



# FINANCIAL Planning Strategies

A Financial Planning Update

**WestPoint** *Private client*  
G R O U P



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## Hatching Your Retirement Nest Egg

Much of the focus on retirement planning centers around accumulating a nest egg large enough to help provide income to fund a comfortable retirement lifestyle. After all, there's no sense worrying about how to get money from a retirement nest egg before the egg is ready to be "hatched." Or, is there?

Some complex tax laws prevent direct access to funds in retirement plans, such as employer-sponsored 401(k) plans and traditional Individual Retirement Accounts (IRAs), providing two potential tax traps for the unsuspect-

ing. The trick, however, is to be able to crack these tax law "shells" without damaging the egg inside.

### Tax Shell #1

The first "shell"—the *too soon* tax trap—comes into play if you withdraw money from your qualified retirement plan or IRA before age 59½. Not only will any such withdrawals be taxed as regular income, but a 10% federal income tax penalty may also apply unless you qualify for an exception to the penalty.

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## How to Avoid Becoming a Victim of Identity Theft

Identity theft is one of the fastest growing crimes in the United States, with as many as 750,000 Americans becoming victims every year according to government estimates. Identity theft is a type of fraud in which a thief uses your personal information to conduct transactions in your name. Criminals may, for example, appropriate your identifying details to open or empty bank accounts, obtain credit cards, or take out loans.

There are steps you can take to reduce the risk of having your personal

details stolen, as well as ways to detect a theft early and minimize the damage done to your credit.

- Monitor your credit reports regularly for any suspicious transactions. Each of the three major credit rating agencies, Experian, Equifax, and TransUnion, are obligated to provide consumers with a free annual credit report upon request. You can access the reports through a website co-sponsored by the agencies, [www.annualcreditreport.com](http://www.annualcreditreport.com).

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## Hatching Your Retirement Nest Egg

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For example, if you are over age 55 and are retiring or being terminated from your job, you can take a lump-sum distribution from a qualified plan, e.g., a 401(k), without penalty. This provision, however, does not apply to traditional IRAs. Keep in mind that such a distribution would still be subject to taxes at your ordinary income tax rate.

A second exception to the penalty is allowed when withdrawals are taken in "substantially equal periodic payments." There are three IRS-approved methods for determining these payments—the **life expectancy distribution method**, **annuitization method**, and the **amortiza-**

**tion method**. Distributions using these methods must continue for at least five years or until age 59½, whichever comes later.

### Tax Shell #2

The second "shell"—the *too little* tax trap—involves **required minimum distributions (RMDs)**, which generally begin at age 70½. Individuals (other than certain owner-employees still working beyond age 70½) are allowed to delay distributions from their qualified plans and **tax-sheltered annuities (TSAs)**—but not from traditional IRAs. If you fail to withdraw the required amount, a 50% penalty is assessed on the shortfall. New rules finalized by the

Internal Revenue Service (IRS) in 2002 simplify the calculation of RMDs and decrease the required distribution amounts. As always, there is no penalty for withdrawals in excess of the required minimum.

### Before Your Eggs Are Hatched

Individuals who have accumulated substantial assets for retirement may want to calculate various income scenarios to help project future withdrawals from their retirement account(s). "Running the numbers" in advance may also help enable retirees to avoid potential tax traps as they prepare to hatch their retirement nest eggs. \$

## Family Foundations—Benefits Stretch Beyond Charitable Giving

Many affluent individuals view the **family foundation** as a means for meeting specific philanthropic goals. For some, it also creates visible evidence of a donor's charitable intent. In addition, a family foundation can assist a donor in maintaining the integrity of his or her charitable intent for many years into the future, as well as help to inspire the character, sense of community, and love of knowledge of future generations.

### Establishing a Philanthropic Legacy

A family foundation allows a wealthy donor to

establish a set of ground rules for future charitable work, as well as provide heirs with incentives to carry forward the donor's (and family's) philanthropic legacy. However, this can only be achieved by carefully evaluating existing and potential family relationships and implementing proper planning.

Generation after generation, the grant-making agenda of new board members may begin to differ from that of the *original* donor. In addition, it is equally possible that the philanthropic vigor displayed by the original donor may be lost in future years. Hence, some

donors may feel the need to have at least one "outsider" seated on the foundation's board to provide stability and objectivity. However, the involvement of outside professionals can slowly move a family foundation toward the direction of a *public* foundation—something that future heirs may indeed favor, but the original donor (and the current board) may wish to avoid.

To alleviate these potential future problems, a donor can tie an incentive-based estate plan together with the family foundation. In doing so, the donor can create a family environ-

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## Family Foundations—Benefits Stretch Beyond Charitable Giving

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ment and attitude that is more consistent with the donor's goal of preserving the integrity of the foundation. Under such an arrangement, heirs are rewarded for overall participation and employment by the foundation, as well as the execution of the foundation's original mission.

