

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.

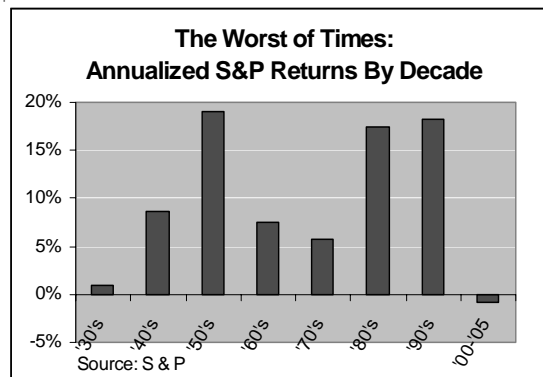
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The Reality Craze is In-- What About Your Retirement?

How Much Is Enough?

That's the \$64 question! FAQs always center on a percentage withdrawal rate, factor in a CPI number, and then project a constant rate of return. The result is just a projection, and that projection changes the next day.



Fidelity Investments suggests that a portfolio be approximately 25 times the size of your first year withdrawal to support a 30-year retirement. Assumptions include a 4% withdrawal rate and a CPI increase each year. Thus, the Fidelity model implies that if you withdraw \$100,000 in your first year of retirement, you'll need a portfolio of at least \$2.5 million to cover a thirty-year retirement. Competing approaches state this magical 4% cash flow rate is too conservative, and may actually discourage savers.

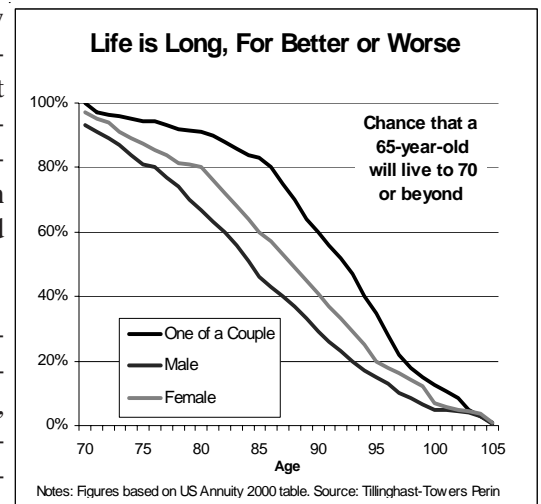
The bottom line is that no one strategy works for everyone. Once regular income or cash inflows cease, there is little margin for error. Taking portfolio distributions is like reverse dollar-cost averaging and se-

vere market downturns or extraordinary expenses will sour the best of planning. As the first chart indicates, a big factor in not outliving your money is when you start drawdowns. With four years left in the decade, most experts are forecasting only single digit returns going forward. Should this be the case, this may be one

of the worst decades in a generation. According to the Wall Street Journal, if annualized returns are 10% (their historical average) for the next four years, stocks will finish the decade with only a 4% average annual gain. So much for my Rule of 72 at a 7% return!

The Old Geezer Phenom

The following chart exhibits the wild card; how long we'll live and have to rely on our portfolio, Social Security and any pension. Remember, after the baby boomer generation, pensions may not be around. Most of us underestimate life



(See Retirement Page 6)

WEALTH MANAGEMENT JOURNAL

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It's a Tough Job, But Somebody's Got to Do It: Where to Start

Call of Duty

Ok, you are the dutiful son or savvy daughter, and when Dad asks you to be executrix and trustee for their estate, you say "sure, no problem!" Wow, had you only known. In most cases executors and trustees have different responsibilities so being in both roles is most efficient. Most estates are straightforward, and as the figure on the following page indicates, about 71% of IRS estate tax returns are valued at less than \$2.5 million. With the current estate tax exclusion level at \$2 million, most estates will be tax-free. IRS statistics indicate the number of taxable estate tax returns amounted to 1.2% to 2.3% of total adult deaths in recent years.

