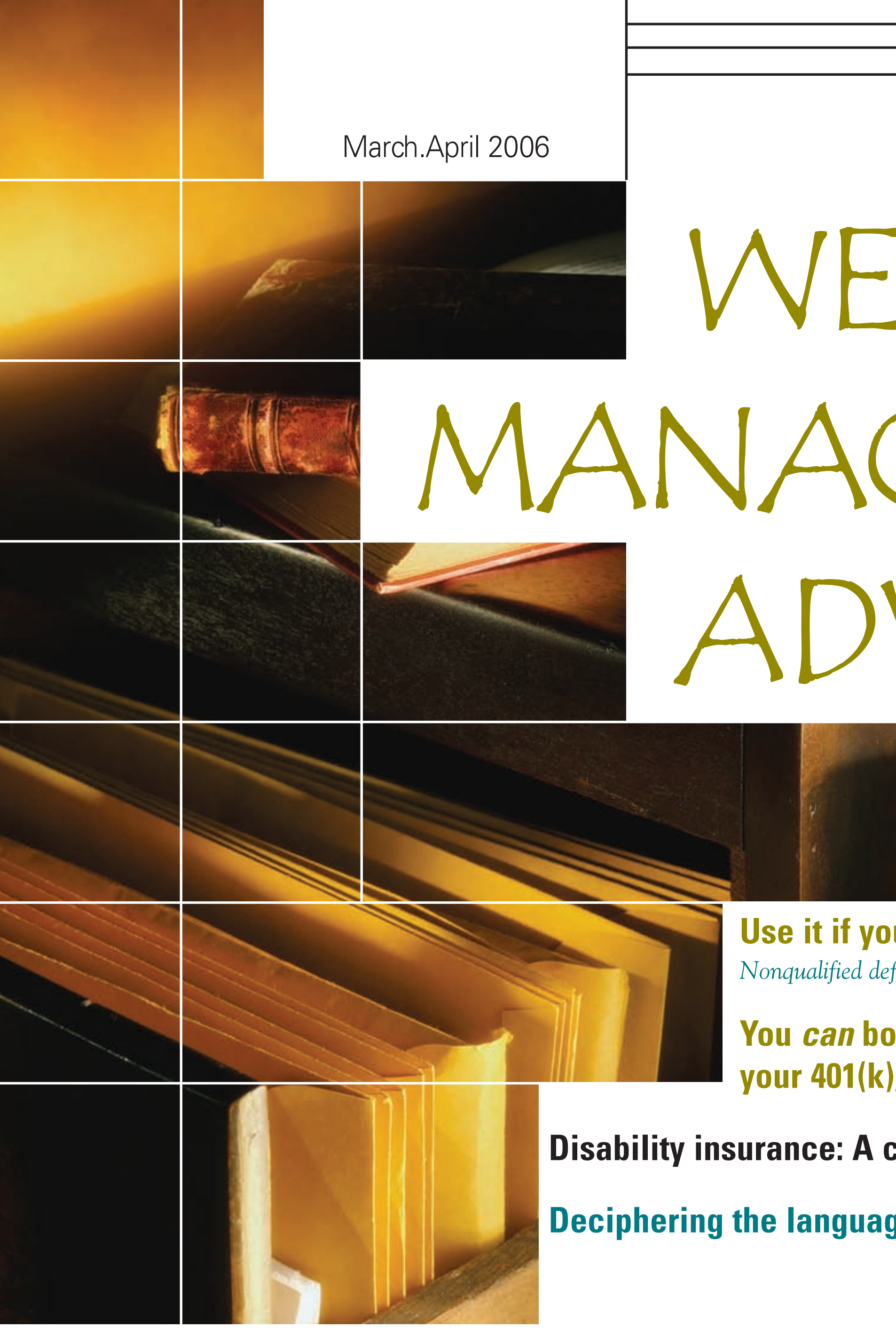

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WEALTH MANAGEMENT ADVISOR

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Get your financial house in order

Simple steps for organizing important documents

If you're like most people, you can probably put your hands on a vital financial document until the moment you really need it — when it suddenly disappears. The more complicated your financial life, the more important it is to keep yourself organized. There are real costs to disorganization, such as missed bill payments, lost tax deductions, hours spent searching for a receipt or even worse.

But there are easy ways to get more organized. Here's how.

Easy file system

To be able to find your financial documents when you need them, start by creating a workable filing system. No one approach is right for everyone; the important thing is to keep things as simple as possible. If your system is too intricate, you'll likely find it more difficult to keep up.

