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Under Heard

Financial advisors, trained to listen, find fascination and lessons in the listening errors of others.

Examples:

A sailor commences a conversation about the Atlantic Intra-coastal Waterway. A second sailor takes charge of the conversation, giving details about the number of bridges to the south, and other challenges along the way, not realizing that the first sailor was traveling north and had completed the southern section only days before. In the eyes of the first sailor with fresh experience, the second sailor provided irrelevant information, and some inaccurate information. The second sailor did not listen for the real needs of the first. The second appeared to lecture the first, thereby losing his attention and his interest.

Rule 1: Learn the experience and knowledge of the listener before offering information and advice.

John joins a group, looks at one person, states that he is going to Indianapolis and asks, "What is the best way to Atlanta?" A third person takes charge and answers the question by directing John north into the Carolinas, through West Virginia, and on to Columbus, Ohio, avoiding Atlanta completely, not realizing that John is comfortable with the route from Atlanta to Indianapolis and that a professional routing service suggested that Atlanta-Indianapolis is the shortest

route. John later obtained the requested information in a private conversation with the person to whom he originally directed the question.

Rule 2: Offer advice only when asked, and then sparingly.

At a party, a thirty-year-old asks a sixty-year-old, "What is a good investment?" The sixty-year-old espouses benefits of tax-exempt bonds, not realizing that his young listener cannot fully benefit from tax-exempt income. The younger person has a modest net worth and pays no taxes because of various health-related personal deductions. Unfortunately, the young person listens to the older man and later purchases \$2,000 worth of a mutual fund that generates tax-exempt income, not understanding that an ordinary certificate of deposit would provide him a better net return. The older person did not listen to the younger. The younger person listened and accepted incorrect advice from the older, but the younger did not listen critically. The younger did not learn the qualifications of the older, nor did the younger realize that the older was not listening.

Rule 3: Never talk about money with someone who has more, or less, than you (unless, of course, you are a financial advisor).

Rule 4: Listen critically; evaluate both the qualifications of the speaker and the information he/she provides.

The coordinator of a conference of Boy Scout leaders invites the scout master of the district's largest troop to de-

Under Heard, *continued from page 1*

scribe a fundraising activity. This scoutmaster speaks about how the 150 scouts in his troop fan out from the school to sell an average of over 100 Christmas wreaths each. Scouts reaching a minimum level of sales travel to Winter Park, Colorado, for a ski trip, made feasible by low group airline fares, hospitality, and discounted lift ticket rates. Troop leaders in the audience listen respectfully, but with the inner thought that this talk is useless for them because the average number of scouts in their troops is 15, drawn from wide geographic areas, instead of from one school. For the listeners, implementation of the large fundraising effort is impossible. Therefore, the talk is irrelevant.

RULE 5: Know thy audience.

RULE 6: A good listener asks questions.

RULE 7: Listening is the basis of all confidence and trust.

Imagine a doctor prescribing an antibiotic without knowing whether the patient is allergic. Imagine the attorney formulating an estate plan without knowing the net worth of the client. Imagine the financial advisor suggesting speculative, high-risk securities, to an elderly person for whom a loss would be catastrophic. Imagine a courting relationship in which one side

does not listen to the other. Imagine a society in which no one listens.

A College Savings Opportunity?

According to experts quoted in the *Journal of Financial Planning* an enhanced 529 savings plan offers important new benefits, including the right to pull 529 assets back into the estate of the parent/investor, albeit with normal taxes and a ten percent penalty on the previously tax-deferred assets. This pullback provision gives a new degree of parental control over expenditure of the funds, and it adds flexibility to planning an estate.

