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Golden Strategies®

A Practical Financial Guide to Your Retirement



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Tax Relief?

The Tax Increase Prevention and Reconciliation Act of 2005, signed into law on May 17, 2006, promises to bring some tax relief to investors.

Although many of the tax-law changes provide only a temporary reprieve, the extension of previous tax cuts and one-year relief from the alternative minimum tax (AMT) may have implications for your financial situation.

Here's a quick look at some of the tax law's key provisions.

Capital Gains and Dividends

The tax package provides a two-year extension of the 15 percent maximum tax rate on capital gains and dividends, originally set to expire after 2008. In 2011, the rates are scheduled to return to 20 percent for long-term capital gains and an individual's top marginal income tax rate for dividend income.

Alternative Minimum Tax

Included in the new law is an extension of AMT relief for 2006 and an increase in the AMT exemption levels (\$62,550 for joint filers and \$42,500 for single filers). The Joint Committee on Taxation estimates that this will prevent an additional 15 million taxpayers from becoming subject to the AMT in 2006.¹

(continued on page 3)



A quick review of some key provisions in the Tax Increase Prevention and Reconciliation Act of 2005:

- Extension of reduced capital gains and dividend tax rates through 2010
- Extension of AMT relief for 2006
- Income limitations lifted on conversions to a Roth IRA starting in 2010



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Protecting Your Estate and Your Family

Although two-thirds of affluent individuals have some kind of estate conservation program, only 11 percent of these programs are current (less than two years old) and nearly 40 percent are six to 10 years old — dangerously out-of-date by experts' standards.¹

Many people have worked hard to accumulate assets for their family's welfare and consider taking care of their heirs a top priority. By periodically reviewing your estate conservation strategy, you can help ensure that your assets are protected and passed to your heirs as you intend.

Here are a few questions to consider when reviewing your current strategy.

- **When was the last time you looked at your will?**

If it's been a while or you can't remember, it may be time to review your will and determine whether any changes are needed. Perhaps you have had a change in your marital situation or new grandchildren whom you would like to include.

- **Have you established a trust?** If structured properly, a trust can be a valuable tool to help protect assets and provide funds for final expenses, estate taxes, or other administrative costs. A trust may also help reduce the amount of estate taxes due.

- **Have you funded your trust?** A common mistake in estate conservation is setting up a trust and then failing to transfer assets into it. By moving the desired assets into your trust, you can avoid this costly mistake.

- **Did you name an appropriate trustee?** Is your trustee someone you trust to manage your assets and make sound financial decisions that will affect your family? You might want to consider a professional trustee, such as a bank or trust company, that can provide stability and impartiality to this role.

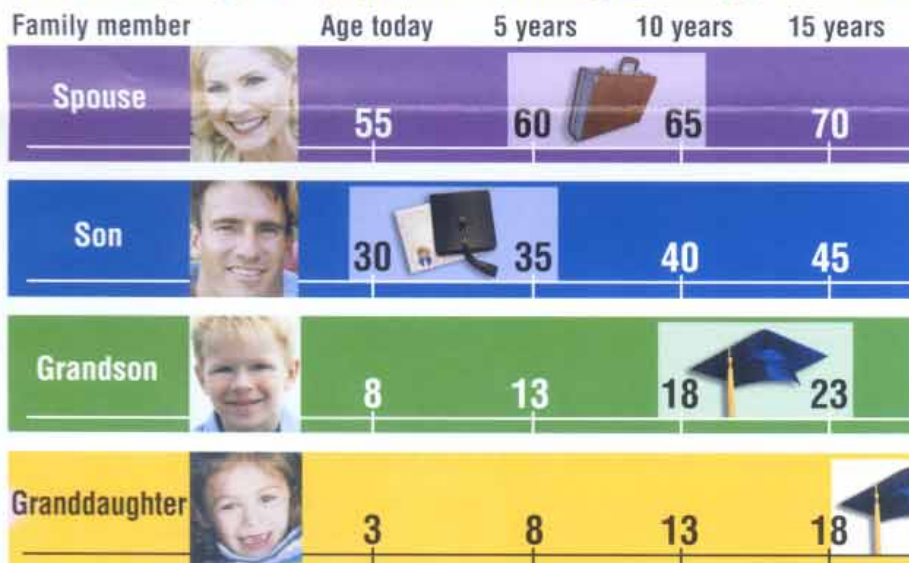
The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate conservation professional before implementing such strategies.

Considering these questions might help ensure that your family and estate are protected. Call today if you want help in evaluating your estate preservation strategy.

1) Registered Rep, September 1, 2005

Time Machine

By creating a simple timeline, you can better visualize your family's future financial needs and adjust your estate preservation strategy accordingly. Here's an example.



Financial Needs

-  Retire or work part-time rather than full-time
-  Attend graduate school
-  Attend college

Life Insurance in Your Golden Years

Over the course of a lifetime, many things can change: your career, financial situation, family dynamic. Few people take the time to consider how these life changes affect their life insurance requirements.

For example, some experts estimate that 75 to 80 percent of account beneficiary designations are incorrect or outdated.¹ If it's been a long time since you last looked at your insurance policies, you probably don't even realize how out-of-date they have become. Consider the following life changes that could prompt an update in insurance coverage.

