility to personal files, especially those that hold financial information. And avoid passwords that are easy to guess—your mother's maiden name, for example, or a number like 13579.
- Make sure any Internet purchases or financial downloads happen via a secure server. And always take the time to review vendor privacy policies to check whether personal information could be sold or distributed to other parties. ●

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