

# WEALTH MANAGEMENT JOURNAL

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## MISSION STATEMENT

The mission of the *La Jolla Institute for Wealth Management* is much more than money management! Wealth Management deals with a PHILOSOPHY for investing--developing a process rather than selling a product. Wealth management builds decision-making skills as a foundation for a financial business plan for you and your family. Our client relationship is built on a partnership for success that recognizes the need for a thorough understanding of your situation. Our primary focus is:

- OBJECTIVE & COMPETENT INVESTMENT COUNSEL
- Estate & Income Tax Planning
- Inter-Generational Succession Wealth Management Trust™
- Capital Preservation & Asset Protection
- Retirement Planning & Distribution Analysis

**Our goal is to be the leading provider of wealth management services to families, professionals, small to medium businesses, retirement plans and trusts.**

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## Summertime and the Living is Easy.....Not!

### Optimistic?

Well, what could be better than the way we have it now? Low interest rates, high stock market, low inflation, high productivity, lower gas prices, higher wages, low unemployment, higher global growth - huh! Will this last?

Don't think so!

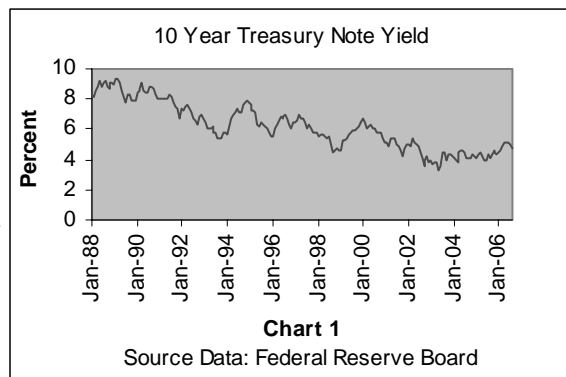
Check out Chart 1 in this segment, courtesy of bond guru Bill Gross' August 2006 Investment Outlook. The 10 year Treasury Note yield is at 4.7%, and according to Gross, signaling the beginning of a bull market in bonds.

Real estate has peaked and is in a reverse cycle in which, real home prices fall for about five years, giving up precious gains. We see that happening even in San Diego; condo inventory is spiking and even west of I-5, coastal prices are pretty much flat!

### Monetary Meteorology

Forecasting economic data is dicey at best; therefore, I suggest TV stations combine the weather & business news into one segment. Of course, the weather person would be doing the reporting!

My point is, if Gross' forecast is accurate, it predicts an economic pattern of eventual deflation, inflation, and falling bond prices in 2009 and "far beyond as the U.S. seeks to address its enormous future liabilities concentrated in social security, healthcare, and foreign holdings of U.S. bonds."



I'm from the glass is half-full school, but it's tough to look through the glass darkly, with the mess we're in around the globe. I get hung up on these movie titles: *Eyes Wide Shut*, and *No Way Out*; but to get over it, my role is to help you set clear investment goals and develop a comprehensive wealth accumulation and preservation strategy to meet your goals.

This Fall edition of the *Wealth Management Journal* and those that follow, will explore strategies to help you meet your accumulation and preservation strategies.

(See *Summertime Living*, Page 6)

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*This newsletter provides general information for educational purposes only. It is not intended as personal investment or legal advice.*

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## Questions?

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# Long Term Care Planning Responsibility

**Buck Stinson**

**President, Long Term Care Division**

**Genworth Financial**

New legislation recently passed by Congress and signed into law by President Bush on February 8, 2006, has created an exciting opportunity for the long term care industry. By encouraging individuals and families to plan for long term care, the government is wisely advocating both public and private solutions to be an integral part of America's evolving national long term care policy.

There are two components of this legislation that affect our industry and encourage consumers to turn to private long term care insurance rather than Medicaid as their solution:

### **1. Dollar-for-Dollar Asset Protection:**

The new Partnership Program will allow consumers to receive dollar-for-dollar Medicaid asset protection by purchasing a tax qualified long term care insurance policy, subject to certain inflation protection requirements.

Specifically, individuals seeking to qualify for Medicaid are permitted to retain assets equal to the dollar amount of long term care insurance benefits received. For example, if a consumer receives \$250,000 of long term care insurance benefits, he or she would receive \$250,000 of asset protection from Medicaid.

