GLOBAL
WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

Michael J. Krencicki, MSF, CFP®
July 2010
James M. Knaus, MSM, CFP®

To Trust or Not to Trust

Investors work hard and make significant efforts to maintain a disciplined saving approach throughout their lives in order to meet long-term financial goals such as retirement, saving for children's education, or passing an estate to children and grandchildren. Thinking about what will happen with your estate when you are no longer here is not pleasant; it is important, however, to think ahead and plan how you and your spouse will pass your assets to your family.

One of the most important issues that arises in estate planning concerns estate taxes, which can be very high indeed. When a spouse dies, the tax law stipulated that an unlimited amount of property and money can pass to the surviving spouse free of federal estate taxes. However, in 2009, when an estate passed on to children or family members other than a spouse, federal estate taxes had to be paid on amounts exceeding $3.5 million (Federal Estate Tax law as of 2009, but subject to change in the future). One solution to this tax dilemma was to establish a trust.

A trust is a legal entity through which you transfer control of your estate to a trustee (this is often an institution or a corporate entity, such as a bank). The term "estate" generally refers to your assets—everything you own (or have certain interests in), such as real estate, personal property, cash, securities, insurance, retirement plans, and business interests.

Let's assume that Mr. and Mrs. Smith had a $4.5 million estate to leave to their children. Without a trust, if Mr. Smith passed away and left everything to his wife, she did not have to pay any estate taxes. However, when she passed away in 2009 and left the $4.5 million to her children, the estate had to pay federal taxes on $1 million. With a top bracket tax rate of 45%, this meant as much as $450,000 paid in estate taxes.

If Mr. Smith established a trust before he died, however, the situation is different. Suppose Mr. Smith established Marital ($1 Million) and Residuary ($3.5 Million) Trusts with his wife as the beneficiary. This means that Mrs. Smith is able to receive income from the Residuary Trust for the remainder of her life and even retrieve an amount of the principal, if necessary. When Mrs. Smith passes away, the balance of the Residuary Trust would be passed to the children, and—here is the most interesting part—since the trust is not considered part of Mrs. Smith's estate, it escapes (or bypasses) federal estate taxes. This is why such trusts are usually called "bypass trusts." By establishing the trust, Mr. and Mrs. Smith are able to pass to their children $450,000 that would otherwise have been paid in taxes.

Of course, there is always the possibility that tax laws will change. In 2001, President George W. Bush signed the Economic Growth and Tax Relief

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A Personal Note From Global Wealth Advisors

After an approximately 80% return from the lows of March 2009, the indices and global stock markets remind us of the futility of market timing and the unpredictable volatility of equity investing. In other words, stocks are risky and that is why, over the long term, they tend to outperform fixed investments. As Warren Buffet likes to say, "There are no free lunches".

On the economic front, the consensus view is that the U.S. will experience approximately 3.3% growth in Gross Domestic Product (GDP) in 2010 after a dismal performance in 2008 and 2009. As always, various events can influence these numbers, both positively and negatively. Overall, consumer confidence has risen over the last three months, despite persistently stubborn high unemployment, the gulf oil disaster, and growing levels of government debt and deficits.

Like the U.S., sovereign levels of record high debt, deficits and entitlement programs are causing issues with the smaller Euro member countries such as Greece and Spain. These countries are in the process of trying to reverse these trends, (as we must also), so that the economies can expand through entrepreneurialism and access to investment capital.

Thanks again for your continued confidence. We appreciate your business as well as your referrals.

Jim Knaus *Mike Krencicki*

The Big Picture

The United States has long been the focal point of the global economy. However, investors should consider venturing beyond the U.S. for additional investment opportunities, growth potential, diversification benefits, and possibly an improved risk-and-return tradeoff, to name a few. International markets account for a large proportion of the world's available investments and offer a distinctly different set of investment opportunities than domestic markets. In addition, some international economies are growing at a significantly faster rate than the U.S. economy.

Despite the healthy economic growth of foreign markets, along with their outperformance when compared with the performance of the U.S. market, many investors still shy away from taking advantage of international opportunities. Consequently, they fail to experience the potential growth that is made possible through global investing. What many investors overlook is the possibility for overseas investments to bring stability and diversification to their investment portfolios.

