

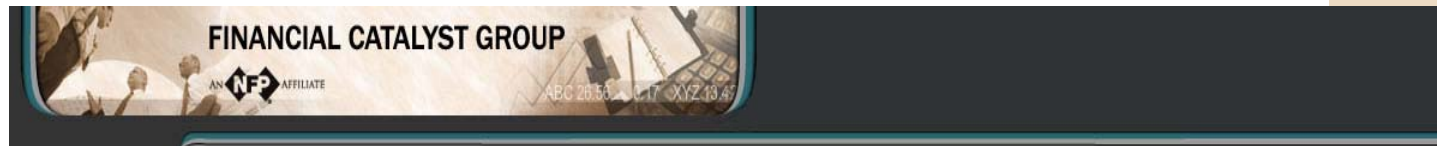
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Financial Catalyst Group was founded in 1977 to help successful people articulate their goals, and realize their dreams to protect and preserve their hard-earned wealth. At Financial Catalyst Group we provide unique Wealth Architecture™ services that result in the implementation of value-added plans for the responsible transfer of wealth through the generations. We specialize in working with families that desire to provide a legacy to their families and their communities, making gifts instead of paying transfer taxes. We work closely with these families and their advisors to form a strong, results-oriented team.



Legislative Update

Top Court Protects IRAs

Supreme Court rules unanimously that accounts are shielded from creditors in bankruptcy proceedings.
April 4, 2005: 12:39 PM EDT

WASHINGTON (Reuters) - The Supreme Court ruled Monday that individual retirement accounts, a popular way to save for retirement used by millions of Americans, are shielded from creditors in bankruptcy proceedings.

The unanimous high court reversed a ruling that a bankrupt Arkansas couple could not keep from creditors the money in IRAs that they rolled over from an employer-sponsored retirement plan.

Social Security benefits, company pensions, 401(k) plans and other benefits tied to age, illness or disability are protected under federal bankruptcy law.

The issue of whether tax-deferred IRAs also are exempt from creditors could affect hundreds of thousands of people every year, lawyers in the case have said. More than 45 million Americans have IRAs and about 1.6 million declared bankruptcy in 2003.

The case involved Richard and Betty Jo Rousey, who had accumulated \$55,000 in a company-sponsored pension. After they each left the company, they rolled the money into two IRAs.

The out-of-work couple filed for bankruptcy in 2001 and sought to shield the money in the IRAs.

In the court's 14-page opinion, Justice Clarence Thomas said, "The bankruptcy code permits debtors to exempt certain property from the bankruptcy estate, allowing them to retain those assets rather than divide them among their creditors."

"The question in this case is whether debtors can exempt assets in the Individual Retirement Accounts (IRAs) from the bankruptcy estate....We hold that IRAs can be so exempted," he wrote.

Thomas said IRAs fulfilled both requirements under the law for an exemption. They confer a right to receive payments based on age and are similar to plans or contracts cited in the law, such as stock pensions or annuities.



Wealth Architecture Digest

Often people do not plan because they see only what is, and they do not have a vision of what can be. Something is always possible. We believe that, with vision, the possibilities are almost unlimited.

Mortality, Healthcare and Family Issues

By Richard Haas

The recent drama surrounding the life and death of Terri Schiavo provides many lessons beyond the obvious. For weeks Americans were transfixed with the ethical issues of what is normally a quiet, family decision. The real problem with this case comes from the fact that an unexpected heart attack at age 26 was further complicated by the lack of proper planning.

As a result, today there is a rush to complete living wills and related healthcare documents as people contemplate the unknown and plan for it as best they can. While written documents certainly help avoid some of the problems faced by the Schiavos and the Shindlers (Terri's family), it constitutes only part of the issue.

There are very real economic, ethical, emotional and religious issues that face families where catastrophic medical events disrupt life. There are likely to be issues that need to be decided that were never discussed or contemplated when living wills, healthcare directives and durable powers of attorney were drafted. These documents may reduce litigation, but human nature and countervailing motivations may still create conflict.

A major problem arises at the moment of a medical emergency. At the time of a heart attack, stroke, or head trauma, no one knows the outcome of medical intervention. Once the effort to "save"

the person begins, the road to difficult decisions opens with all its twists and turns. It is naïve to think that having the needed legal documents will make the decisions any easier. The potential battles between siblings, spouses, parents, and children will inevitably complicate matters unless the affected person has been unusually clear and communicated his/her wishes.

