

FINANCIAL SERVICES

POSSIBILITIES



inside

Planning Ahead for Life Insurance Proceeds

OVERVIEW

Why did you purchase life insurance? If you're like most people who buy life insurance, you're looking to provide a source of income for someone (e.g., a spouse, parent or child) after you die. Buying the policy was the first step. Now you'll need to do a little more work to ensure that the money you leave behind lasts.

Can You Leave Too Much?

First, make sure what you'll leave behind is enough. Review your insurance needs annually, or more often if necessary. After a major life event (e.g., birth, death, marriage, divorce or job loss), it is also a good idea to review your coverage. If you think that you may need more life insurance, or that you have too much, talk to your insurance professional, who can advise you on the right amount of insurance for your situation—remember that you're planning for your family's future.

Also, if you've chosen a cash value life insurance policy that allows you to make investment decisions, you may want some advice from an accountant, an investment advisor or a financial professional. These experts can show you how to allocate your cash value account so that it fits in with your overall financial plan.

Can We Talk?

If you've purchased life insurance to ensure a bright future for your children, sit them down and talk about it. It's always a good idea to talk to your children about the value of money, but serious talks about life insurance proceeds and the family estate should wait until they're older. Eighteen is probably a good age, or slightly younger if you think your youngsters are mature enough.

Although you don't want to dwell on the fact that Mom and Dad won't always be around, you do want to make them understand:

- How much money they'll receive at your death, or at least that there will be sufficient funds for them to carry on, go to college, etc.,
- Who will be in charge of it,
- When it will be accessible and for what purposes,
- What restrictions will be set in place, and
- Why all this planning is necessary.

Do you have specific desires as to how you want the money to be spent (e.g., college education)? Explain your reasons. You may find that your children want to respect your wishes instead of trying to find ways around them. If you have young children, you'll need to appoint a guardian(s) in your will to care for them and manage their assets (including insurance proceeds) in case something should happen to you and/or your spouse. Small children won't understand all the financial lingo, and you don't want to frighten them with talk of death. So, talk to the person(s) you have chosen as guardian(s) about your plans and wishes.

Did you name your spouse, a parent or someone else as a beneficiary? Talk to them now—don't wait until a crisis arises. Among other things, you'll want to discuss how the insurance proceeds might be invested and what they should be used for (e.g., home mortgage, children's education, your final expenses). You should also talk about any financial plans you've already made (or plan to make) and tell them what life insurance policies you have and where all the important paperwork is located. That way, your beneficiaries will be prepared when the time comes.

Revocable and Irrevocable Trusts

If you're concerned about your beneficiaries' spending habits, or you think they may need help

2 Lowering the Cost of Health Care

4 529 Plans: The Ins and Outs of Contributions and Withdrawals

7 Growth Investing and Value Investing: What's the Difference?



CPAs & BUSINESS ADVISORS

Lowering the Cost of Health Care

OVERVIEW

America's spending on health care is growing faster than the rest of the economy. What are the reasons for this increase, and what can you do to lower your health care costs?

Why is the Cost of Health Insurance Rising?

The main reason for premium increases is the growing cost of health care itself. On average, 90 cents of every premium dollar is paid back in benefit payments for health care services. Several factors are contributing to rising health care costs:

- Increase in the average age of the population
- New medical technology
- High administrative costs
- More government regulation
- Oversupply of health care facilities
- Overuse and misuse of medical services
- Prescription price increases and their increased use
- Tougher medical provider negotiations with health plans
- Consumer demands for easier and broader access to health care
- The medical needs and demands of 77 million baby boomers
- Investors putting pressure on insurance companies to be profitable

What can you do to lower the cost of health insurance? Obviously, there are areas you have no control over. But there are some things you can do.

Become an Informed Consumer

Group insurance is less expensive than individual health insurance. If you can't get group coverage from your employer, look into buying insurance through another group, such as a fraternal or professional association.

If individual coverage is the only alternative, look at different types of plans. For example, if you need insurance for just you and your spouse, individual policies may be less expensive than a family plan. Research the benefits and options. Find out which best suits you and your family. Don't buy more insurance than you need. Many online resources are available to help you purchase health insurance. However, an insurance agent or financial advisor may save you both time and money.

You may be able to save money by self-insuring against routine medical expenses (i.e., paying routine medical expenses out-of-pocket) and buying major medical insurance to cover only costly illnesses or emergencies. If your cash reserve is large enough to pay for minor medical expenses, you should consider choosing a higher deductible. For example, increasing your deductible from \$250 to \$500 could significantly lower your insurance premiums.