The primary features of the enhanced 529 college savings plans are permanent freedom from taxation on income and capital gains (provided that distributions are made for qualified educational expenses), ability to contribute, in one year, up to five years worth of the annual gift tax exclusion (approximately \$50,000 in one year, \$100,000 if gift splitting), no age limit on distributions, and a fair amount of control over how the funds are invested. With certain restrictions, clients can roll UTMA/UGMA custodial assets into the 529 plans. This feature might give parents an opportunity to delay the right to distribution, at age 18 or 21, that is inherent in previously created custodial accounts. At a minimum, the psychological distance between the child and his/her funds is increased. On the other hand, the rules governing transfer of UTMA/UGMA accounts to 529 plans are complex—so complex that a clerk for one state plan would not comment, saying, instead, that interested persons should contact professional advisors for detailed information. Finally, college savings plans do not reduce financial aid availability to as great an extent as custodial accounts.

Selling It

What inner psychological/temperamental characteristics permits good people to sell unethically?

Examples:

“1,000 free hours,” says America Online. Small print: “During the first 45 days.” That is 22 hours per day, impossible for any normal being. Instead, why not say: “Free service for 45 days”?

“Air fare to Florida, \$135.” Small print: “Based on a round trip fare, not valid on every flight.” Why not advertise \$270, round trip, up to 22 seats (or whatever the number is) on flights leaving Thursday, Friday, and Saturday (or whatever days the fare applies).

“\$19.95 per day” is the large-print price quotation on the sides of rental trucks. Can you rent for that cost? No. Add-ons for mileage, insurance, and other fees increase the out-of-pocket to at least double the stated amount. Why not let customers learn the real cost by telephone, brochures, or the Internet?

Worst ever: More than 200 Internet-based companies cited by the government offered ineffective anthrax preventatives or cures. How could any human being so mislead another human being?

Friend or Foe, *continued from page 3*

tribute to an unhealthy, unproductive life style. If alcoholism or drug abuse is evident in the family, placing assets in the names of children could contain a high risk of misuse. This risk is difficult to perceive at 8 lbs., 10 ounces, or when the child is a leading point producer on the 5th grade soccer team. Nevertheless, financial planners should disclose the risk, and families should plan for the possibility.

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College Savings: Friend, or Foe?

Saving to pay future college expenses might be unnecessary, counterproductive, or even unhealthy, although “education planning” (i.e., disciplined saving) is one element in most comprehensive financial plans. The danger is that funds saved for college might be misused by the student. The danger is especially acute in cases where alcoholism or other drug abuse may occur.

The idea, “saving for college,” is firmly imbedded in the American psyche and in the national financial infrastructure. Saving for college, per se, is considered “good.” The income tax system encourages placement of assets in the hands of children 14 years or older because, starting at that age, income earned on savings is taxed at the low rate of the minor, not the high rate of the parents. The estate tax system encourages gifts to minors because grandparents, and wealthy parents, may reduce their taxable estates by giving approximately \$11,000 (estimate for 2002) per year per spouse to any number of recipients. For some families, the estate tax savings on an \$11,000 gift can be \$4,000 or more. Financial planners and attorneys routinely suggest such annual gifts, with little attention to the risks. Meanwhile, Uncle Sam has created “education IRAs,” and state governments have started college savings programs having significant tax advantages.

We suspect that the majority of students responsibly utilize savings to advance their educations and/or their opportunities to find work, to travel, to maintain healthy social lives, and, occasionally, to invent or to create new businesses. On the other hand, a number of students utilize savings to “enable” a self-destructive lifestyle. The existence of resources to pay for drugs and alcohol delays the time when an ill person “hits bottom,” the point at which recovery becomes feasible. Modern finan-

cial plans should consider the possibility that savings in the hands of minors will contribute to prolonging this type of potential future illness.

The widespread availability of resources to pay for a higher education means that no parent need feel guilt for not implementing a college savings plan. In modern America, any person can advance his/her education—regardless of the lack of personal financial resources. Financial support for a complete undergraduate education, as well as for advanced degrees in many disciplines, especially medicine, is available to any hardworking, dedicated student. The sources of support are non-need-based scholarships for the best students and for many athletes. Scholarships based on the combination of need and achievement in high school also are widely available. Student loans help thousands every year. The military services provide substantial education bonuses for young persons who serve two to four years. The military services are especially generous in supporting the graduate-level education of physicians, scientists and engineers. For ambitious students who do not have access to any of these programs, the old idea of work/study is easy to implement. We are aware of one student who earns more than \$2,000 per month leasing apartments, another who makes up to \$55 per hour constructing pipelines during summers, and many others who pay college expenses by working in pizza delivery or newspaper delivery, painting homes, cutting lawns, shoveling snow, and waiting tables. Scarcity of saved assets forces the ambitious to work, usually in jobs that educate in the realities of life.