Dividing paperwork into several manageable categories — for example, documents for the current tax year, those to save for the near future and those to store forever — is probably better than having to keep track of dozens of categories. How you choose to organize your paperwork is ultimately less important than whether you can stick to the plan you adopt.

What to keep

One of the most challenging aspects of personal document management is knowing what to hold on to and what to throw away. Keep certain documents — those that are particularly difficult to replace — forever, placing them in a safe place such as a safe deposit box. This category includes items such as birth certificates, marriage certificates and divorce decrees, receipts for major purchases (for as long as you own the item), car titles, insurance policies (for as long as they remain in force), medical records, wills and other estate plan documents.

Other documents are less critical but still worth keeping. Hang on to receipts and invoices for major home repairs

and improvements, both for tax purposes and in case you ever want to document the work when you sell your house. It's also a good idea to keep year-end investment statements as well as transaction statements. You may need them when selling securities. Finally, hold on to tax returns for up to seven years. (Check with your accountant before you throw any tax documents away.)

What to toss

You probably don't need to keep old phone and utility bills, unless you're planning to deduct any line items from your taxes (because, for example, you operate a home-based business). The same is true for most sales receipts and credit card statements, unless you need them for tax or insurance reasons, or to support a product warranty. Bank statements can be thrown out three years after the tax return was filed.

Before you toss any of these, consider buying a paper shredder to help protect yourself against identity theft. When deciding whether or not to shred, it's best to err

A little technological assistance

Technology can be a big help when you decide to get your financial papers in order. An electronic bill-payment service, for example, can save you time, help reduce paperwork and eliminate the costly risk of missed payments. Money-management software, such as Quicken®, can help you get a handle on what you own and owe.

You can also reduce the amount of paperwork in your house by scanning important documents and storing them electronically, either on your computer or a CD (making sure you back them up in a secondary location). This can be a great way to save space. But make sure you password-protect your files and put the contents in a secure location. Saving sensitive financial documents in a folder labeled "Bill's important financial documents" isn't a good idea.

on the side of caution. Even unsolicited credit card offers contain personal information better kept out of the hands of identity thieves.

Do it for them

Keeping your financial documents organized isn't just about making things easier on yourself. You'll also be helping your spouse and other loved ones if something ever happens to you and they need to find important papers or understand your financial situation.

Help them even more by compiling a list of your financial accounts, complete with account numbers, as well as details about your insurance policies and contact information for any financial advisors. It's particularly important to document and keep track of privately held investments or loans you have made — items that won't appear on monthly account statements.

Give this information to a close relative, trusted friend or professional advisor. If that person can make sense of the information, congratulate yourself. It's a good sign you've gotten your financial life in order. ■

Use it if you've got it

Nonqualified deferred compensation plans offer valuable tax benefits

Nonqualified deferred compensation (NQDC) plans have long been viewed as a good way to motivate and reward key employees. While recent tax law changes have tightened up the rules and curtailed certain abuses, NQDC plans remain an important benefit for many executives. If you've been offered participation in such a plan, you should consider accepting it. They give you the opportunity to sock away large amounts for retirement while reducing your current tax burden.

Income deferral options

NQDC plans aren't "qualified" like pension, profit-sharing or 401(k) plans, and they aren't subject to the same rules and restrictions regarding eligibility, vesting and allocation of plan contributions. Your company's plan may be offered only to you or to a group of employees — though typically NQDCs cover only a small number of people. Because coverage is offered to a select group, benefits can vary for each participant and you may have the opportunity to negotiate certain aspects of the plan.

You may get to choose whether to defer a portion of your salary or bonus. Such an election must generally be made no later than the end of the year before the year in which the services are performed. For performance-based compensation, the election to defer may be made up to six months before the end of the performance period if certain criteria are met. Because you may need to decide how much to defer before you

even know whether you'll get a bonus or midyear raise, or what that amount will be, the plan allows you to designate a certain percentage, such as 25%. (The law mandates no annual limit.)

Funding the plan

Because your employer isn't required to fund your account, an NQDC plan is riskier than participating in a qualified plan. In fact, if the plan eliminated all risk, your deferred compensation would be currently taxable. So, if your company files for bankruptcy, for example, your NQDC funds can be lost to creditors.

Typically, NQDC plans offer participants some choice in directing how contributions are invested. Because your employer is responsible for paying tax on current investment income (only later receiving a tax deduction when payouts are made to you), sponsoring companies often offer tax-efficient investments such as life insurance or annuities. Even if your options are limited, however, you should be able to design a well-diversified portfolio. Allocate funds among a variety of asset classes, and try to avoid investments that carry high fees, because they can erode potential returns.