Other Ways to Reduce Premiums

- Avoid purchasing single disease policies
- Avoid duplicating any coverage your spouse may have from his or her employer
- Ask how much you can save by paying premiums annually

After you determine what you need, compare at least three companies for the best deal. Remember, the lowest price does not necessarily mean the best plan. Ask questions such as:

- What is the plan's history of premium increases?
- How much notice is given before a premium increase?
- How are deductible and out-of-pocket costs figured?
- What are the co-payment levels, and when are they charged?
- What is excluded?
- How long is the free-look period?
- Is the insurance company financially healthy?



Avoid plans that exclude pre-existing conditions. You may end up paying for a policy that doesn't cover you. If you have no choice, try to get one that covers the condition within six months or less.

Try to get quality and accreditation reports on the plans you are considering. Quality reports contain consumer ratings that outline how satisfied consumers are with the doctors in their plan and how well a health care organization prevents and treats illnesses. Accreditation reports give information on how accredited organizations meet national standards, and often include clinical performance measures. Most employer groups can provide this information. Talk to your plan's administrator or customer service department.

Don't Lie

Be truthful on the insurance application. If you make a minor error, such as your month of birth, there shouldn't be a problem. However, if you fail to report that you are a smoker, benefits could be denied for smoker-related problems that you might later develop. Worse yet, your policy could be rescinded, leaving you with no coverage at all.

Control Your Out-of-Pocket Costs

Avoid unnecessary surgery. Ask questions. If it's not an emergency, find out if there are alternative treatments. It is your responsibility to make sure that you are covered for certain procedures. If you choose an elective surgery, make sure that your policy will cover it. Do the benefits include hospital and doctor's fees? Some plans pay only one or the other.

Does the plan pay a percentage of the actual costs, or does it pay based on a set fee schedule? A plan that pays 80 percent of a fee schedule instead of 80 percent of the actual costs can end up costing you more out of pocket. Ask your doctor if he or she will agree to accept the insurance company's set fee. And ask about home health care for your recovery. Home care would be less expensive than a nursing home or hospital stay, and you'd be able to recover in the more comfortable environment of your own home.

Take Advantage of Tax Deductions

Medical expenses are generally deductible to the extent that they exceed 7.5 percent of your adjusted gross income. Deductible expenses can include:

- Insurance premiums
- Prescriptions
- Doctors and dentists
- Hospitals and clinics
- Lab and X-ray fees
- Glasses and contact lenses
- Transportation for medical reasons

Work to Continually Save Money

- Live a healthy lifestyle. For example, a smoker who quits can usually receive a premium reduction.
- Ask your insurance company about other discounts.
- Take advantage of free health screenings at local clinics, hospitals and health fairs.
- Avoid the overuse of antibiotics.
- Watch your co-payments and out-of-pocket expenses to make sure that you don't overpay.

Each year, check the coverage of your policy. Make sure that it's keeping up with the changing needs of you and your family. Check rates when your lifestyle changes, such as moving to a new part of the country or getting married. When your children go off to college, look into college health plans. Some are subsidized by tuition and might save you money.

Reducing the amount of care you require will pay off. You will save money in out-of-pocket costs, insurance premiums and lost time from work. But the greatest payoff will be a longer and healthier life. ■



Avoid plans that exclude pre-existing conditions. You may end up paying for a policy that doesn't cover you. If you have no choice, try to get one that covers the condition within six months or less.

529 Plans

The Ins and Outs of Contributions and Withdrawals

OVERVIEW

Section 529 plans can be powerful college savings tools, but you need to understand how your plan works before you can take full advantage of it. Among other things, this means becoming familiar with the finer points of contributions and withdrawals. A little knowledge could save you money and maximize your chances of reaching the educational goals you've set for your children.

How Much Can You Contribute?

To qualify as a 529 plan under federal rules, a state program must not accept contributions in excess of the anticipated cost of a beneficiary's qualified education expenses. At one time, this meant five years of tuition, fees and room and board at the costliest college under the plan, pursuant to the federal government's "safe harbor" guideline. Now, however, states are interpreting this guideline more broadly, revising their limits to reflect the cost of attending the most expensive schools in the country and including the cost of graduate school. As a result, most states have contribution limits of \$300,000 and up (and most states raise their limits each year to keep up with rising college costs).

A state's limit will apply to either kind of 529 plan: prepaid tuition plan or college savings plan. For a prepaid tuition plan, the state's limit is a limit on the total contributions. For example, if the state's limit is \$300,000, you can't contribute more than \$300,000. On the other hand, a college savings plan limits the value of the account for a beneficiary. When the value of the account (including contributions and investment earnings) reaches the state's limit, no more contributions will be accepted. For example, assume the state's limit is \$300,000. If you contribute \$250,000 and the account has \$50,000 of earnings, you won't be able to contribute anymore—the total value of the account has reached the \$300,000 limit.

These limits are per beneficiary, so, if you and your mother each set up an account for your child in the same plan, your combined contributions can't exceed the plan limit. If you have accounts in more than one state, ask each plan's administrator if contributions to other plans count against the state's maximum. Some plans may also have a contribution limit, both initially and each year.

