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Financial Planning Strategies

A Financial Planning Update

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New Tax Credits for Fuel-Efficient Cars

Thanks to the Energy Policy Act of 2005, you may be eligible for a tax credit if you purchase a fuel-efficient vehicle in 2006. The new incentives for purchasing hybrid and alternative-fuel vehicles are more generous than the $2,000 clean-fuel deduction they replace. Because a credit offers you a dollar-for-dollar reduction of your taxes, it is more valuable than a deduction, which reduces your taxable income. The amount of the new credit varies, however, depending on the vehicle's weight class, fuel efficiency, and lifetime fuel savings.

Unlike with the clean fuel deduction, these new opportunities apply to leased vehicles as well as to new purchases. While this incentive program for hybrid cars, light trucks, and clean-burn vehicles will last through 2010, certain vehicle models may phase out of eligibility before then. This legislation imposes a 60,000-vehicle limit on each manufacturer for the full deduction.

Hybrid Vehicles

Hybrid cars are powered by an internal combustion engine or heat engine

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Payback Time: Facing Student Loans

It takes four years, on average, to graduate from most colleges and universities. Today, many students graduate from colleges and universities facing large accumulated student loan debt. So, these questions remain: How should the debt be repaid? And, are there any plans that can help make the "payback" easier?

Today, there are more plans available that offer flexible payment schedules. Students applying for a federal student loan now can choose a **graduated repayment plan** that will allow them to make smaller payments upon graduating and larger payments at a later time when they may be earning more money in the working world.

Students also have the choice of an **income-contingent repayment plan**. This plan calls for them to pay a fixed percentage of their postgraduate income toward their student loans. This percentage could be approximately 5% to 10% of anything above the poverty level of a single person, which is $9,570

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New Tax Credits for Fuel-Efficient Cars

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that uses combustible fuel and a rechargeable energy system. For hybrid cars and light SUVs (less than 8,500 pounds), there are two types of credits available: 1) a fuel economy credit worth between $400 and $2,400, depending on the vehicle's city fuel economy as compared to the 2002 standard; and 2) a conservation credit worth between $250 and $1,000, based on the estimated lifetime fuel savings as compared to vehicles meeting the 2002 model year standard.

These credits apply to vehicles bought or leased in 2006 through 2010. As of January 1, 2006, the IRS approves the following hybrids:

Vehicle Make and Model	Model Years
Ford Escape Hybrid	2005–2006
Honda Accord Hybrid	2005
Honda Civic Hybrid	2003–2005
Honda Insight	2000–2005
Lexus RX 400h	2006
Mercury Mariner Hybrid	2006
Toyota Highlander Hybrid	2006
Toyota Prius	2001–2005

Fuel Cell Vehicles

Powered by electric motors, fuel cell vehicles (FCVs) convert chemical energy directly into electricity. Pollutant-free FCVs run on pure hydrogen carried onboard in high-pressure tanks. Methanol, natural gas, and gasoline are other, hydrogen-rich fuel options that emit small amounts of air pollutants.

The credit amounts for FCVs range from $8,000 to $40,000, depending on the weight class and rated fuel economy of the vehicle as compared to the 2002 model year standard. These tax-saving opportunities apply to FCVs purchased or leased between January 1, 2006 and December 31, 2014.

Currently relatively rare, FCVs will be more readily available by 2010, according to the website www.fueleconomy.gov, run jointly by the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy (EERE) and the Environmental Protection Agency (EPA). By then, FCVs will hopefully be less expensive. In addition to bringing costs down, current research is also focused on improving FCV performance and developing innovations to more easily produce and store hydrogen and hydrogen-rich fuels.

Alternative Fuel Vehicles

Tax incentives are available for vehicles that operate only on qualifying alternative fuels, such as compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, and any liquid fuel that is at least 85% methanol. Vehicles running on a mixture of alternative fuel and diesel or gasoline are eligible for reduced credits. Mixed-fuel vehicles running on 75% alternative fuel are eligible for 70% of the credit, and those running on 90% alternative fuel are eligible for a 90% credit.

Taxpayers may claim a credit for 50% of the incremental cost, compared to a comparable gasoline or diesel fuel vehicle, and for an additional 30% of the incremental cost for vehicles meeting the most stringent emissions standards. These savings are available for vehicles placed in service in 2006 through 2010.

Advanced Lean-Burn Technology Vehicles

Using compression ignition diesel technology, advanced lean-burn vehicles use more air than necessary for complete combustion. Fuel economy credit amounts range from $400 to $2,400, depending on the city fuel economy as compared to the 2002 model year standard. Conservation credits range from $250 to $1,000, based on the estimated lifetime fuel savings as compared to the 2002 standard.

While these credits are technically available in 2006 and will be available through 2010, manufacturers will require cleaner diesel fuel to meet the required emissions standards, and that fuel is not expected to hit markets until October 15, 2007.

Given the variety of vehicle options and complex nature of certain tax opportunities, thorough research is important to help ensure your environment-friendly strategies support your financial goals. For specific guidance, consult your tax professional. $

Dividing the Family Pie—Are Equal Slices Best?

When planning the division of your assets, you may believe in a policy of "share and share alike." This is perhaps the easiest method, often the way to avoid conflicts and complaints of favoritism. But does *equality* necessarily equate to *fairness*? After all, fairness is only relative, especially when one considers factors such as age, talents/skills, interests, needs, and degrees of material success. A more practical approach to the division of assets may be one in which you recognize and compensate for *differences* in the abilities and needs of your children, even at the risk of producing some conflict. Through your estate plan, you have a chance to provide a measure of fairness that your children may not otherwise have found in their own lives.

