



GOING LONG

Detterbeck Wealth Management, Inc.



NOVEMBER 2002

A SAFETY NET WITH UPSIDE???

By Brett Detterbeck

Wouldn't it be nice to partake in the market's upward moves, but with no exposure to the downside? Or even better: you could make 6% minimum every year, but if the market was up more you could take that instead? Sound too good to be true? Well, it's not. There are certain variable annuity companies out there that offer just this type of thing.

To see how this works, let us provide some background. An annuity is a life insurance company product designed to provide supplemental retirement income. These companies offer two basic types of annuity products: fixed annuities and variable annuities. Both products require that the purchaser make deposits to the insurance company, either in a lump sum or over time, and then at some point begin to withdraw the funds. In a fixed annuity, investors pay premiums to the insurance company, which in turn are invested in their general account. The company is obligated to pay a guaranteed amount of payout (typically monthly) to the annuitant based on how much was paid in. Therefore,

the investments made by the insurance companies generally stay very conservative. Fixed income and real estate securities typically are used. That being said, there's an ample degree of purchasing power risk. For example, an individual who purchased a fixed annuity in 1955 to begin receiving monthly income of \$350 for life in 1985, may find that what once seemed sufficient, no longer is.



Traditional *variable* annuities attempt to solve this problem by letting the investor bear the investment risk. The annuitant can create a portfolio of equity, debt, or mutual funds that may earn a rate of return substantially higher than the fixed product. But with this higher rate of return, comes a higher degree of investment risk. Although annuitants are guaranteed monthly income for life, the amount of monthly income is dependent on the performance of the investor's variable annuity account.

Variable annuities can make a lot of sense but imagine the individual that started a traditional variable annuity pro-

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Income Tax Planning for Long-Term Care

By Les Detterbeck

Given the aging American population, more and more families are dealing with the high level of care needed for the elderly. Many families have determined that long-term care insurance (LTCI) is an important option. First, LTCI can help maintain independence; providing choices as to how and where care is given. Second, the elderly don't need to become dependent on the person they live with either physically or financially. And, third, LTCI can help protect assets from being depleted by the increasingly high cost of health care over a long period.

Whether or not a family insures for long-term health care, it is important to understand the income tax consequences.



Here is an outline of some of the key rules:

- Similar to health insurance, a taxpayer can deduct (subject to the 7.5% adjusted gross income threshold for individuals) as medical expense premium payments

for LTCI. Policy benefits are tax-free if the policy is "tax-qualified", the premium does not exceed certain caps and the benefits do not exceed actual costs of a daily indemnity of \$210.

- LTCI offered as part of an employer plan is not eligible for cafeteria or flex-plan treatment. However, if non-discriminatory, premiums would be deductible for all employees.
- A taxpayer can deduct long-term care expenses as medical expenses if the expenses are "qualified long-term services". If provided in a private residence, they must be personal care services and not maid services.
- Viatical payments. Payments to a terminally ill insured are excluded from gross income. Payments to a chronically ill insured are excluded from gross income to the extent of qualified long-term care expenses or \$210 per day.
- A child may claim a personal exemption for a parent if the parent qualifies as the child's dependent, had gross income of less than \$3,000 and does not file a joint tax return.
- A child may deduct medical expenses of the par-


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gram a few years ago. The poor soul would be going the wrong way and would require several more years just to catch back up to the original amount invested. But now, e companies are offering the best of both worlds. Soimes labeled as the Guaranteed Minimum Income Benefit (GMIB), this rider on a variable annuity policy ensures a specific income payment based on the annuity value *or* a minimum annuitization value (MAV) which can never decline. Some programs set this minimum as high as 6% annually.

So, let's use an example using \$100,000 invested in a fund that matches the market. In Year 1, the market falls 10%. The annuity value falls to \$90,000 but with the GMIB, the minimum annuitization value increases to \$106,000. If annuitization were elected, the monthly payments would be based on the higher number of \$106,000 rather than the \$90,000.

Even better, some of the companies let the investor lock in the upside market movements. Let's say, using the same scenario above, that the market went up 20% in Year 1. The annuity value would be \$120,000, higher than the MAV of \$106,000. Obviously, one would like to protect that growth and could do just that by purchasing a new GMIB rider, effectively locking in a new floor at \$120,000. Continuing with the example, let's say in Year 2, the market dropped 20%. The annuity value would fall to \$96,000 but since there was an "upgrade" with a new GMIB rider, the MAV is computed using the locked-in floor of \$120,000 times the 6% guaranteed growth. Therefore, the MAV becomes \$127,200 ($\$120,000 * 6\%$). Remember that at the time of annuitization, the insurance company will base the fixed monthly payments off of the *higher* of the annuity value or the MAV.

With money market and short-term rates, like those on CDs, offering yields of less 1.5% before regular income tax, a program like this can be very attractive to the right investor. Obviously, the insurance companies won't give away the farm – these programs will use less attractive annuity factors and will have higher fees than the more traditional annuitization options available. But then again, for the right person, it may be worth it. For more info on annuities and GMIB in particular, contact 

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ent if the parent is a dependent and the expenses exceed 7.5% of the child's adjusted gross income

- A child may claim dependent care credit for a parent under certain circumstances.

Numerous tax-planning opportunities exist for clients paying for long-term care. If you have a question or would like to discuss long-term health care in more detail, please give us a call.

Detterbeck Wealth Management, Inc.

100 W. Palatine Road, Suite 200, Palatine, IL 60067

Phone: 847-359-6262

Fax: 847-991-6511

CONGRATULATIONS COLUMN

Congratulations to Jenny Coletti



Isabelle Adriana Coletti was born August 20, to proud parents, Jenny and Paul Coletti. She was 7lbs, 7oz and 19" long.

Congratulations to Brett Detterbeck



On Sunday, August 25, Brett completed his first ever triathlon. It took Brett just under 2 hours and 55 minutes to swim 1 mile, bike 26 miles, and run 6 miles.

Congratulations to Les Detterbeck



On October 29th, Les Detterbeck was awarded his Charter as a Chartered Financial Analyst (CFA). The Association of Investment Management and Research (AIMR) awards this designation to investment advisors, securities analysts, and money managers who pass three annual examinations covering economics, financial accounting, portfolio management, security analysis and ethics. Les adds this to his designations as a CPA Personal Financial Specialist, a Certified Financial Planner and a Masters of Business Administration. Although exact statistics are unavailable, we believe there are less than one hundred people in the country that possess all of these key financial designations. On the other hand, we wonder why anyone would want to endure all this coursework and take all these tests. So, Les, congratulations. Now, get a life...