### **2. Stricter Medicaid Asset Transfer Rules:**

Currently, Medicaid will look back through 36 months of records to see if an individual transferred assets before attempting to qualify for Medicaid. This regulation increases the look-back period to 60 months. Subject to certain exceptions, it also deems individuals with home equity above \$500,000 (or \$750,000 at the state's option) as ineligible for Medicaid nursing home benefits. This change makes access to Medicaid tougher and encourages consumers to turn to private long term care insurance to protect them as they start planning for retirement.

According to a 2006 national survey by *Public Opinion Strategies*, 65% of Americans admit to having made no long term care plans for themselves or a spouse, while nearly two-thirds of Americans over age 40 say they have supported or are now providing financial, emotional, or physical support to a parent or other relative.

The poll also revealed most individuals recognized the need to prepare for the cost of long term care, but had not done anything about it. Many Americans surveyed also wrongly believed they had insurance protection, felt that their sav-

*(See Long Term Care, Next Page)*

## Long Term Care

(From Page 2)

ings would be adequate to cover long term care costs, and incorrectly believed that Medicaid would cover long term care costs.

A key conclusion from the poll indicates that Americans are unprepared for longer life spans. Even as more and more Americans are taking on the responsibilities for caring and making decisions for elderly relatives, very few are prepared for the challenges of the cost of long term care for themselves. Few have discussed or understood the affect that needing care would have on their families acting as caregivers, and on their personal retirement portfolios.

It becomes more critical for Americans to seriously evaluate how they will maintain their lifestyles as many are now living well into their 80's and 90's and beyond. But the fact is that most American households remain unprotected from the costly health challenges that come with greater longevity.

Genworth Financial's 2006 Cost of Care Study, conducted by CareScout, indicates the combined hourly rates for a Home Health Aide for in-home long term care spiked 13% to \$25.32 per hour, while the average annual cost for a private one-bedroom unit in an assisted living facility rose 7% over 2005, to \$32,294. The average annual cost for a private room in a nursing home rose modestly by 2% to \$70,912.

Following are key findings from the Genworth "Cost of Care" survey, broken down by three major categories.

### Home Care

The average hourly rate for home health aides across all different provider types was \$25.32, a 13% increase versus \$22.43 a year ago. For homemaker services, non-certified, licensed providers had hourly rates averaging \$17.73, versus \$16.84 a year ago.

### Assisted Living

A private one-bedroom unit in an assisted living facility has an average annual cost of \$32,294 - a 7% increase over 2005. Connecticut (Bridgeport area) has the highest annual cost at \$57,566, while North Dakota and Arkansas were the lowest at about \$21,000.

### Nursing Homes

The average annual national cost of a private room in a nursing home is \$70,912, or \$194 per day, reflecting a 2% increase over 2005 rates of \$190 a day. This remains the most costly care option.

As Baby Boomers enter their "Golden Years," they will change the nature of retirement with the same dramatic effect they had on prior life stages. They expect to have an extended and active retirement over a longer period of time. The promise of living a longer life also means that their retirement plan must

account for the increasing odds of needing care at older ages.

**"...Americans are unprepared for longer life spans."**

### A Need for Education

With the government looking to reduce expenses, including Medicaid, it becomes increasingly apparent that an initiative of education must be undertaken. There is an urgent need to provide the necessary education to members of the Baby Boom and the subsequent generations, X and Y about the need for long term care planning.

The trend toward younger buyers will accelerate as adult children watch their parents age and deal with long term care needs. Looking ahead, it is critical that Americans make intelligent, informed long term care decisions.

Please contact me if you want to review options regarding planning for long term care at (858) 459-8818.

**"Life is ten percent what happens to you and ninety percent how you respond to it"**

**~ Lou Holtz**

# the DUKE & DATE

By Duke Johnson, JD, MBA (TAX), CLU

## The Lawyer's Tool Kit For Health Care

### Necessities

An essential part of our process in personal financial management is to inform you of the critical documents required to implement your estate plan. Your comprehensive estate plan **must** include a General Power of Attorney and an Advanced Health Care Directive. We can direct you to websites or provide you with California health care directive forms, but, we cannot guide you through the extended self-reflection and the family and physician discussion that are the heart of effective planning for health care.