To emphasize the point, consider the following scenarios:

1. Disparity in Age: Assume you have two children, ages 22 and 14. Should you split your estate in half, even though the 22-year-old has been through years of private school education and college and the 14-year-old has just started high school?

2. Income and Net Worth: Assume your daughter becomes a partner in an investment banking firm and quickly builds up $3 million in assets, while your son becomes a sales manager who earns $30,000 per year. Should you leave your estate in equal parts to your son and daughter?

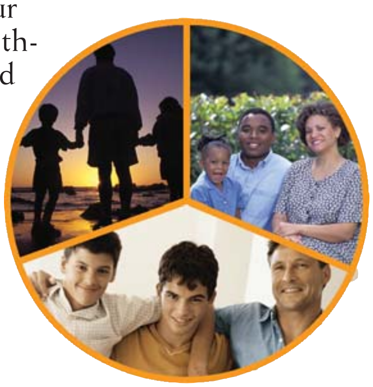
3. Previous Giving: Assume you have given your 24-year-old son $100,000 worth of stock in your business as an inducement for him to work with you. You have not, however, given your 18-year-old son a similar gift. Should you divide the assets in your estate on an equal basis?

4. Investments Given to Children: Assume you have given one child stock in Company XYZ that has risen in value to $300,000. You have given another child stock in Company BCD, which has gone bankrupt. How should you then allocate the balance of your assets?

In all of the above examples, an equal division of property has the potential to create or perpetuate unequal results. This is not to say you cannot choose an unequal result, but it does point out the need for financial and estate planning that leads to reasoned decisions about how you leave your property.

Listen First

Fortunately, there are ways for you to achieve fairer results. Your first step should be to speak with your children. You might do this on a one-to-one basis or through a family conference. (Obviously, you will have to serve as proxy for your very young children.) Help them to verbalize their hopes, dreams, and expectations, as well as their worries, concerns, and frustrations. By listening *first*, you may gain valuable insights into how you can divide your estate constructively without causing jealousy and resentment. The decisions may be difficult to make, but in the long run, your family will appreciate your goal of trying to reach an agreement that addresses each child's individuality. $



Annuity Payout Options

Annuities can be a valuable option for generating retirement income. What are the payout options for a fixed annuity? Payout options are the predetermined schedules by which **annuitants** receive income from an annuity. How much you receive from an annuity generally depends on your age when you begin to receive payments and the amount of money available (gender may also play a role). Here's a brief overview of the basic payout options, which will vary by issuing insurance company:

Life Only. This option provides income for life and generally provides the largest benefit of all the options. You can receive payments monthly, quarterly, semiannually, or annually. Note that after you die, all payments stop.

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Payback Time: Facing Student Loans

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according to the Department of Health and Human Services (2005).

A third choice is an **extended repayment plan** that can lower monthly payments an estimated 20% to 30% and allow graduates to stretch out their loan payment schedules from 10 to 15, or even 20, years.

Consolidation Offers Flexibility

There is also good news for students who are already debt-laden. Under the Student Loan Reform Act of 1993, existing loans can be *consolidated* with a direct loan from the government. This plan offers a more flexible repayment schedule while interest rates remain the same.

To be eligible for this plan, student loan recipients need to ask their original lenders for an "income sensitive" repayment option. This plan adjusts the monthly payments for the loan's capital, but not the interest, to their annual income. If the original lenders will not agree to this option, they may then be eligible for a direct loan from the government.

Two advantages of a direct government loan are as follows: First, the monthly installment payments of principal and interest are contingent upon income. Because the payments are withdrawn from wages, there will be less paperwork to muddle through. Second, as wages increase, the percentage withdrawn from pay will also rise, allowing the loan to be paid off more quickly and with less accrued interest expense.

For students who need to borrow for the current school year, direct loans (and the income-adjusted repayment plan) are also available, if they're attending one of the schools participating in this plan. Parents may also be able to take out a Direct PLUS loan for as much as the entire cost of their children's college education.

For information or inquiries regarding federal student aid programs, contact the Federal Student Aid Information Center at 800-433-3243, or check them out online at www.studentaid.ed.gov. $

Annuity Payout Options

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Life with Term Certain. With this option, you'll receive income for life. If you die before a stipulated time (the term certain), usually 5, 10, 15, or 20 years, the payments will then continue to a **beneficiary** for the remainder of the stipulated term.

Joint and Survivor Life. Under this arrangement, two individuals receive annuity payments for both their lives. When one dies, the other continues to receive income, or some portion of it, for the remainder of his or her life.

Installment Refund Life. With this option, if you die before you have received at least as much as your original premium payment(s), the balance will be paid out to a beneficiary in installments.

Unit Refund Life. This option is similar to the installment refund life option, except that the beneficiary receives the balance in a lump sum.

Payments for a Specified Period. With this option, payments are made for a pre-specified term, generally ranging from one to 30 years, and then continue to a beneficiary if you die before the term ends.

Note: Annuity guarantees are based on the claims-paying ability of the issuing company. Payouts must begin after the age of 59½ or earnings may be subject to a 10% federal income tax penalty. The issuing company may levy charges if you withdraw funds during the accumulation period. If you cash in the full value of the annuity, you may incur surrender charges. $