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Dear Friends,
Many of us have children that are already in college or ones that will be starting college soon. The article on funding college education might make an interesting read.
It is always advisable to protect yourself and your family by getting life insurance when you are young and healthy. Not only is it less expensive, but your chances of securing it are also better. However, many of us delay this important decision until there is an untoward change in health. Be sure not to put this on the back burner! Act now.
If you are a senior that wants to help your family financially, you can do so while making some tax-wise decisions. Included in this issue is an article that shows you how.
Sincerely,
Randhir S. Judge

In this issue:

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Tapping Retirement Savings for College Expenses

Should you tap your retirement funds to help pay your child's college expenses? Well, you can. But is it a good idea?

The double problem with double dipping

Financial professionals generally recommend using your retirement funds for one purpose only--retirement. Why? Because frequent dips into your retirement funds will reduce your ultimate nest egg. Plus, there will be less money available to take advantage of the twin benefits of tax deferral and any compounding earnings. Depleting your retirement funds too soon can create a dire situation. Remember, there is financial aid available to help pay for college, but none for retirement.

But, if you must...

If you absolutely must dip into your IRA to pay college costs, there is a bit of good news. Generally, if you withdraw money from a Roth or traditional IRA before age 59½, you'll owe a 10% premature distribution penalty tax on the earnings portion of the withdrawal. However, there is an exception to this penalty if the money is used to pay the qualified education expenses for you, your spouse, your children, or your grandchildren. That's the good news.

The bad news is that you'll owe income tax on the earnings portion of your IRA withdrawal. But fortunately, for Roth IRAs, there is a tax ordering for distributions--contributions come out before earnings. This is important because contributions to a Roth IRA are made with after-tax dollars and can be withdrawn income tax free at any time (even before age 59½) and for any purpose. You'll only owe income tax if you dip into the earnings. (Once you reach age 59½ and have held your Roth IRA for five years, even earnings are income tax free.)

What about your 401(k)?

Generally, tapping your 401(k) is even worse than tapping your IRA, because 401(k) plans don't offer a college exception to the 10% penalty tax. Plus, you'll generally pay income tax on the entire amount of your withdrawal. So all other things being equal, withdrawing from your IRA is the better choice.

However, you might be able to borrow from your 401(k) account--something you can't do with an IRA. Assuming your plan allows plan loans, loans are not taxed or penalized, as long as you repay the funds within a specified period of time. But make sure to compare the cost of borrowing from your 401(k) account with other financing options. Although interest rates on plan loans may be favorable, the amount you can borrow is limited, and you generally must repay the loan within five years (some plans require that you repay the loan immediately if you lose your job).

The financial aid factor

Assets in retirement accounts aren't counted at all by the federal government's financial aid formula. So they don't affect your child's eligibility for federal financial aid. However, distributions are counted; specifically, all withdrawals from retirement accounts--principal and earnings--are counted as parental income and assessed at rates as high as 50%.

Alternatives

Before you dip into your IRA or 401(k) account to pay college expenses, make sure to investigate the cost of private borrowing, as well as any federal, state, or college-based financial aid loan programs that might be available. For example, under the federal PLUS loan program, you can borrow up to the full cost of your child's education (minus any financial aid received) if you have a good credit history. Similarly, your state's higher education authority might have a financing arm that offers favorable loan terms for college.

Tax-Wise Gifting Strategies for Seniors

When giving to charity:

- *Only give to "qualified" charities. See IRS Publication 78.*
- *Avoid giving cash, unless you get a receipt.*
- *You must obtain a "qualified appraisal" for donations of property worth over $5,000 (other than cash and publicly traded securities), and you must attach an appraisal summary (IRS Form 8283) to your tax return.*

You've spent most of your life building your wealth. Now, your concern may have shifted to reducing your estate and saving taxes. Making gifts is one way to reduce your estate. But because gifting can trigger federal gift tax, as well as federal generation-skipping transfer tax (GSTT) if the gift is to someone who is more than one generation below you (e.g., grandchildren), you'll want to consider making gifts in ways that will minimize tax. Here are some tax-wise gifting strategies to consider.

Take full advantage of the federal annual gift tax exclusion and lifetime exemption

For 2008, you can give tax free up to $12,000 per recipient ($24,000 if the gift is from both you and your spouse) under the annual gift tax exclusion. Gifts over that amount are tax free to the extent of your $1 million lifetime gift tax exemption ($2 million lifetime GSTT exemption).