So what's the big deal? Well, even in modest estates, the executor is charged with finding and taking inventory of all estate assets. Bank, investment accounts, deeds to property, insurance, retirement benefits, et al. If real estate, private corporate stock, partnerships, and other ventures are involved, you just got a full time job. All assets must be retitled, some sold, some appraised, some used to settle debts; then you must file income and estate tax returns.

The trustee's role, if all estate assets are in a trust, is similar to that of the executor with additional "Fiduciary Standards." Investment of assets is critical, along with the distributions to beneficiaries. This is where the fun begins.

Squabbling Siblings

I dislike the word "dysfunctional," especially when applied to families, as "psych types" love to label all behavior. Trustees may face tough investment decisions and friction among family members -- "sell the home; I want cash now," or "don't you dare sell the dining room furniture; I want it shipped to Boston now."

Health conditions, substance abuse problems, kids of divorced parents, and on and on. This is not a responsibility to take on lightly, yet we don't want to deal with a stranger from a bank trust department. Having served in these roles on more than one occasion, and having helped numerous clients with estate administration, let me share with you some inside tips to implement before a death:

1. Family Meeting

You cannot really be effective as an executor or trustee unless you have a meeting with your parents regarding their finances and what they want to achieve with their estate. Survey says:

- 71% of seniors said they would be very comfortable if their kids asked about wills and trusts.
- Only 49% of adult children report knowing a great deal about their parents' estate.

(See *Estate* Next Page)

Estate

(From Page 2)

■ 50% of parents say it's important to leave a legacy, and 86% say they have a will or estate plan. Open this critical family discussion with a comment about your parents' "legacy" or your experience in setting up your own estate plan, or a meeting with Duke. Blame me!

2. Request GPS Form

You know, Global Positioning System, or "where to find anything"--a special document which catalogs all assets, benefits, people, property, contacts, etc.

Start with our own "Life Crisis File," then move up to our special "Inheritance Letter" that outlines "all you need to know when I'm gone." Call me so we can decide which tools will help you the most.

3. Outsource **(Not to Bangladesh)**

Draw on the resources available--check with your parents as to which professionals they currently work with, as they will probably be your best resources and will likely have current files.

solid investment counsel on the critical task of determining assets for distribution.

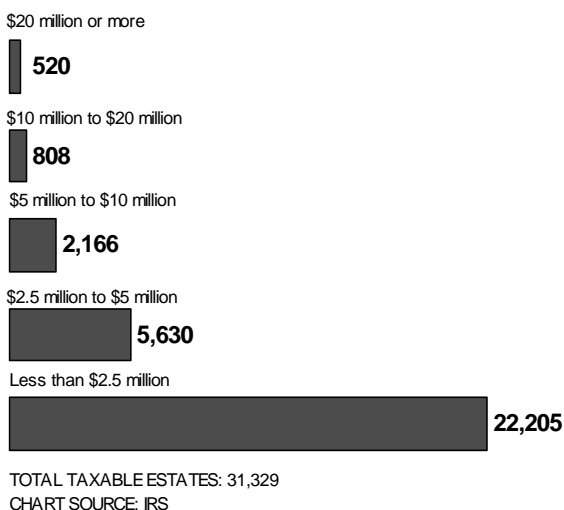
5. Set Hard Deadlines --Keep Meticulous Records!

This is a JOB. Even if there is no bond

"This is a JOB. Even if there is no bond required or you receive no compensation, treat it as if the IRS will audit the estate."

Who Pays Estate Taxes?

A breakdown of taxable estate tax returns received by the IRS in 2004 based on size of gross estate.



required or you receive no compensation, treat it as if the IRS will audit the estate.

Keep track of hours spent on estate matters, travel/mileage, and expenses. Prepare accounting for all beneficiaries.

Estate tax returns are typically due within nine months of the date of death. Keep the estate accounts open for six to eight months for any surprise creditor bills, taxes, etc. Hold cash to meet expenses, taxes, and immediate payments to charities or family beneficiaries.

