



QUARTERLY CAPSULE

Newsletter of the Alliance of Cambridge Advisors, Inc.

Spring/Summer 2002

ESTATE PLANNING ISSUES: BENEFICIARY DESIGNATIONS

Life insurance and retirement accounts are sometimes called *will substitutes*, as their assets are transferred at the death of the insured or account holder without going through the probate process. They contain beneficiary designations that override *anything* written to the contrary in a will or other document. But surprisingly, little attention is usually paid to these very important designations.

Special issues may arise when there are multiple beneficiaries. While it is not uncommon for a married individual to designate his or her spouse as the primary beneficiary, in many cases two or more children are listed as primary or contingent beneficiaries. In the case of multiple beneficiaries, the standard language used in most insurance and retirement account contracts will distribute the proceeds on a *per capita* basis in accordance with percentages chosen by the account owner.

A couple of important legal definitions may be helpful. A *per capita* distribution requires that all descendants receive an equal share of the bequeathed property, or "share and share alike." On the other hand, a *per stirpes* (STIR-peas) distribution, also called *by right of*

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Keys to a Comprehensive Will **(Insert)**

Drive a Better Bargain

Automobiles are typically the most expensive property you own. Your home carries a higher price tag, but it also tends to appreciate. Vehicles usually depreciate, making it critically important to maximize the opportunities in the tax code to recover the costs of vehicle ownership. This is generally easier for the self-employed, but there are also provisions that will help employees who use their vehicles for work.

Your first goal should be to maximize your business miles because they are deductible, unlike commuting miles. This doesn't mean driving a lot more. Slightly altering your habits may produce big tax benefits... - and make you more effective professionally, as well.

Suppose you work in a downtown office 20 miles from your suburban home. What would happen if you drew up a list of your company's top clients and made a point of stopping at one of their offices on the way to work and another one on the way home every day, delivering materials for your salespeople? Would your company be more likely to prosper? Would your status among the sales staff improve? Would you convert thousands of useless commuting miles into deductible business miles? The answer to all three questions is, "Yes."

Another way of minimizing commuting miles is to make your home office your primary place of business. One of my clients worked for a firm whose office was close to 50 miles from his home. He went to the office a couple of days per week, but did much of his work at home or at client sites around the country. I provided a letter for his supervisor to sign that incorporated specific language required by the IRS, so that the employee's long drives downtown became deductible business miles. This generated additional deductions of about \$4,000 per year for my client.

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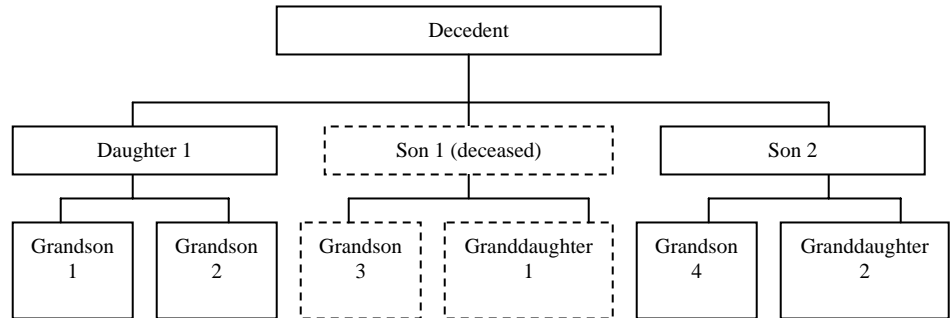
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representation, may cause an unequal distribution with larger shares provided to those with closer relationship to the decedent. Of Latin origin, *per capita* means “by the head” – *per stirpes* means “by the roots.” (To complicate matters a bit further, there is also a hybrid form *per capita at each generation per stirpes*.)

The following diagram illustrates a simple multiple-beneficiary scenario in which a decedent has been predeceased by Son 1, one of three children.



If the decedent’s beneficiary arrangement were *per capita*, Daughter 1 and Son 2 would each inherit a respective share of that originally earmarked for the deceased Son 1. This effectively disinherits Son 1’s two children. If, instead, a *per stirpes* designation were used, Grandson 3 and Granddaughter 1 would split the inheritance originally meant for their deceased parent.

Most people do not seek out the legal or financial advice needed to understand these implications at the time they make their beneficiary designation. As a result, they unwittingly set up a *per capita* distribution, when they actually prefer the second, *per stirpes*, scenario.

While one would rather not contemplate the possibility of outliving their children (or other beneficiaries), planning for the contingency may make a big difference in the lives of those so affected. One of the difficulties in implementing the *per stirpes* scheme is that some insurance companies and financial institutions either have little idea what it means or have adopted a policy that their standard beneficiary language is unalterable. Your financial advisor or estate planning attorney will be able to assist you in determining the most effective method of addressing this problem.

Steve Pollock Collingswood, NJ

SPECIAL RETIREMENT PLANNING ISSUE:

Our Summer/Fall 2002 Quarterly Capsule takes a close look at planning for retirement. Watch for it in early September 2002!



Getting all the business vehicle deductions you should takes good record keeping. Many taxpayers are discouraged by the prospect of having to maintain elaborate records all year. In fact, keeping audit-saferecords can be far less burdensome than most people think. A representative 90-day sample of mileage logs can suffice. Or you might record your miles one week per month. Expenses below a certain dollar amount do not need to be supported with receipts, so long as they are recorded in a timely manner in your diary or account book.