Parents who have considered all the ramifications of setting assets aside for children have many alternatives. Saving through gifts in standard custodial accounts will do the job, but the gifts are irrevocable. The minor may take pos-

session at either age 18 (Uniform Gifts to Minors Act), or 21 (Uniform Transfers to Minors Act). Instead of opening standard custodial accounts, parents may save in trusts having specific provisions about the circumstances in which the money is paid. In designing a governing document, parents should note a difference between “uses of funds” and “circumstances” of the beneficiary. Instead of defining uses for funds distributed from trusts, such as “for tuition, fees and housing,” the governing documents may define circumstances. If the beneficiary is known to be ill, funds may be withheld. If the beneficiary is healthy, funds may be distributed. By mentioning circumstances instead of use, grantors give flexibility to trustees. For example, if the beneficiary wants funds to start a pizza delivery business, the trustee may distribute. However, the trustee could not distribute if the trust document limits use to education. Relying on circumstances instead of use also prevents negative cross-funding of an unhealthy life style. Cross-funding arises when a student’s tuition and fees are paid from one pocket, thereby making his/her personal earned income available to “enable” advancement of illness. Parents also may save for college expenses in parents’ names, not in the names of their children. Creation of a simple “special” account in the name or names of the parents is sufficient. While this form of saving is not entitled to favorable tax treatment, parents maintain absolute control over the magnitude and timing of support payments.

We believe that every parent, and especially every grandparent, should consider the potentially negative effects of giving significant assets to children and know that every professionally produced financial plan should contain a discussion about the possibility, however remote, that saved assets will con-

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Harmony*

When the music began, we weren't sure of the tune
Something brought us to the show, and not a
minute too soon
The crowd was excited, they recognized the song
It brought back memories of good times gone
Sweet liquor all around, and thick smoke, filled the air
So many lost souls, entranced without a care
The band played on, into the dark night
Dancing to and fro, everybody feelin' all right
All of a sudden, the world went blank
Somehow a steel wrench got thrown in the crank
From whence it came, I haven't a clue
Can someone please help me
How about you?
Lost in a maze, space and time so obscure
Thought I had it together, and now I'm not so sure
My mind's playing tricks on me
Need another fix
That'll cure the jitters, itches and kicks
A voice comes calling, from up in the sky
"You've got to change soon, or else you're gonna die!"
Awakened I startle, with a sigh of relief
It was just a dream—you're all right chief
But the voice came back, much louder than before
"I'm not done with you yet, I've got to settle the score!"
Frightened with panic, I started to sweat
Am I going crazy; do I have some old debt?
Pleading for mercy, I begged "please no more"
But my efforts were in vain, drowned by the crowd's roar

Enough is enough
I've got to break free
Push the mute button on,
This is pure insanity!
Trembling with fear, the lights came back on
The band was now playing their very last song
Life is a strange thing, never a destination
Progress not perfection
No more procrastination
Where we go from here, a Higher Power must know
The music will keep playing
If you're willing to go
Follow your heart, there's no need to hide
Take someone's hand
And let them be your guide
Reach up for the stars, the sun and the moon
Go for a journey
It's never too soon
Don't be afraid, because the universe is vast
How long do you really think
A good thing can last?
The possibilities are endless
Mind over matter
If you find yourself lost
Your brains may want to shatter
But, a fellowship exists
That can help you find your way
And direct you to a new
much brighter day.

—Alexander Guy, recovering,
January 5, 2002

*Harmony is a health care institution.

Good night Dorothy. You done good.

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