4. Deal With Problem Beneficiaries Now

Ask parents or grandparents to hand write a letter of direction to all benefi-

All you can do is your best! And most beneficiaries won't realize or appreciate all you've done. But that's why you were asked to serve! Cheers for you!

"We can be of special assistance in determining investment choices, cost basis of old stocks, merger information, and solid investment counsel."

CPAs can be most valuable, as the tax returns, valuations, and known tax traps are within their purview. We can be of special assistance in determining investment choices, cost basis of old stocks, merger/acquisition information, and

ciaries, spelling out exactly who gets what in no uncertain terms. Don't leave it up to me to decide who gets the antique auto, Cropsey's paintings, or the Wedgewood china. All the rest consign to eBay!

**Have questions on estate planning and administration, or other issues?
Call us anytime at
858-459-8818.**

the DUKE & DATE

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

The Decline & Fall Continue

Wall Street Journal: 3/16/2006

"Spitzer Sues H&R Block for \$250 million for Fraudulent IRA Practices"

"NASD Fines Merrill Lynch for \$5 Million for Boiler Room Sales of High-Fee Proprietary Funds and Payola to Brokers"

"NYSE, SEC Fine Bear Stearns for \$5 Million for Fraudulent Market Timing & Late Trading of Mutual Funds"

Morning Reading

'Tis a joy to read all the dirt at one sitting over breakfast! Won't Wall Street ever learn?

- H&R Block using tie-in sales of junk IRAs funded with "Express" income tax refunds.
- Merrill's call center ("Boiler Room" in the trade) staffed with rookie brokers "dialing for dollars" and pushing Merrill's own high-fee, high-expense mutual funds. Oh, by the way, Merrill's CEO was paid \$35 million in 2005.
- Bear Stearns -- no comment necessary -- white collar crime!

We know there are good and bad in all business and professions, but our investment business is highly regulated, so if you are caught, you were on notice.

I'm intimidated by the prospect of an SEC audit. We're a small business, yet must conform to the same strict compliance standards as Merrill, Bear Stearns, and the rest of the bunch. They know what is right and wrong, yet it doesn't seem to matter to these firms.

Fines not Enough, Litigation too Long

Million dollar fines are just the cost of doing business to the Street and their lawyers are ten deep. My solution is to shut down the guilty firms' offending branches and suspend regional offices and managers for thirty days. Perhaps this enforcement might be a wake-up call to all brokers that a few bad apples are spoiling the "golden sauce."

Get out of Dodge

Consider leaving Wall Street and walking, no, running to Main Street! You'll find Vanguard, Fidelity, Schwab, TD Waterhouse (Ameritrade), E-Trade, etc. and me, too!

We are committed to putting you first with low-cost, low-expense investments for the long-haul.

Good Luck!

Be well and do good work.