The Schiavo disagreements will pale by comparison with family fracasas fomented by heirs (or potential heirs) who feel they have been short-changed in a poorly communicated wealth transfer plan. Many wills and trusts are created with inadequate forethought before leaving on a trip or after something happens to a friend or family member. Too little thought goes into the document. It is rarely re-read later to see if it still articulates the real desires of its creator, and it is often not discussed with the family members.

To make the planning relevant takes time and a willingness to consider the tough questions. Discussions about life-saving or end-of-life procedures, such as who decides and when the decisions should be made, are essential. At the same time, the dialogue should expand to cover who gets what, when, how, and why. For many people this is very uncomfortable. Frequently older adults do not want to talk about dying, and children are reluctant to talk with their parents about "who gets what, when, how, and why."

(continued on page 3)

Special Interest

UNPREPARED FOR THE UNEXPECTED - 55% of bankruptcies are directly tied to unexpected **medical expenses** due to injury or death (source: Health Affairs).

TAXES - Americans are expected to pay federal, state and local taxes equal to **29% of income** in 2005. Twenty-five years ago (1980), the level of taxes relative to income was 30% (source: Tax Foundation).

EARLY BIRD WINS - A 25-year old investing a static \$200 per month and earning 7% per year in a tax-deferred account **will accumulate \$235,000** by age 55. A 35-year old investing a static \$300 per month and earning 10% per year in a tax-deferred account **will accumulate \$217,000** by age 55 (source: BTN Research).

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Summer 2005

FCG NEWS

OUR TEAM

Please join us in welcoming **Sheila Watt** to our FCG Client Service Team. Sheila brings great project management and client service experience and will assume the duties of Jess Pantel, who recently moved from the area to return to school.

Thank you from FCG

Richard Haas, President, Advisor

Carol Ford, Strategic Planning, Advisor

JP Puette, LTC Specialist

Suzette Engdahl, Client Service Representative

Sheila Watt, Client Service Representative

Editorial



Time of Reflection

By Richard Haas

The past few weeks have presented a number of situations that have caused me to reflect on what it means to be an American, and what it means to

be human. Such reflection leads to the deeper consideration of what is important – and what is not.

I was recently peripherally involved in a senseless, tragic loss of human life. Eleven thousand miles away in Addis Ababa, Ethiopia, an expectant mother (wife of an obstetrician-gynecologist) was entering her 30th week of an uneventful pregnancy. All had been going well and she had excellent prenatal care. Suddenly she rapidly gained weight, and her blood pressure shot up; pre-eclampsia threatened her life and that of her unborn child. If her blood pressure could not be

brought down quickly, the pregnancy would have to be terminated.

This illness is fairly easily treated with a generic drug, magnesium sulphate, that costs less than two dollars per dose. However, in Ethiopia it is not on the “essential drugs” list, and therefore cannot be imported into the country. I was asked to help, and within 36 hours had secured and shipped the medication to Ethiopia. Unfortunately the four days that it took to get there was too long, and the baby (weighing just 2.4 pounds) was taken by emergency C-section and subse-

quently died the next day.

I share this recent experience as I feel that too often we focus on the financial bottom line – the taxes, and the money we build and pass on to the next generation. While we all set our own priorities for our lives and our wealth, I’d like to think it is healthy to pause – and reflect. I believe the decisions we make as individuals, and the policies we ask our government to make on our behalf, define who we are as Americans and as human beings.

New Real Estate Exchange Vehicle For Small Investors

An increasingly popular new tax-savings program may help some owners of investment real estate sell existing property and reinvest in new property, yet postpone or avoid paying taxes on any profits. The program, called a “tenants-in-common real estate exchange,” (TIC) is a new wrinkle in the long-established 1031 “like-kind” exchange.

A TIC exchange starts on the same basis as the standard 1031 exchange. In a typical 1031 exchange, the owner first sells the property, with the funds going directly into a trust account. He or she then has 45 days from closing to identify one to three potential replacement properties and another 135 days to close the deal (known as a 180-day exchange

period). In general, as long as the cost of the replacement property is equal or more than the sale price of the relinquished property, tax on the gains from the sale are deferred. If the replacement price is less, the difference, called “boot,” is subject to tax. Also, any equity that’s not rolled over into the new property, regardless of the replacement cost, is subject to capital gains tax. Alternatively, in a TIC exchange an owner’s single-owned property is replaced with a fractional direct ownership in institutional-grade property run by a property manager.