1. Independent dependents: As your children grow up and leave the nest, your need to protect them financially will probably diminish. You might begin to consider your life insurance policy as more of a legacy than a safety net. The benefit could also help your heirs pay the taxes on your estate or cover debts and funeral expenses without having to liquidate other assets.

2. A new home: Maybe you bought a new home since you first purchased your policy. If your spouse or heirs would be unable to pay the mortgage without your income, you might decide to increase your insurance coverage to help bridge the gap.

3. Changing family situation: Marriage, divorce, adoption, or the birth of a child or grandchild could change the way you want your death benefit to be distributed. Many people remember to change their wills at such times, but forget to update their life insurance policies. Imagine the conflicts that might arise if you unwittingly forgot to list as beneficiaries your children from a second marriage. Similarly, if you plan to leave the benefit to your children and one of them predeceases you, his or her family could be left out.

The cost and availability of life insurance depend on such factors as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable by having the policy approved. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Most people own life insurance because they want to make sure that their family's needs will be met in their absence. Now is a great time to step back and reconsider how well your life insurance coverage meets the needs of your loved ones.

1) *Investment Advisor*, January 2004



Americans own nearly \$10 trillion in individual life insurance policies — and roughly \$500 billion of it is owned by people of retirement age.

Sources: 2005 *Life Insurers Fact Book*, American Council of Life Insurers, Answers.com, 2006

Tax Relief?

(continued from page 1)

Roth IRA Conversions

In 2010, all taxpayers, regardless of income, will be able to convert their traditional IRAs to Roth IRAs.

Under the current tax law, Roth IRA conversions are limited to single and joint filers with modified gross income of \$100,000 or less. The new tax law removes the income restriction and allows those who convert a traditional IRA to a Roth IRA in 2010 to pay the tax on converted amounts in equal installments (in 2011 and 2012).

Distributions from traditional IRAs are taxed as ordinary income and may be subject to an additional 10 percent federal income tax penalty if taken prior to reaching age 59½. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or due to death, disability, or a first-time home purchase (up to a \$10,000 lifetime maximum).

Keeping up with changes in the tax law can help you utilize tax-advantaged investment vehicles and position your portfolio to take advantage of potential tax savings.

1) CNNMoney, May 17, 2006





FINANCIAL FUNDAMENTALS

Inflation-Proof Your Portfolio

If you need proof that inflation is real, look no further than a local car dealership. The average price of a new car is now more than \$28,400.¹ In 1971, this would have been enough to buy the average new house, which sold for \$28,300.²

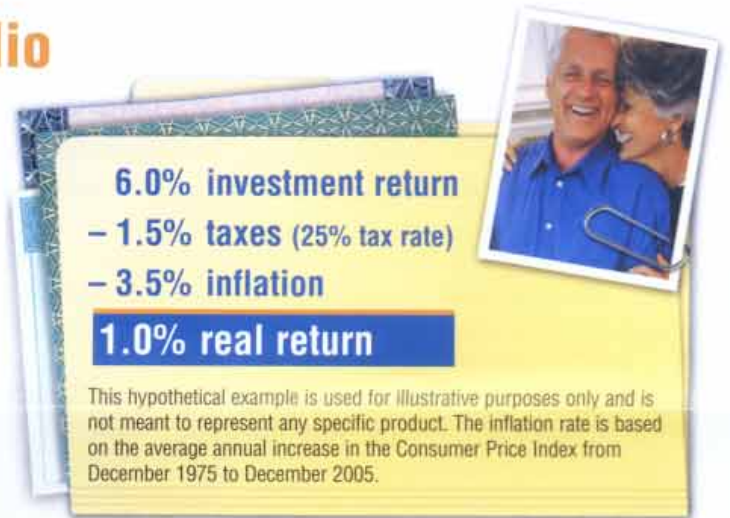
Inflation is the overall increase in the prices of goods and services over time. Some inflation can be good for the economy, but the downside is that inflation slowly weakens the purchasing power of a dollar.

Is it possible to inflation-proof your portfolio? Maybe — it depends on your risk tolerance.

Dangerous Duo

Inflation and taxes are two major dangers facing your portfolio. As you can see from the accompanying equation, after subtracting inflation and taxes from a hypothetical 6 percent rate of return, the real rate of return might be just 1 percent.

This would seem to indicate that a higher rate of return is the obvious answer to inflation. But remember that investments seeking to achieve higher returns also involve a higher degree of risk. An investor seeking a significantly higher return would probably need to invest more heavily



in stocks. For a worker who is still decades from retiring, taking on more risk might be appropriate. Someone who is much closer to retirement or already retired may be far more cautious about risk because there isn't much time to recover from large losses.

Inflation is a deadly foe. Any effort to offset the effect of inflation on your portfolio should be based on a thorough review of your personal circumstances.

1) National Automobile Dealers Association, 2006

2) Haver Analytics, 2006

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Could you use some help evaluating your insurance coverage or estate conservation program? Call today to discuss strategies that can help protect your family and preserve your assets.

For help with your financial decisions,

Tom Lovde