Note: Generally, contribution limits don't cross state lines. Contributions made to one state's 529 plan don't count toward the lifetime contribution limit in another state. However, check the rules of your state's plan to find out if that plan takes contributions from other states' plans into consideration when determining if the lifetime contribution limit has been reached.

How Little Can You Start Off With?

Some plans have minimum contribution requirements. This could mean one or more of the following:

1. You have to make a minimum opening deposit when you open your account,
2. Each of your contributions has to be at least a certain amount, or
3. You have to contribute at least a certain amount every year.

Some plans may waive or lower their minimums (e.g., the opening deposit) if you set up your account for automatic payroll deductions or bank-account debits. Some will also waive fees



if you set up such an arrangement. (A growing number of companies are letting their employees contribute to college savings plans via payroll deduction.) Like contribution limits, minimums vary by plan, so be sure to ask your plan administrator

Know Your Other Contribution Rules

Here are a few other basic rules that apply to most 529 plans:

- Only cash contributions are accepted (e.g., checks, money orders, credit card payments). You can't contribute stocks, bonds, mutual funds and the like. If you have money in such assets and would like to invest that money in a 529 plan, you must liquidate the assets first.
- Contributions may be made by virtually anyone (e.g., your parents, siblings or friends). Just because you're the account owner doesn't mean you're the only one who's allowed to contribute to the account.
- Contributions generally may not be directed toward particular investments of your choice. However, most college savings plans offer several different investment portfolios, and many let you choose one or more portfolios to invest your contributions. You make this choice at the time you make your contribution. Some states have also added two opportunities to change your investment choice. Savings plans in these states let you change your investment choice when you change the beneficiary of the account. These plans let you change the investment portfolio once each calendar year, as well. (For 2009 only, states may permit 529 college savings plan investors to change the investment options for their existing contributions twice per year instead of once.)

Maximizing Your Contributions

Although 529 plans are tax-advantaged vehicles, there's really no way to time your contributions to minimize federal taxes. (If your state offers a generous income tax deduction for contributing to its plan, however, consider contributing as much as possible in your high-income years.) But there may be simple strategies you can use to get the most out of your contributions. For example, investing up to your plan's annual limit every year may help maximize total contributions. Also, a contribution of \$13,000



a year or less (in 2009) qualifies for the annual federal gift tax exclusion (\$65,000 if you make no contributions for the next four years). This is something to keep in mind if you wish to remove assets from your taxable estate.

Lump-Sum Versus Periodic Contributions

A common question is whether to fund a 529 plan gradually over time, or with a lump sum. The lump sum would seem to be better because 529 plan earnings grow tax deferred—the sooner you put money in, the sooner you can start to generate earnings. Investing a lump sum may also save you fees over the long run. However, the lump sum may have unwanted gift tax consequences, and your opportunities to change an investment portfolio are limited. Gradual investing may let you easily direct future contributions to other portfolios in the plan.

Qualified Withdrawals are Tax-Free

Withdrawals from a 529 plan that are used to pay qualified higher education expenses are completely free from federal income tax and may also be exempt from state income tax. Qualified higher education expenses generally include tuition, fees, books, supplies and equipment required for enrollment or attendance at an “eligible” educational institution (as defined by the Higher Education Act). In addition, the definition includes a limited amount of room and board expenses for students attending college on at least a half-time basis. Also, for 2009 and 2010, qualified expenses include computers, certain software and internet access while the beneficiary is in college. The definition does not currently include the cost of transportation or personal expenses.

Note: A 529 plan must have a way to make sure that a withdrawal is really used for qualified education expenses. Many plans require that the college be paid directly for education expenses; others will prepay or reimburse the beneficiary for such expenses (receipts or other proof may be required).

Beware of Non-Qualified Withdrawals

By now, you can probably guess what a non-qualified withdrawal is. Basically, it’s any withdrawal that’s not used for qualified higher

education expenses. For example, if you take money from your account to buy your son a new Porsche, that’s a non-qualified withdrawal. Even if you take money out for medical bills or other necessary expenses, you’re still making a non-qualified withdrawal.

One reason not to make this type of withdrawal is to avoid depleting your college fund. Another compelling reason is that these withdrawals don’t enjoy tax-favored treatment. The earnings part of a non-qualified withdrawal will be subject to federal income tax, and the tax will typically be assessed at the account owner’s rate, not at the beneficiary’s rate. Plus, the earnings part of a non-qualified withdrawal will be subject to a 10 percent federal penalty, and possibly a state penalty, too.

Is Timing Withdrawals Important?