The image presents the three best-performing developed-nation stock markets worldwide (out of a total of 23 countries) on an annual basis compared to the U.S. over the past 10 years. When compared to developed stock markets, the U.S. market has rarely been the top performer in any given year. In fact, the rank of the U.S. market has been toward the bottom during most of the years examined except for 2008. For example, the U.S. ranked 3rd in 2008, 18th in 2007, and 22nd in 2006. Actually, the U.S. finished in the top ten only three times during this past decade.

In fact, it seems that whenever the world equity markets generally experienced a prosperous year, the U.S. market was not among the top performers. With world equity markets down drastically in 2008, the U.S. actually ranked 3rd behind Japan and Switzerland, but fell to 19th place again as markets rebounded in 2009.

It is rare to find any single market that has performed consistently among the top markets. With it being nearly impossible to predict which markets will be top performers in any given year, it may be wise to hold a portfolio that is diversified across several countries. While all stock markets experience ups and downs, these fluctuations may occur at different times for different markets. Furthermore, the independent movement of global markets has provided considerable diversification benefits when held in combination with U.S. investments.

By looking at the big picture and taking advantage of opportunities abroad, investors may experience higher returns than if they were invested solely in the United States. However, holding a diversified portfolio (both in U.S. and international markets) may be the best way to protect against global market fluctuations and risk. ●

Growth Through Global Investing

	1st	2nd	3rd	USA rank
2009	Norway	Australia	Singapore	19th
2008	Japan	Switzerland	U.S.	3rd
2007	Finland	Hong Kong	Germany	18th
2006	Spain	Portugal	Ireland	22nd
2005	Canada	Norway	Japan	19th
2004	Austria	Norway	Greece	22nd
2003	Greece	Sweden	Germany	22nd
2002	New Zealand	Austria	Australia	18th
2001	New Zealand	Australia	Ireland	8th
2000	Switzerland	Canada	Denmark	8th

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. All returns were calculated in U.S. dollars. Returns and principal invested in stocks are not guaranteed. International investments involve special risks such as fluctuations in currency, foreign taxation, economic and political risks, and differences in accounting and financial standards.

Source: Equities for each country are represented by Morgan Stanley Capital International Indexes and the U.S. stock market by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Developed countries in this analysis include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom, and the United States.

How to Handle Beneficiary Designations

Designating beneficiaries for your company retirement plan, life insurance policies, and other assets might seem like a no-brainer. Chances are you would like those near and dear to you to inherit any money you've accumulated during your lifetime, so making sure that happens should be as simple as writing their names on the appropriate forms, right? Well, if only it were that simple. Naming beneficiaries can be more complicated than you might think, and it's a decision that may have significant repercussions for your loved ones.

Know the Basics: You can name almost anyone, or anything, as your beneficiary, including individuals, charities, and trusts. However, it is important to note that children under the age of majority—18 or 21, depending on the state in which you live—cannot be named as beneficiaries of life insurance policies, retirement plans, or annuities. If a beneficiary is not designated, assets will have to go through probate, which can be a lengthy and costly process. Also, be aware that beneficiary designations will override bequests you've made in your will, so please do not rely on your will to sort out these issues. This leads to our second point.

Keep Your Designations up to Date: It would be advisable to review your beneficiary designations on a regular schedule, ideally as part of an annual review of your finances. Major life events, such as a marriage, a divorce, the birth of a child, or the death of a loved one may require that you make changes to your designations. Don't procrastinate on this, as it may end up affecting others' lives. Moreover, you'll also want to review your designations if you or your employer have recently switched retirement-plan or insurance providers. You should not assume that the beneficiaries you specified with your previous provider will automatically carry over to the new one.

Bear in Mind the Tax Consequences: If you decide to designate someone other than your spouse as the beneficiary of your company retirement-plan assets, he or she may have to take mandatory distributions from that plan and, in turn, pay taxes on the money. Your spouse, on the other hand, will be able to roll over your retirement-plan assets into his or her own individual retirement account (IRA) and won't have to pay taxes until distributions begin. There can also be estate taxes to keep in mind if you name a beneficiary other than your spouse. Needless to say, it would be in your best interest to speak with a tax advisor or someone who specializes in estate planning to go over possible tax ramifications.