Staying Ahead: 2006 Tax Planning Table

2006 Allowable Tax Benefits

2006 Tax Benefit Phase-Out Levels

| <i>STANDARD DEDUCTION</i> | | <i>PERSONAL EXEMPTION</i> | |
|--|------------|--|------------------|
| Under Age 65 | | AGI PHASE-OUT* | |
| Married Filing Joint | \$10,300 | Married Filing Joint | \$225,750 |
| Single | \$ 5,150 | Single | \$150,500 |
| Married Filing Separate | \$ 5,150 | Married Filing Separate | \$112,875 |
| Head of Household | \$ 7,550 | Head of Household | \$188,150 |
| Additional--Age 65 or Older | | *beginning in 2006, there is a 33.3% repeal of the personal exemption phase-out. | |
| Married | \$ 1,000 | ITEMIZED DEDUCTION | |
| Single | \$ 1,250 | AGI PHASE-OUT* | |
| Additional--Blind | | Married Filing Joint | \$150,500 |
| Married | \$ 1,000 | Single | \$150,500 |
| Single | \$ 1,250 | Married Filing Separate | \$ 75,250 |
| PERSONAL EXEMPTION | | Head of Household | \$150,500 |
| \$ 3,300 | | *beginning in 2006, there is a 33.3% repeal of the personal exemption phase-out. | |
| MAXIMUM CHILD CREDIT | | IRA DEDUCTIBILITY | |
| \$ 1,000 per child under 17 years | | For those covered by employer pension plan [\$4,000 maximum contribution per taxpayer; if 50 or older, maximum is \$5,000] | |
| DEDUCTIBLE IRA CONTRIBUTION | | AGI PHASE-OUT LEVELS | |
| If taxpayer and spouse NOT covered by employer-sponsored plan: | | Married Filing Joint | \$ 75k to \$ 85k |
| If younger than 50 | \$ 4,000 | Single | \$ 50k to \$ 60k |
| 50 or older | \$ 5,000 | Married Filing Separate | \$ 0 to \$10k |
| MAX EMPLOYEE 401(k) CONTRIBUTION | | Head of Household | \$ 50k to \$ 60k |
| If younger than 50 | \$15,000 | Married Filing Joint, not covered by pension, but spouse is | \$150k to \$160k |
| 50 or older | \$20,000 | ROTH IRA ELIGIBILITY | |
| ANNUAL GIFT TAX EXCLUSION | | Maximum non-deductible \$4,000 contribution; if 50 or older, maximum is \$5,000 | |
| Individual | \$12,000 | AGI PHASE-OUT LEVELS | |
| Couple | \$24,000 | Married Filing Joint | \$150k to \$160k |
| ESTATE TAX EXEMPTION | | Single | \$ 95k to \$110k |
| \$ 2 million | | Married Filing Separate | \$ 0 to \$ 10k |
| MILEAGE DEDUCTIONS | | Head of Household | \$ 95k to \$110k |
| Business Miles | 44.5 cents | | |
| Medical/Moving | 18.0 cents | | |
| Charitable Miles | 14.0 cents | | |

~ Check in with Duke ~

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Retirement

(From Page 1)

expectancy statistics, and if we have good genes and work at good health we'll beat the averages. While a 65-year-old man has a 30% chance of living to 90, and a 65-year-old gal has a 41% chance of reaching 90, the odds are almost 60% that at least one of the 65-year-old couple will still be kicking at 90. Yikes! We'd better plan to have our assets support us for at least 25-35 years.

Reality Sets In

We can count on lower returns, longer lifetimes, a higher real cost of living, and outrageous health expenses. Let's get real! Most advisers, retirement calculators, and financial articles use historical average returns. Baloney! A disservice to all folks looking for solid advice and investment savvy. Suppose you decided to live off a retirement portfolio of \$500,000, comprised of 60% stock and 40% fixed income, for 30 years. Using historical average returns, you decide to withdraw 8% or \$40,000 a year with an inflation increase each year. Here is where the best-laid plans run out of money: if this story began in 1972, you'd be broke in 10 years; if you reduced your payout to 5%, taking \$25,000 in your first check--broke in 21 years! Reason? 1973-1974 saw a market downturn of 43%. It doesn't matter when it happens; if it occurs after you start cash flow, you can't gain enough when the market recovers its bullish style.

**"Most advisers,
retirement calculators,
and financial articles use
historical average
returns...Baloney!"**

What to Do

No guarantees here, but this is what I suggest you consider, if you must count on your investment portfolio to provide lifetime income:

1. Start with a low initial withdrawal rate; 4% of a balanced portfolio is ok.

2. Build up cash and cash equivalents in the portfolio to cover about three or four years of annual withdrawals.

3. Expect that first and second year expenses will run higher. Later, your lifestyle expenses will usually fall due to less travel, entertainment, and downsizing, etc.

4. Consider a lifetime immediate annuity to cover basic living expenses (food, clothing, housing, and medical care); perhaps 15-25% of investment assets. Look only for no-load, low-expense fixed and variable payout annuities. Vanguard and Fidelity are leading providers. Annuity Income, coupled with Social Security, and an

IRA or pension should adequately cover overhead, leaving your investment portfolio for discretionary spending and cash resources.