As account owner, you can decide when to withdraw funds from your 529 plan and how much to take out—and there are ways to time your withdrawals for maximum advantage. It’s important to coordinate your withdrawals with the education tax credits. That’s because the tuition that’s used to generate a credit may reduce your available pool of qualified education expenses. A financial aid or tax professional can help you sort this out to ensure that you get the best overall results. It’s also a good idea to wait as long as possible to withdraw from the plan. The longer the money stays in the plan, the more time it has to grow tax deferred.

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer’s official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. ■

■ Growth and Value Investing

What's the Difference?

When you invest for **growth**, you are typically seeking capital appreciation over the long term. You will likely choose investments that you believe will exhibit a faster-than-average increase in share price over the coming years. Growth stocks have the potential to outperform slower-growing investments, such as income stocks, because gains are generally reinvested in the company to achieve further growth rather than distributed to shareholders as a dividend. Growth stocks can be volatile.

One way to minimize the effects of volatility in your portfolio, and avoid shopping for individual growth stocks, is to purchase shares of a growth mutual fund. You'll enjoy instant diversification (though diversification alone cannot guarantee a profit or ensure against a loss). And an actively managed mutual fund also offers professional management expertise.

If you are a **value** investor, you choose investments that have low prices in relation to such factors as earnings, sales, net current assets and the book value of the issuing companies. You consider these investments to be bargains.

A value investor might reject a popular blue chip stock because the price per share is too high, even though the issuing company is stable and has a record of steady growth. Instead, the value investor seeks to buy stock of a solid company that is temporarily out of favor or bargain priced for some other reason. In doing so, the value investor predicts that the share price will eventually return to a higher level when the stock comes back into favor, and the market drives the stock price back up. Some mutual funds specialize in value investing if you want to diversify and avoid picking individual stocks.

Note: Before investing in a mutual fund, carefully consider its investment objectives, risks, fees and expenses, which are included in the prospectus available from the fund. Read it carefully before investing. ■

”

One way to minimize the effects of volatility in your portfolio, and avoid shopping for individual growth stocks, is to purchase shares of a growth mutual fund. You'll enjoy instant diversification (though diversification alone cannot guarantee a profit or ensure against a loss).



POSSIBILITIES is distributed with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns as the contents of the publication are intended for general informational purposes only. Content provided by Forefield, Inc. Neither Forefield Inc. nor Forefield Advisor™ provides legal, taxation or investment advice. All the content provided by Forefield is protected by copyright. Forefield claims no liability for any modification to its content and/or information provided by other sources. Copyright 2009 Forefield Inc. All Rights Reserved.

Questions and information for publication can be submitted to your Eide Bailly representative or to the editors of the newsletter.

To view this and previous issues of **POSSIBILITIES**, visit www.eidebailly.com/publications

Managing Editor: Liz Stabenow
Assistant Editor: Agatha Johnson and Lisa Dahlen

**An Independent Member Firm
of HLB International**



4310 17th Ave S
PO Box 2545
Fargo ND 58108-2545

RETURN SERVICE REQUESTED

Planning Ahead—from page 1

managing their inheritance, a trust may be the appropriate tool for you. A trust is a legal agreement in which you appoint a person or institution, called the trustee, to manage certain property (e.g., real estate, stock portfolios, life insurance proceeds) for the benefit of one or more beneficiaries. Your attorney can help you set one up.

Two basic types of trusts are used in conjunction with life insurance: revocable trusts and irrevocable life insurance trusts (ILITs). Revocable trusts come in many varieties and can be used for several purposes. Revocable trusts allow you to retain control over the trust and its assets, and even give you the power to terminate the trust if you so choose. You would generally name yourself as the trustee of a revocable trust while you're alive and appoint someone else as a successor trustee to carry out your wishes after you die. The trustee is legally obligated to pay out the proceeds of the insurance policy, and any other assets in the trust, as specified in the trust

agreement. The real benefit for you is having the peace of mind that your wishes will be carried out. Your beneficiaries won't be able to get around the trust agreement. The downside for you is that your estate will have to include assets in a revocable trust when calculating estate taxes.

With an ILIT, however, you'll enjoy certain tax benefits—the insurance proceeds and other assets in the trust aren't considered part of your taxable estate. You don't want your estate to pay unnecessary taxes, because this decreases the amount your heirs will ultimately receive. However, you must give up all rights and control over the trust—you can't act as the trustee or make any decisions about how assets are invested. If it appears that you have influence over the trustee, or that the trustee is carrying out your wishes, the ILIT will be added back into your estate tax calculation. If you have a sizable estate, you may be able to minimize the potential tax burden with an ILIT. ■

Financial Advisor is a Registered Representative of and offers securities through Securities America, Inc. Member FINRA and SIPC. Investment Advisory Services offered through Eide Bailly Advisors, LLC, a Registered Investment Advisor. Eide Bailly Financial Services, LLC is the holding company for Eide Bailly Advisors, LLC. Eide Bailly Financial Services and its subsidiaries are not affiliated with Securities America.