Be Specific: It pays to be as specific as possible when designating beneficiaries. Most beneficiary designation forms allow you to name multiple primary and contingent beneficiaries and to specify what percentage of assets you'd like distributed to each upon your death. For example, you can state: "I hereby designate my wife, Jane Smith, as primary beneficiary" or "I hereby designate my two children, John Smith and Allison Smith, as contingent beneficiaries, with the proceeds to be divided equally among them." Of course, it is recommended that you discuss these important matters with your family members beforehand, so that they are prepared and know what to expect.

You Can Use a Legal Trust as a Beneficiary: What if you are in a situation where you can't (or you don't want to) name a person as a beneficiary? You can use what is called a legal trust. A trust means that you don't leave the money directly to the beneficiary, but to an institution (such as a bank) who manages it for the beneficiary. This is especially useful when minor children or disabled relatives are involved. A trust can be revocable (you can change the provisions later), or irrevocable (can't be undone). ●

The Ins and Outs of Long-Term Care Insurance

When planning for retirement it would be wise to at least consider the purchase of long-term care (LTC) insurance. While not everyone needs LTC insurance, it is recommended that people educate themselves about the issues surrounding this type of coverage. There are a dizzying array of options and features you'll need to understand if you are thinking about buying such a policy.

What daily benefit will you need? The higher the daily benefit, the higher your premium. But you'll need to find a balance between daily benefit and cost. According to the 2009 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs, the average annual cost for a private room at a nursing home in 2009 was $79,935. The national average for a semi-private room was $72,270. The national average for an individual living in an assisted living community was $37,572.

How long will benefits last? The typical stay at a nursing home is between three and five years, so make sure your coverage lasts for at least that long. Think about your own family's health history when choosing benefit periods. Does longevity run in your family or is there a history of family illness? Many policies offer unlimited benefits, although that obviously gets quite expensive.

What's the elimination period? The elimination period is comparable to the deductible on your other insurance policies. Your long-term care policy won't begin paying out for a certain number of days. Most policies start with a 30- to 90-day elimination period, but you can increase that. The longer the elimination period, the cheaper your premium. Consider, too, that you may be able to pay out of pocket for a limited amount of time.

Is the benefit inflation-protected? Inflation is the rate at which the price of goods and services is increasing. If you are going to need benefits for a number of years, they need to keep pace with inflation. Most policies offer a guaranteed annual inflation increase (more expensive) or the opportunity to increase daily benefits down the road.

What level of care does the policy cover? The policy should cover all levels of care, both skilled and nonskilled. Nurses are generally the ones providing skilled care. Nonskilled care includes assistance with activities that don't require a nurse, such as bathing, walking, and dressing. You should be able to use the benefits not only for care at a nursing home but also for home health care, daycare, or assisted living.

Does the policy cover help at home? Some policies will cover the costs of bringing people into your home to help with physical therapy, bathing, dressing, walking, and so on. Make sure the policy doesn't require a prior hospital stay before this benefit is available.

How financially stable is the insurer? Research the financial rating of the company offering the policy. Check out ratings at A.M. Best's Web site. If you have a policy with a company that goes under, you still have a binding contract with that company.

What are "limited pay" options? A relatively new feature in long-term care policies is the ability to pay the entire cost at once or in a specified number of payments. This can help ensure that you don't have price increases in the future. For example, with a "single pay" option, you would pay all costs at once in one premium. ●

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Reconciliation Act of 2001, a 10-year tax act that would expire in 2011. This act eliminated the federal estate tax for people dying in 2010. What will happen in 2011 is still uncertain. Unless changed beforehand, 2011 estate taxes will revert to pre-2001 rates, which could mean a marginal rate of up to 55% on transfers over only one million dollars.

All this tax and legal jargon can be confusing and intimidating, but it is important to learn about which laws apply to you and what will happen to your estate in the event of your death. It is highly recommended that you consult financial and legal professionals to discuss your options and see if establishing a trust might be the right move for you. An estate tax of up to 55% next year means that more than half of the money you want to leave your children could melt away in taxes. It may be well worth it to spend a little of your time now to ensure this does not happen. ●

Global Wealth Advisors LLC
200 East Big Beaver Road • Troy, MI 48083 • Phone: 248-457-4555 • www.gwallc.com