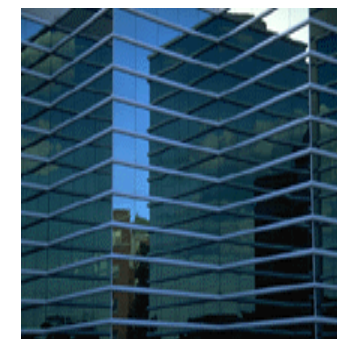
In 2002, the IRS issued guidelines to clarify how TIC exchanges should be set up so they qualify as a tax-deferred exchange. Properly structured TIC exchanges have the ability to reduce personal involvement in the property

management and to invest directly in institutional-quality property. Depending on the amount available to invest, an owner could spread the sale funds among up to three separate properties in a single exchange. If invested well, the property should spin off regular income and produce price appreciation.

But investors must navigate numerous hurdles with TIC exchanges. First, they must be certain the exchange qualifies for the tax deferral by meeting the guidelines issued by the IRS. Another challenge is that TIC investments are highly illiquid. There is virtually no secondary market outside of the co-owners for selling fractional interests, though that could change if TICs be-

come more common. Investors also need to watch for potentially high fees charged by exchange intermediaries that could all but wipe out the tax benefits.

Assistance by your Financial Advisor team is key to success.



Portions of this column were produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Carol Ford, a local member of the FPA.

Communication Key to Family Planning

By Carol Ford

While a well drafted will and trust document provides the legal framework to transfer wealth from one generation to another, one of the most significant components to facilitating an easy transfer process in the future is conducting a family meeting today.

Family meetings provide a forum to share details of how the process will unfold, who is responsible for what functions and develops a better understanding by all the family members.

Generally, areas of contention over large or small points are surfaced, discussed and the parents determine how the issue is to be handled. This clear understanding goes a long way toward protecting family relationships down the road.

Yet adequate family communication is one of the most overlooked aspects in the wealth transfer process. There are various reasons that parents are reluctant to speak openly about the issue. In some cases, the

parents have never discussed money issues with their children and may not want the children to know how much money they may be inheriting. The parents may fear this knowledge would somehow undermine the children’s drive to establish themselves financially or encourage the development of an inflated lifestyle (spending tomorrow’s money today). Or family members may simply be uncomfortable discussing mortality issues. A few extra steps today could help ease family tensions and future disputes.

Communication protects family relationships and provide a lasting legacy for future generations.



Mortality (from front page)

For many people this is very uncomfortable. Frequently older-adults do not want to talk about dying, and children are reluctant to talk with their parents about “what if,” much less about “when...”

In the case of one family I know the matriarch did not talk with her twelve children about what she wanted done with the “family” residence. Although it

was not a multi-million dollar asset, one of the children wanted to “buy” it from other siblings and she thought she should get it at a below market price. Well, one of the siblings was the executor and had to make a decision without guidance from any discussions or directions from Mom. It should not be a surprise to know that the resulting disagreements

divided the family and now there is stress whenever family members get together. This could have been avoided if Mom had shared *her* desires during her lifetime. Open discussion is the best way to see that the desires of the senior generation are met. Families rarely plan to fail, but they too often fail to plan. The issues in the Schiavo case can

occur in any family, at any time. When Terri was initially rendered incompetent from a heart attack at 26 years of age, she was certainly not expecting the event. It just shows that people should not wait until they feel “old” to do their planning and share their thoughts. At Financial Catalyst Group we are dedicated to helping you design and construct your financial fortress.

Legacy Communications

A family’s most valued “inheritance”

In addition to drafting legal documents, parents may want to create one or all of the following:

Letter of Instruction: this is a flexible, informal non-binding document that provides a list of the estate’s debts and assets, instructions for disposition of personal effects, lists advisors, tells the location of essential documents and information, spells out funeral arrangements, and may include personal messages/instructions to family members.

Family letter: a personal message to family members which describes the parent’s thinking about family issues, how they would “like” future issues to be handled and frequently shares their most loving thoughts. Some parents write a letter to their family every year and share all the letters at death.

Family video: some families prepare a video to share their thoughts. We see this frequently when a couple is establishing a multi-generational family trust or foundation and wish to preserve the original intent of the founding generation to help establish an on-going family philosophy and mission.