Studies have shown that standard health care forms do little to influence end-of-life decisions without: (1) a deep reflection about your values and wishes, and (2) personal discussions between you and your decision-makers before you execute the health care forms.

### The Tools

The American Bar Association (ABA) has provided me with a Lawyer's Tool Kit to provide you with the tools to do sound advance planning. The kit contains a variety of self-help worksheets, suggestions, and resources. On this page

you will see a brief description of this kit and what is included.

We are making this resource available to you as a compliment to you as our client, but more importantly, as an ACTION TOOL for you and your family to be safe and secure in the most difficult of situations.

A detailed resource section directs you to organizations and web pages that will give you more information. This rich content can be found at [www.ca.ag.gov/consumers/general/adv\\_hc\\_dir.htm](http://www.ca.ag.gov/consumers/general/adv_hc_dir.htm).

This edition of the Wealth Management Journal is going to print today, the 8th of September. Coincidentally, today's print news (Wall Street Journal), describes a

There are 10 "Tools" in this Tool Kit:	
Tool #1	How to Select Your Health Care Agent or Proxy
Tool #2	Are Some Conditions Worse Than Death?
Tool #3	How Do You Weigh Odds of Survival?
Tool #4	Personal Priorities and Spiritual Values Important to Your Medical Decisions
Tool #5	After Death Decisions To Think About Now
Tool #6	Conversations Scripts: Getting Past The Resistance
Tool #7	"Proxy IQ Test" for Family and Physician
Tool #8	What To Do After Signing You Health Care Advance Directive
Tool #9	Guide For Health Care Proxies
Tool #10	Resources: Advance Planning for Health Care

### Website

Another excellent resource to help you prepare for this process is the website for the California Office of Attorney General, addressing the Advanced Health Care Directive. This site provides an Advanced Health Care Checklist, Fact Sheet, and sample Advanced Health Care Forms that you can download.

brain injury patient, considered medically in a "vegetative state", that responded dramatically to various stimuli. You may want to read this report, as it raises another dimension to this health care decision making process.

Be well and do good works,

[www.ca.ag.gov/consumers/general/adv\\_hc\\_dir.htm](http://www.ca.ag.gov/consumers/general/adv_hc_dir.htm)

# Family Foundations

## Tools for the Transfer of Family Wealth to Perpetuate High Standards and Values

### Mistaken Identity

In 1992, Judith and I filed a dba of our corporation: La Jolla Institute for Wealth Management. We thought it best reflected an educational bias; a firm built on independent thinking and services; and one that could integrate investment management, estate and income tax planning on a fee for service basis. A place we would like to go to for the same services - a family practice.

Well, this is not a commercial, although we do note the rest of the universe is called "Wealth Management" or "Wealth Management Advisor". There are even two local firms trading on our name, both called "La Jolla Wealth Management". One is in real estate sales - you can see their awning on Cass & Garnet - I think its above a taco shop; the other is a local lawyer I know who has partnered with insurance guys, also known as "LJWM". We get calls all the time but as long as our clients are not solicited or confused, we'll accept and tolerate their highest form of flattery.

My goal with this forum is not to form a fancy, tax-exempt foundation ala Buffet and Gates, but to encourage YOU to consider and possibly implement plans to preserve and transfer wealth to our next generations. Our children and grandchildren will need wealth to make choices and decisions to SURVIVE the onslaught against our religious and constitutional heritage that made our country the home of the free and the brave. My children and grandchildren will need more wealth to live, work and be educated free from forced cultural integration, left-wing academia, political hacks playing to special interest groups, and a general malaise in America, best expressed: "Oh, it'll be ok".

**"...you can see thier awning on Cass & Garnet - I think its above a taco shop."**

### Here's The Game Plan:

This is a survival top ten list of tools and strategies we'll explore to help put money where my mouth is - in the hands of the next generation of Americans who will uphold our values and standards:

1. Family Bank
2. Annual & Lifetime Gifts
3. Total Tax Free Life Insurance
4. Generation Skipping Investments
5. Dynasty Trusts
6. IRAs for College, Home Buy, and Grandchildren
7. Private Annuities
8. Family Corporations / LLC
9. Family Compound
10. Annual Family Forgiveness / Planning Meeting

I begin with #1 in this edition of the journal and then travel down the list in future issues.