Contribute to 529 plans

If you fund a 529 plan for your grandchild's college education, you can contribute up to five years' worth of gifts at once; that's $60,000 per child, or $120,000 per child if you and your spouse elect to make the gift.

Pay tuition and medical expenses

You can make unlimited tax-free gifts by paying medical bills or college tuition on behalf of a recipient. Payments must be made directly to the medical care provider or college.

Make charitable donations

Donations to charity are completely free from gift tax and are also generally deductible for income tax purposes, subject to certain limitations.

Make gifts and pay the gift tax

This may seem counterintuitive, but sometimes making gifts and paying the gift tax can be advantageous. The reason is that gift tax paid is removed from your estate. So, gift taxes paid on lifetime gifts can significantly reduce overall federal gift and estate taxes.

Types of property to gift

Selecting the type of property to gift can be very important. Here are some things to consider:

- Gift property that may grow substantially in value over time, such as common stock, antiques, art, and real estate. This strategy removes any future appreciation of this property from your estate.
- Be careful when gifting appreciated property. Because a property's basis (generally its cost) is carried over to the recipient, gifts of appreciated property can be good in some circumstances but not in others. You may not want to give highly appreciated property if the recipient will recognize a substantial capital gain when the property is sold. On the other hand, you may want to make that gift if the sale of the property is imminent anyway and the recipient would owe less tax than you upon the sale.
- You should avoid giving property that is likely to lose value after the gift has been made. Also, it's not generally a good idea to give away depreciated property. The recipient's basis for recognizing a loss is the lower of your basis (carryover basis) or the current fair market value. The recipient may be unable to recognize the loss on the property. Both you and the recipient may lose the loss deduction.
- Gift assets that yield higher amounts of income instead of those that yield lower amounts. This will prevent the buildup of income in your estate. Similarly, gift assets that produce taxable income instead of those that produce less taxable income, such as municipal bonds.
- It may be possible to reduce your ownership interest in a closely held business (or an interest in real estate) so that it may be valued at a discount. For example, if you have a minority interest (49% or less) in the stock of a closely held business, you may qualify for a discount. Also, a fractional interest in real property may be valued at a discount. It may be beneficial to make a gift of stock or an interest in real estate to qualify for the discount.
- Be careful when giving S corp stock to a trust, as the business may lose S corp status.

Can I Get Life Insurance After a Serious Illness?

Many Americans lack sufficient life insurance to provide financial security for their families. If you're in good health, you can probably get the life insurance you want at a relatively affordable cost. But what if you have an existing medical or health-related condition? What if you've had a heart attack or cancer? Can you still get life insurance? The answer in most instances is "yes," but it may be at a higher cost.

But I've been turned down before

The fact that you've been turned down before doesn't mean you can't get life insurance now. Life insurance for people with prior health conditions has become more available and affordable because people are living longer, resulting in more liberal insurer underwriting. Life insurance underwriting is the process used by the company's underwriter to decide whether to insure you and at what rate or cost, based on your medical history and sometimes other factors as well. In general, the longer your life expectancy as determined by the underwriter, the more likely you will qualify for life insurance, and the more affordable the cost.

What kind of information will insurers need?

Insurance companies generally request medical information from your primary care physician and any other doctors or hospitals that treated you for your illness. The insurer will also want to know the type and severity of your illness, the length of time since you were treated for the illness, and your prognosis.

The company may ask you to submit to an independent medical examination. Finally, the life insurance application will solicit information about the health history of your family, including your parents and siblings.

Will it cost more?

Possibly. Insurance companies commonly view your health history differently than your physician does. For instance, if you've had a heart attack, but now are active and leading a normal life, your doctor may say you're doing fine. But an insurance company's underwriter will review volumes of actuarial statistics and may conclude that, given your heart attack, your life expectancy is shorter than that of a person of the same age and gender who hasn't had a heart attack. Because it expects to have to pay the death benefit sooner, the company expects to have less time to collect premiums. The insurer then assesses a higher premium cost to you to compensate for the anticipated shorter premium-paying period.

Some helpful tips:

Discuss your situation with your doctor. You will then have some idea of the medical opinion your physician will give to the insurer concerning your prognosis.