### Family Involvement—More Than an Incentive

Wealth certainly provides many heirs with an additional means to help meet specific goals. However, one of the greatest challenges that some heirs will face in their lifetimes is learning how to grapple with inherited wealth. For some parents (or grandparents), teaching a child (or grandchild) to be willing to learn complex financial subjects and management skills is an equally imposing challenge. In addition to providing a means for gaining insight into the importance of charitable giving, a family foundation creates an ideal platform for heirs to hone their finance and management skills—in essence, their *life skills*.

Heirs can be involved in a family foundation as volunteers, employees, and/or board members. As a volunteer or employee, an heir can gain valuable business management skills, as well as witness firsthand the positive impact charitable giving can have on the community. Heirs who are selected to become board members will further delve into the decision-making and grant-

making process, which can foster greater accountability and expand knowledge of financial matters.

If the donor already has several grown children who are regularly involved in the family foundation, he or she may consider making all of them board members. If this is logistically impractical, it may be wise to establish a rotating seat on the board. For instance, every two years, a different child would occupy a seat on the board.



Additionally, one might suspect that the age of a younger heir might limit his or her overall participation in the foundation. On the contrary, many donors welcome the opportunity to start heirs early when it comes to financial and philanthropic education. How young is too young? That depends on each individual set of circumstances. Generally, twelve- and thirteen-year-olds are certainly not too young to volunteer some of their time and begin to gain an understanding of "charity."

In fact, it is fairly common for many donors to have their *entire* families participate, to some degree, in their foundation's

activities. To enhance the learning experience, some donors have initiated creative methods for promoting life skills development, in addition to more traditional foundation activities. For instance, a donor could set up a contest in which each heir is responsible for managing \$10,000 of the foundation's assets. After a specified period of time, all portfolios are analyzed and discussed. Or, when younger, school-aged heirs are involved, a donor could establish an essay contest asking each heir to write about a charity he or she would wish to benefit. Again, all essays, when complete, are reviewed and discussed. In both cases, modest prizes are given to heirs whose portfolios yielded positive returns or whose essays were well written and topical. The benefits of such programs can be immeasurable for the participant, the donor, and ultimately, the foundation.

### A Lifetime of Dividends

Without question, philanthropy is extremely important to many affluent individuals. At the same time, many may wonder how they can instill in their children, and/or other heirs, a similar sense of passion for philanthropic pursuits. Similarly, many affluent individuals may be concerned about how they can school future generations in handling wealth. When properly established, the family foundation can provide the means to accomplish both goals. 💰



## How to Avoid Becoming a Victim of Identity Theft



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A thorough review of these reports, also known as credit file disclosures, should alert you to any unusual activity.

- Do not provide sensitive data in response to e-mail or telephone solicitations. If you are interested in an offer, take down the caller's contact information and verify that the company is legitimate before revealing your personal details. You can bar telemarketers from calling you by registering your phone number with the Do Not Call Registry at [www.donotcall.gov](http://www.donotcall.gov).
- Filter out unwanted e-mail by installing anti-spam software on your computer. To protect your computer, install firewall and anti-virus software programs that include automatic updates. Use a secure browser when conducting online transactions.
- Invest in a mailbox with a lock or rent a P.O. box. Criminals have been known to intercept confidential correspondence and offers from financial services companies. Also, store sensitive information in a secure place in your home.
- Destroy records containing private financial information by tearing or shredding, and do not dispose of credit card receipts or ATM statements in public trash receptacles. Thieves have been known to "dumpster dive" to obtain the details they need to commit fraud.
- Protect your accounts with passwords or access numbers that cannot be easily deduced. Avoid using your Social Security number, your birth date, your phone number, your mother's maiden name, your children's names, or a series of consecutive numbers. Never carry your Social Security number or passwords with you.
- Before disclosing identifying information to businesses, employers, or other institutions, ask how the information will be stored and handled.
- Keep close track of your credit and ATM cards. Check your credit card and bank statements carefully for any suspicious purchases or withdrawals. If you have reason to believe your identity has been stolen and misused, report the theft immediately to the fraud department of one of the three major credit bureaus, asking them

to place a "fraud alert" on your file. This alert will prompt creditors to contact you before allowing a new account to be opened in your name or an existing account to be altered. Calling just one bureau is sufficient, as the company you contact will report the problem to the other two bureaus. After placing the fraud alert on your file, you will be entitled to request one free copy of your credit reports from each of the credit agencies, even if you have already received reports that year.

You should also immediately contact creditors or other companies with accounts in your name that may have been affected by the fraud, instructing them to close the accounts immediately. The next step is to file a report of the theft with the police in the community where the crime was committed. Finally, file a complaint with the Federal Trade Commission (FTC), which maintains a database used by police and other law enforcement authorities for identity theft investigations. Be sure to keep written records of your efforts to alert creditors and the appropriate authorities to the theft. \$

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