### The Family Bank

Its open 24/7, provides very personal service, and the best rates and terms in town. But, the Bank of Mom & Dad (or Omie and Fafa) can be closed at any time. The Board of Directors are kind, loving and generous parents or grandparents, who can administer tough love and call loans-in if need be.

I'm a form over substance guy when it comes to financial transactions the IRS may want to review. Yes, document, document, document! Act like a Wells Fargo or Bank of America - get financials, file all proper documents, make it

(See *Family Foundations*, Page 7)

## Summertime Living

(From Page 1)

### "So Here We Are"

My Norwegian cousin Gunnar's favorite expression that leads to action. Given all the global uncertainty we face and a suspect economic picture on the home front, lets look at an "Income Portfolio" that may meet cash flow requirements for a three to five year timeline. If interest rates go down or cycle up, we know your cash distributions have a good chance of being there for you, regardless of what the Federal Reserve does.

#### Case Study #1

A young 66 retired medical researcher asked us to manage an income portfolio of approximately \$1 million. She and her CPA indicated a need for \$50,000 pre-tax to supplement Social Security and a pension. We structured the portfolio so that each month, \$4,200 was electronically transferred to her checking account. We kept \$50,000 in a high yield money market and \$50,000 in a tax-exempt, short-term bond fund. We will replenish the cash portion of the portfolio to reflect CPI adjustments as spending patterns develop, but never below the one year cash flow requirement.

The balance of the portfolio is neat: we laddered a bond portfolio of \$250,000 to compliment \$650,000 in tax-efficient, low cost, equity-income securities. We will monitor and manage this investment segment on a total return basis: reinvest all interest, dividends and capital gains and to supplement the cash distributions, we'll make tax-efficient sales to keep our balanced portfolio on target.

Does it work? As the inimitable Louis Rukeyser says - "No Guarantees", but see this chart below. "Real Real Returns" win the race - common stocks and municipal bonds. Sounds familiar doesn't it!

Average Annual Returns After Inflation, Taxes, and Expenses

Holdings Period	Inflation	S&P 500 Index	Municipal	U.S.	Single-Family Homes
			Bonds* "A" Long	Treasury* 5-Year Notes	
80 Yrs 1926 - 2005	3.04%	4.92%		-0.38%	
40 Yrs 1965 - 2005	4.66%	2.77%	1.73%	-1.02%	0.54%
20 Yrs 1985 - 2005	2.99%	6.20%	2.90%	0.83%	0.81%
<b>10 Yrs 1995 - 2005</b>	<b>2.53%</b>	<b>4.19%</b>	<b>2.58%</b>	<b>0.66%</b>	<b>1.19%</b>

Source: Ibbotson and Associates and Bloomberg \*Income data, not total return.

In the next issue of the Wealth Management Journal we'll look at another client situation - how to best invest for the long - term in tax-exempt and taxable accounts! 'Til then.

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## Paying More for Medicare

Starting next year, higher-income retirees will see significant increases in thier premiums for Medicare Part B, which covers doctor visits and outpatient care.

The change stems from the 2003 Medicare recipients with income - adjusted gross income, with some modifications - exceeding \$80,000. For married couples filing jointly, the

threshold is \$160,000. (There are slightly different rules for married individuals who file seperately.) The government will base the 2007 charges on tax returns filed for 2005, but people whose financial situations have changed drastically can ask for more recent data to be used.

The table on the next page shows government estimates of individual monthly Part B premiums and the surtax that's related to income. The current monthly premium is \$88.50.

(See **Table 1**, Next Page)

# THE BACK PAGE

## The La Jolla Institute for Wealth Management

*The La Jolla Institute for Wealth Management is an independent advisory firm that secures investment, legal and insurance services from leading third-party providers. We offer objective advice to clients on a fee-based retainer. The Institute provides the following wealth management services:*

### Life Insurance

The Institute reviews and analyzes insurance needs, including existing and proposed life and disability contracts. Clients receive substantial savings plus objectivity in placing the proper amount and type of insurance.

### Estate Planning

The Institute performs tax and distribution analyses, develops and assists in implementing wills, trusts, intra-family and elder care planning, and family business succession.

### Severance Benefit Planning

The Institute develops and installs severance benefit plans for corporate sponsors. We also represent severed employees in negotiations with employers to assure an equitable settlement. Our team of legal, actuarial and tax professionals provide knowledge and experience.

