



Your Family Matters™

Helping You Protect Your Family.....Today and Tomorrow

November 2006, Volume 2, Issue 4

Courtesy of:

KEYTLAW, L.L.C.

What's Inside

Playing the Odds on an IRS Audit

Know Your Vantage Score

Family Meetings with your Financial Advisor

Did You Know: Women and Money

Good Habits Mean Longer Lives

© 2006 All rights reserved

Baby Boomers' Inheritance Blues

With the future of social security in doubt, and traditional pension plans going the way of the Tyrannosaurus Rex, baby boomers are turning to tax-advantaged retirement accounts, like 401(k)s and IRAs, to fund their retirements. Some may have hoped that their nest eggs would be embellished, as well, by funds inherited from parents. If you were planning on an inheritance to ease the financial burden of retirement, you may be in for a rude awakening.

In a 2004 study by the Federal Reserve Board, only one-fifth of boomers had received inheritances, and another 15 percent were expecting to in the future. But if these heirs hoped to become millionaires, the air may be blown out of their balloons. According to the study, the median inheritance was only \$64,000. Once upon a time, answering the \$64,000 question could change your standard of living. These days, it will pay for about half of a top-of-the-line Mercedes Benz.

DISAPPEARING FORTUNES

Where has all the money gone? Today's retirees are wealthier than any previous generation. But the cost of living has become so expensive, it's eating away at the potential money left over for heirs. The factors contributing to wealth erosion include:

- Healthcare costs. According to Fidelity Investments, a 65-year old couple will need about \$200,000 for non-Medicare healthcare expenses alone. That's in addition to fees for long-term care and nursing homes. Better health also means

more time to travel and spend money. Money that, in the past, was funneled to children.

- Longer lives. It's good news that everyone's healthier than in the past. Ailments like lung cancer, heart disease and arthritis are occurring an average of 10 to 25 years later than they used



to. According to research, nearly half of today's 65-year olds can expect to live to age 85. Back in 1900, only 13 percent of the population made it to that age. But longer lives create expenses that cut into inheritances.

- Sharing the wealth. Even if your parents do leave a substantial inheritance, you'll likely have to share it with your siblings. On average, that means dividing the pie by 3.3.

The above factors indicate that it's unlikely that a boomer's lifestyle will be changed

Continued on page 3

KEYTLAW, L.L.C.

2415 East Camelback Road, Suite 700 Phoenix, AZ 85016
Phone 602-906-4953 Fax 602-906-1081 www.keytlaw.com

Playing the Odds on an IRS Audit

If the thought of an IRS audit seems scarier than playing Texas Hold 'Em with a group of top-ranked card sharps, think again. The odds are better that you could beat the IRS than you could take home all the chips at the World Series of Poker. According to a study done by the Government Accountability Office, taxpayers who took their cases to the IRS Appeals Division won relief 41 percent of the time.

THE DREADED AUDIT

It's not unreasonable to be anxious about the possibility of an IRS audit. In 2005, some 1.2 million returns were audited, which was up 20 percent from 2004. And they plan to raise that number in 2006.

If you're unhappy with the outcome of such an audit, ask the appeals office to review your case. Appeals officers are authorized to settle cases based on their judgment about what could likely happen if the case should go to court. Therefore, they tend to be reasonable when searching for a settlement.

According to a recent article in the *Wall Street Journal*, the Appeals Division has about 1,900 employees, and closes more



than 100,000 cases each year. That's close to 80 to 85 percent of all the cases that pass before them. Your odds on a favorable settlement are excellent.

AVOID THE AUDIT ALTOGETHER

While it's nice to know that the odds of receiving some tax relief through an appeal are on your side, it's even nicer to avoid being audited in the first place. The following red flags may turn the taxman's focus on your return.

- 1. Excessive charitable contributions.** Be reasonable with your donations. Nothing says an audit is coming like charitable gifts that are disproportionate with your income. Generosity is beautiful, but keep it within your means.
- 2. High income.** There's not much you can do about it. If your income is more than \$100,000, you have a 1.41 percent chance of being audited. Reducing your income isn't much of a solution; taxpayers with incomes under \$25,000 were the second highest group targeted for audits by the IRS.
- 3. Self-employed deductions.** Since 2001, the IRS has scrutinized the returns of the self-employed. Be honest, and back-up all your deductions with receipts.
- 4. Errors.** Nothing screams audit like making careless omissions on your return, or attaching unnecessary documents. File electronically, and keep your forms as simple as possible.

Audits are never pleasant. But it's good to know that you can come in with a fighting chance for success if you disagree with the outcome. ■

VantageScore Offers Advantages



Your credit score has become one of the standard tools for helping businesses evaluate your financial reliability. The score that's currently used was developed by Fair Isaac Corp. and is known as the FICO score. After a thorough analysis of a person's credit history, a number between 300 and 850 is assigned to each individual. It helps mortgage lenders, bankers, credit card companies and prospective employers

understand a person's debt history and credit worthiness.

Despite the long-term use of the FICO score, there's been one major problem: Each major credit reporting agency (Experian, TransUnion and Equifax) uses its own information to develop the number. Therefore, there's been no consistency among the three credit bureaus. Now, a new system has been created that will pool all the information and provide consistency in reporting. It's called the VantageScore.

The FICO score was based on factors that included debt load, payment history, credit currently in use, length of credit history, and new credit applied for. The VantageScore uses the same criteria. However, there are some notable differences.

LETTERS EXPLAIN

A letter grade will be used to complement the raw numerical score. The VantageScore ranges from 501 to 990. Each 100-point increment will additionally be assigned a letter, in a similar way to grading in school. For example, a score of 901-990 will be marked as an "A," 801 to 900 a "B," 701 to 800 a "C," 601 to 700 a "D," and 501 to 600 an "F."