These are just two of many strategies Cambridge advisors use to help their clients do a better job of tax planning. If you have questions about this topic or simply want to be sure you aren't paying too much income tax yourself, contact your local Cambridge advisor.

Christopher Currin, CFP Dallas, TX

HOW DO YOU COMPARE?			
Average Tax Deductions - Based on adjusted gross income (AGI) for 1999			
AGI	Gifts	Taxes	Interest
\$50,000 to \$60,000	\$1,683	\$3,919	\$6,884
\$60,000 to \$75,000	\$2,180	\$4,663	\$7,426
\$75,000 to \$100,000	\$2,850	\$5,912	\$8,314
\$100,000 to \$200,000	\$3,716	\$9,276	\$11,005
\$200,000 to \$500,000	\$8,447	\$20,261	\$17,749
\$500,000 to \$1 million	\$20,828	\$47,720	\$29,323
\$1 million & up	\$149,945	\$187,792	\$84,298

From the Wall Street Journal March 20, 2002

Before You Invest

You've probably heard someone comment that "everybody" is getting rich in the investment markets. Or more recently, that "everybody" is losing their shirts. The truth is, in most investment environments, some people do well, while others do poorly. Generally, a long-term perspective on your investments is best.

But investing in stocks and bonds (or mutual funds that own them) isn't for everyone. Sure, you could always construct a portfolio that's appropriate to your personal tolerance for risk. But there are some things you should do before you begin "investing." This list isn't exhaustive, but it's a start:

Have adequate cash reserves. Some advisors go further, and suggest you have separate cash reserves and emergency funds. The reserve is available for unexpected expenses that aren't true emergencies. The emergency fund allows you to respond to more critical unforeseen financial problems.

Pay off credit card bills monthly. Yes, it's an old refrain, but it's still a key to financial well-being. Credit cards are fine for convenience, or as a short-term source of credit. But even when you use your card for purchases, you're still borrowing money that you have to pay back, with interest. Often, people spending more than they make on a consistent basis are living beyond their means, and need to re-examine the difference between what they need and what they want.

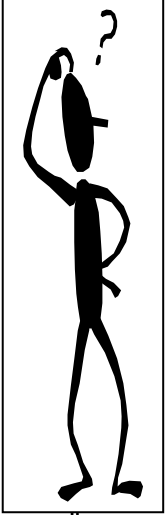
Have adequate health, liability, property, and life insurance. Insurance provides you limited protection against a rare catastrophic expense, by substituting a more predictable, smaller expense (the premium). If you're underinsured for, say, liability coverage on your car, you could find yourself paying for a serious accident out of your own pocket, or declaring bankruptcy. Don't rely on "state minimums"; make sure you have enough for your particular situation.

Have financial goals. A proper goal should state the purpose for which you're saving, when you'll need the money, and how much you'll need. Once you know the why, when, and how much, you can begin to address the "how": whether you put your savings in the stock market, a coffee can, or something in between.

These aren't the only prerequisites to investing, but they're a place to start. Investing can be very sensible for those who are well prepared. But investing before you are ready puts you at risk for serious financial problems. Make your life easier by addressing the financial fundamentals in the right order.

Ken Robinson, CMFC, JD Cleveland, Ohio

Ask an Advisor: *Every time I am feeling a bit “pinched”, I receive convenience checks from my credit card company. Is there anything I need to know before using them?*



Credit card debt is the financial Achilles’ heel of many American households. Convenience checks, which make it that much easier to dig the financial hole even deeper, can be like offering a cigarette to someone who’s struggling to quit smoking. The attraction is strong, but it’s definitely bad for them.

For starters, you must, of course, pay back anything you charge on your credit card. That includes any amount for which you’ve written a convenience check. And if you don’t pay the balance in full each month, you’ll be charged interest on the outstanding amount just like any other charge. At least one credit card issuer recently urged customers to pay their tax bills with their convenience checks. They wanted to effectively increase their income tax bill by adding monthly interest, presumably because tax time isn’t annoying enough.

To make matters worse, convenience checks are often treated as cash advances. This usually means a much higher finance charge than if you make a regular purchase for the same amount. And cash advances often have transaction fees, over and above the finance charge. Some institutions even apply your monthly payment to your purchases first, and your cash advances later, thereby stretching out the time you’ll have to make those higher interest payments.

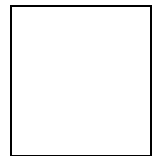
Convenience checks can also be stolen from your mailbox, without you ever knowing it, leaving you to convince the card company (and whoever took the check from the thief) that you are not responsible for the payment.

If you don’t want convenience checks in the mail, call your credit card issuer. It took a 5-minute call for my issuer to stop any new mailings of convenience checks. On top of that, they took me off the list for all those annoying dinnertime phone solicitations. (“We’re calling selected Megabucks National Bank cardholders to offer you an overpriced vacation package to someplace you really don’t want to go!”)

Remember, it’s not wrong to call them “convenience checks.” They’re a very convenient way for the credit card company to get more money out of you. Don’t let them. Call your card issuer. And in the meantime, when those checks show up, tear ‘em up.

Ken Robinson, CMFC, JD Cleveland, OH

Return Address
Street Number and Name
City, State 98765-4321



ADDRESS CORRECTION REQUESTED

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