### Investment Management

The Institute develops and implements your written investment plan, using no-load funds, institutional-priced stocks, bonds and money managers. The Institute closely monitors the investment portfolio and provides you with scheduled status reports.

### Retirement Planning

The Institute performs plan design, investment funding and distribution analysis of individual and corporate plans.

### 401(k) Investment Advisory Services

The Institute selects investment options, tracks and reports investment performance, and presents employee education workshops on the basics of investments and retirement planning. We assist in audits of 401(k) plans and offer both bundled and unbundled plans.

### Family Foundations

*(From Page 5)*

a real promissory note, with reasonable interest charged. A "Goldilocks" rate - not too little, not too much. Use an IRS imputed interest estimate. Loans of \$10,000 or less are under the radar. A bad debt income tax deduction of the full amount against gross income is available if it was a business bad debt; a personal bad debt is limited to capital gains and up to \$3,000 of ordinary income, in the year it is deemed "uncollectible".

We can use the Family Bank for education loans, a home purchase, auto purchase, and investments; any reasonable need for intra-family funding to provide a competitive edge or support his or her capability.

### Conclusion

The Family Bank Loan promotes responsibility: (1) it isn't "all right" not to payback the loan; and (2) a disciplined learning experience regarding finance, debt, and the confidence to go for it! The Family Bank doesn't fit all situations, yet it works fine in the right ones.

**"My problem lies in reconciling my gross habits with my net income."**

**~ Errol Flynn**

**Table 1**

**Monthly Cost of Medicare Part B**

	Less Than \$80K/ Less Than \$160K	\$80K to \$100K/ \$160K to \$200K	\$100K to \$150K/ \$200K to \$300K	\$150K to \$200K/ \$300K to \$400K	More Than \$200K More Than \$400K
2007	\$98.20	\$111.20	\$130.70	\$150.10	\$169.50
2009	\$98.30	\$137.70	\$196.70	\$255.60	\$314.60
2011	\$105.90	\$148.30	\$211.90	\$275.40	\$338.90
2013	\$113.90	\$159.40	\$227.80	\$296.10	\$364.40
2015	\$122.40	\$171.30	\$244.80	\$318.20	\$391.60

Source: Office of the Actuary, Centers for Medicare and Medicaid Services

# You Gotta Have Files

## From The Caregiver Zone

By Judy Castleberry, NHA

*The Caregiver Zone, a publication of The Senior's Choice, is a resource for caregivers and provides a road-map on the journey through elder care.*

The following lists the documents that you should have organized by a suggested place to file them. Make duplicates as needed so the right person has the document at the right time. It really does not do a lot of good to have the only copy of a living will locked up in an attorney's office or safe deposit box. Emergencies always happen at the most inconvenient time, such as long holiday weekends when banks and offices are closed.

### Purse or Wallet

- Driver's License
- Insurance Card(s)
- Medicare, VA, and/or Medicaid Card
- Medical Alert Information
- Current list of medications
- Emergency phone numbers

*Hint: Every few months, check that the information is current. Photocopy everything on the list and keep the copy where it is readily accessible.*

### Magnets on the Refrigerator

- Medical Alert Information
- Current list of medications
- List of emergency phone numbers
- Location of Advance Directives

### Filed Where You Can Easily Find

- Copies of all Advance Directives
- List of Numbers:
  - Social Security
  - Medicare
  - Medicaid
  - VA
  - Health Insurance
  - Life Insurance
  - Bank Accounts
  - Safety Deposit Box
- In Case of Death Information:
  - Burial Plots
  - Pre-need contracts
  - Life Insurance policies
  - Pension information
  - Final Wishes

### Other Information

While you are organizing documents keep in mind that certain programs such as Medicaid, Veterans Administration, or HUD will have lists of documents required to prove eligibility. A few of these documents are:

- Bank Statements
- Pay Stubs
- Birth Certificate or proof of citizenship
- Military discharge papers
- Life Insurance Policies
- Divorce Decrees
- Any other financial records such as loan papers, property deeds, proof of sale of assets, etc.

This is also a good time to invest in a file box to keep medical billing information. Each time you are seen by the doctor or any other medical provider several documents will be generated: the original checkout bill and the Medicare Explanation of Benefits are examples. These should be kept together in case there is a billing error and for tax records.

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