While no evaluation method is perfect for predicting future spending (or savings) habits, the VantageScore looks to be an improvement over the FICO number, because it's more consistent and objective. However, you still should check your credit report at least once a year to make sure that there are no mistakes. After all, you don't want an error in your VantageScore to take advantage of you. ■

Continued from page 1

by an inheritance. This emphasizes the need to find the right financial advisor who can help develop a reliable approach to help you to save for retirement. It's dangerous to rely on inheritances that may not exist. If you're self-sufficient, any inheritance will be a bonus that can be used for other things—like buying the other half of that Mercedes Benz. ■



Did You Know? Women and Money

- 💰 Women are 15 times more likely than men to become top executives before they reach 40.
- 💰 A female investment banker's income is 116 percent of her male counterpart's.
- 💰 Female pay exceeds that of men in 80 different areas.
Source: Why Men Earn More, by John Farrell
- 💰 Almost half of working women earn less than \$6.33 an hour.
- 💰 Women represent 40 percent of the workforce, but only 5 percent of senior executives.
- 💰 Married baby boomer women can expect to outlive their husbands by 15-20 years on average.
Source: womentalkmoney.com

Tip for Happiness

A woman in the workforce should become a top executive or investment banker and marry a man 15 to 20 years her junior.

All in the Family Meetings

“Family is not an important thing ... it's everything.” These words were spoken by the actor Michael J. Fox, whose fame and fortune never let him stray far from this basic philosophy that most people know as a primal truth. Family is indeed everything.

Because taking care of your family, both financially and emotionally, is so important, many financial professionals are incorporating the use of “family meetings” into the planning process. Gathering your family together with your financial team is a perfect way for you to communicate your wishes and answer any questions, while you're still here to speak for yourself.

SUCCESSFUL COMMUNICATION

Most family meetings focus on four topics: wealth, inheritance, family values, and the future. They can also be used to discuss liquidity needs, investment strategies, and tax updates regarding your estate. Your financial professional will make all the arrangements to bring your family together. But you and everyone in your group can help make the process a success by following these few simple guidelines.

1. **Set an agenda.** Ask your financial professional to provide an agenda of topics to be discussed. This will help everyone prepare in advance, and provide the opportunity for your loved ones to come armed with specific questions.
2. **Remain calm.** Families can become very emotional when brought together on the best occasions, even more so when money is involved. Therefore, it's important that everyone come to the meeting with any emotional baggage left at the front door. Unresolved emotional matters should be discussed with a family therapist, not with a financial planner.
3. **Listen.** It's important that each family member respects each other and listens to everything that's said.



By treating each other with the same graciousness as one would extend to a new business client, there can be a successful sharing of wishes, dreams, and plans.

4. **Arrange one-on-one meetings.** Before the whole family gets together, each individual should meet separately with the financial professional and discuss any issues of personal significance. As a result, the meeting's facilitator will not be undermined by surprise agendas.
5. **Focus.** Everyone should stick to the matter at hand, whether it's estate planning or selecting an investment strategy.
6. **Prepare questions.** Write down a list of any questions you have, or any issues you would like addressed. Once money and family are the topics at hand, it's easy to get wrapped up in the discussion and forget important questions.

Planning for your family is an ongoing process. You may need more than one family meeting with your planner to discuss all the matters at hand. Families are constantly growing and changing, and your financial planning needs to change to accommodate a variety of situations. By properly preparing your loved ones for these meetings, the planning process can proceed with grace and efficiency. ■

Good Habits Lead to Longer Lives

Recent studies show that a good start in early childhood gives you a better chance to live a long, healthy life. Improved prenatal care, better nutrition, and more enlightened mothers, all contribute to fewer physical problems. Recent studies have shown that many chronic ailments, like lung and heart disease and arthritis, occur an average of 10 to 25 years later than they used to. And when they do pop up, we stand a better chance of recovering from these maladies.

But while our bodies no longer break down in the old ways as often, or as early, as before, there are new problems that face us. The average American today is much heavier than his average Civil War-era counterpart, and we get much less exercise than they did back then. That leaves some room for improvement, on top of what medical science can do for us.

Since good habits lead to a longer life, you're better off the earlier you start. If you're reading this on your own, chances are that you're past the age of two, and out of the most important phase in your body's development. But it's better late than never! Put down that éclair and take a walk. Your grandkids will be glad you did. ■



WILLS, TRUSTS & ESTATE PLANNING

Attorney-Prepared Custom-Drafted Arizona Estate Plans

For more information about Wills, Trusts and estate planning for Arizona residents, visit the online Arizona estate planning library on the internet at www.keytlaw.com/ep. Some of the articles about Arizona estate planning on Richard Keyt's website are:

ARIZONA ESTATE PLANNING LIBRARY -- www.keytlaw.com/ep

ARIZONA ESTATE PLAN FREQUENTLY ASKED QUESTIONS -- www.keytlaw.com/ep/epfaq.htm

LEGAL FEES & SERVICES OFFERED FOR WILLS & TRUSTS -- www.keytlaw.com/ep/epservice.htm

BIOGRAPHICAL INFORMATION

Arizona estate planning attorney Richard Keyt prepares Wills, Trusts and simple and complex estate plans for Arizona residents on a fixed fee basis. Rick, a former partner in one of the largest law firms in Arizona, has practiced law in Arizona since 1980.

RICHARD KEYT
Esplanade
2415 East Camelback, Suite 700
Phoenix, Arizona 85016
Voice Phone: 602-906-4953, extension 101
Fax Phone: 602-906-1081
rk@keytlaw.com
www.keytlaw.com