Shop for life insurance. Different insurance companies often take significantly different views of various illnesses. While one company may deny coverage entirely or charge a much higher premium due to a specific ailment, another insurer may offer coverage for the same illness at a lower cost.

Get help. Some companies offer insurance to higher-risk applicants because they share the cost with another insurance company. Companies that work with other companies (called "reinsurance") are more likely to insure you if you have health issues. Consider using special-risk advocates or impaired-risk specialists who help find impaired-risk life insurance coverage.

Start with your employer. Many offer life insurance to all employees, regardless of their health histories. Some alumni associations and professional organizations also offer life insurance on a group basis without requiring a physical.

Show the insurer you're doing better. Demonstrate that you're taking steps to control or improve your health. Proof that you exercise and have a healthy diet increase the chances of living a longer life, making you a better insurance risk.

Weighing the risk

Insurance companies use several categories of risk, including preferred risk, standard risk, and substandard risk. Depending on the insurer, some use subcategories within each risk class. Based on your health history, you'll likely fall within a certain risk class which will determine how much life insurance you can get and the cost.

A special- or impaired-risk advocate is a specialist who works with the insurance underwriters to try to get you life insurance at an affordable price in spite of your medical history.

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Ask the Experts

Can I enroll in Medicare at age 65, even if I'm not yet eligible for full Social Security benefits?

Yes. Although full retirement age for Social Security is increasing, 65 remains the age at which most Americans become eligible for Medicare. You don't have to be retired to enroll in Medicare, so you should still consider signing up for Medicare Part A (hospital insurance) and Medicare Part B (medical insurance) at age 65, even if you plan on working longer. Make sure to contact the Social Security Administration approximately 3 months before your 65th birthday to discuss your options, because enrollment rules are relatively complicated, and there may be consequences if you wait until later to sign up.

For example, when you become eligible for Medicare Part A at age 65, you have a certain period, called your initial enrollment period, in which to sign up for Medicare Part B. Most people won't pay a premium for Part A, but you'll always pay a premium for Part B. Your initial enrollment period is a seven-month period that begins three months before your 65th birthday, includes the month you turn age 65, and ends three months after your 65th birthday. If you don't sign up for Part B during your initial enrollment period, you can't sign up until the next general enrollment period that runs from January 1 through March 31 of each year, and you'll generally pay a higher premium for Part B coverage. Your monthly premium will increase by 10% for each 12-month period you were eligible for, but did not enroll in, Medicare Part B, unless you were covered by group health insurance through your employer or your spouse's employer. In that case, you may qualify for a special enrollment period, and you may not have to pay a premium penalty.

For more information about enrollment requirements and other factors you should consider when deciding when to sign up for Medicare, contact the Social Security Administration at (800) 772-1213 or visit the Medicare website at www.medicare.gov.

What are Medicare Advantage plans?

Most people who are covered by Medicare are enrolled in original Medicare. Original Medicare includes Part A, which helps cover inpatient hospital care, skilled nursing care, hospice care, and some home health care, and Part B, which covers medically necessary services, including doctor's visits, outpatient care, and some preventative services.

As an alternative to original Medicare, you may opt to enroll in a Medicare Advantage (MA) plan when you first become eligible for Medicare (and have already enrolled in Parts A and B), or during certain enrollment periods. MA plans are also called Part C plans, and although they are part of the Medicare program, they are managed by private companies. MA plans provide all the benefits and cover all of the services that original Medicare provides. However, they may also offer benefits and services that are not covered under original Medicare (but which may be covered under an optional supplemental policy), including prescription drug coverage, vision care, dental services, and hearing aids, although coverages vary.

But while original Medicare allows you to visit any health-care provider or facility that accepts Medicare, most MA plans are managed care plans--either HMOs or PPOs--that have provider networks. This means that you'll usually need to see a health-care provider who belongs to the plan or receive health-care services through a facility included in the network. This may limit your choice of health-care providers. Other MA plan types may be available, including private fee-for-service plans, but these are less common.

You can generally join an MA plan if you live in the service area covered by the plan, and you have Medicare Parts A and B. But before choosing an MA plan, make sure it suits your needs. Review the benefits provided and coverage limits, and the provider network (if any). You should also make sure you understand what out-of-pocket costs may apply. These may include premiums, deductibles, and copayments that are different than those in original Medicare or a supplemental policy.