Nothing fancy; just trying to protect what you worked hard to earn and save over the years!

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"This is the number: 216 months from cradle to campus.

And these are the other ones:

\$171,384 to send a child to a top private college and

\$71,508 for four years at a state university."

~Money, October 2005

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.

Playing Defense: Popular Methods for Preventing Identity Theft

| TOOL | WHAT IT IS | WHO OFFERS IT | COST | COMMENT |
|---------------------------------|---|--|---|--|
| Fraud Alert | A warning to companies looking at your credit to be wary of thieves impersonating you. | The three big credit tracking agencies: Equifax, Experian, and TransUnion. | Free. | Federal law requires agencies, upon request, to place an alert on your account for at least 90 days. Extended alerts can last up to seven years. |
| Credit Freeze | Locks up your credit files at credit reporting agencies so identity thieves can't open accounts in your name. | Currently only available in CA and TX, coming in July to VT and LA. Other states are considering it. | From free to \$10 to freeze and unfreeze credit at each agency. | You'll probably need to unfreeze your report at all three agencies when you want to apply for credit. |
| Identity Theft Insurance | Covers expenses beyond reclaiming your identity (think lost wages and legal fees). | Everyone from employers to insurers and banks, credit-card companies and credit-score firms. | From free to over \$40 per year; usually covers up to \$25,000 in expenses. | Some insurers require policyholders to carry a homeowner's or renter's policy, or impose other conditions. |
| Credit Monitoring | You get an alert when something changes in your file. | The big three, plus Fair Isaac, which compiles data into credit scores. | From \$4.95 to \$12.95 per month. | A good early warning of unusual activity, but it's going to cost you. |
| Paper Shredder | Device that slices your papers into small pieces. | Many brands available. | From \$20 or so to over \$500. | An easy low-cost way to ward off dumpster divers seeking your old credit card bills. |

Source: Wall Street Journal 3/16/2006

The Older, the Better!!

Judith Johnson

I am a grandmother twice over, with a two year old granddaughter and a four year old grandson. Somehow I cringe at being called a grandmother, and then I think, it is positively "grand!" Obvi-

marketers scrambling for her attention. Ken Dychtwald, founder of Age Wave, advises corporations about products and services for maturing adults and has co-authored

Not only have boomer women made more of their own money, but dollars are being transferred to them in staggering amounts -- anywhere from \$12 trillion to \$20 trillion will be bequeathed to them by inheritance over the next twenty years. The boomer woman already makes many family purchase decisions, and will be playing a major role in deciding which long-term financial plan will work for her family.

"This new upcoming generation of grandmothers has attitude. We don't act 'old'. We're out there. We matter in this world."

ously I do not think of myself the same as my grandmother's generation or even as my own mother's generation. This new upcoming generation of grandmothers has attitude. We don't act "old." We're different! We're "out there" -- we matter in this world.

The Power Years: A User's Guide to the Rest of Your Life. He says the boomer generation stands apart because of women's higher educational levels, experiences in the workplace, extent of travel, self-empowerment, and affluence.

The affluent boomer woman wants to feel good, look good, be modern, stylish, and sexy. She is the "fountain of health" by exercising and eating well. And she has a good chance to live to be 100. Amen! Awomen!

Excerpts taken from "Woman of the Year," *Town & Country*, January, 2006

Some of us at the cutting edge of "baby boomers" are, indeed, making powerful changes in society. Many women have earned money, and have given or are giving back to society by volunteering, taking good care of themselves, staying healthy, learning more, and even making shrewd investments.

This optimistic, fast paced, affluent baby boomer woman has the merchants and

More Power to the American Woman

- **Approximately 42 million women are aged 40-60**
- **Women solely or jointly own 87% of homes**
- **Women control or influence 80% of consumer purchases**
- **Boomer women are 6 times more likely to share responsibility for savings and investment than their mothers were**
- **Full-time college enrollment by older women increased 31% in the last decade**
- **By 2010, approximately 60% of wealth in the US will be controlled by women**

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