Payout choices

Your plan may allow you to choose the period of deferral before payouts begin, and the period over which they'll be distributed. The plan may stipulate certain events upon which payouts begin sooner, such as in the event of your death, disability or departure from the company, or when an unforeseeable emergency or a change in ownership or control of the company occurs.

To defer income until your tax bracket is lower, you may have to elect not to receive NQDC income until you reach retirement, and then spread the payments over a number of years. Unlike a qualified retirement plan, you can't continue the deferral by rolling over funds to an IRA. But you may want access sooner and your funds are still financially at risk until they reach your hands, so maximizing tax savings shouldn't be the only consideration. You will need to decide how long a deferral period you are comfortable with.

Because coverage is offered to a select group, benefits can vary for each participant and you may have the opportunity to negotiate certain aspects of the plan.

Optimizing your savings

Before deferring income to an NQDC plan, maximize your contributions to qualified retirement plans such as 401(k)s because they generally offer greater protection, and investment and distribution flexibility. But once you've done so, consider deferring additional amounts to your employer's NQDC. These plans present an additional tax-deferral opportunity that may be too valuable to pass up. ■

You *can* borrow from your 401(k), but *should* you?

You're in a financial crunch — perhaps you have unexpected medical bills or need to replace your home's roof, *immediately*. Should you borrow the money you need from your 401(k) plan?

Most plans offer you the option of taking a loan of up to 50% of your vested balance or $50,000, whichever is the lesser amount. To further tempt you, interest rates are usually low and repayment terms can be very flexible, giving you typically five years to repay the loan. And unlike a bank loan, the money you're borrowing is yours. Nevertheless, 401(k) plan loans are generally a bad idea. Here's why.

The price you pay

The ability to invest large sums of money and postpone taxes on the earnings growth is what makes a 401(k) account so valuable. But borrowing from the funds you set aside for your future reduces the amount invested. Less invested means less potential compounded growth, even though your account will receive interest income from you. And less compounded growth may mean postponing your retirement, or scaling back your future plans.

Another possible danger of borrowing from your 401(k) plan can surface if you and your employer part ways. Whatever the reason for your separation, some companies may require you to pay back your 401(k) loan within 30 to 90 days of leaving your position.

If you don't repay the proceeds within the time period provided, you will have to pay income taxes on the loan amount, treating it as a distribution from the account. And if you're younger than 59$^1/_2$, you will likely owe an additional 10% early withdrawal penalty. Thus, depending on your tax bracket, you could owe federal taxes equal to as much as 45% of the funds you borrowed — a steep price to pay.

A better option

Although 401(k) loan rates are generally competitive — often a percentage point or two above the prime interest rate — you may be better off looking to your home's equity. With interest rates still at attractive levels, a home equity loan may provide you with the money you need while sparing you from having to raid your nest egg. You should, of course, consider your unique circumstances prior to following any strategy, as well as the risks associated with that strategy.

Better yet, most home equity loan interest is tax deductible, provided your loan amount is less than $100,000. Thus, a home equity loan may be a better option than a 401(k) loan, which must be paid back with after-tax dollars.

Loan of last resort

Of course, if you don't own a home or have a sufficient amount in a savings or money market account, you may have no choice but to tap your 401(k) account. Know that a loan is always a better option than an early withdrawal. Even if you make a withdrawal for hardship reasons, you'll owe income taxes on the amount. ■

Disability insurance: A cushion from life's jolts

What would happen to you or your family if you were seriously injured and couldn't work for months, even years? Could you continue to make your mortgage payments? Would you deplete your savings?

The prospect of being unable to earn a living may be agonizing, but you can give yourself some peace of mind with a disability insurance policy. This coverage can replace a portion of your income if you're unable to work because of illness or an injury.

Benefits of individual policies

Most people receive disability insurance through their employers — either short-term coverage, for disabilities lasting anywhere from two weeks to two years, or, less commonly, long-term coverage. In many cases, the amount of the coverage will be less than adequate.

If your employer doesn't offer disability insurance or if your employer's policy provides inadequate coverage, you should look into buying an individual policy. This type of policy may offer several important benefits not provided by group coverage. First, it's portable, meaning your policy will stay in force even if you leave your job. Second, disability income received from an individual policy is income-tax free, as long as you pay the premiums yourself. Finally, an individual policy allows you to decide how much coverage you need.

The cost of coverage

The main drawback of buying your own disability insurance policy is that coverage can be expensive. Many factors go into determining the cost, such as your age, your current health status and the amount of coverage you want.

Generally, the older you are or the longer your desired coverage period, the more you can expect to pay for premiums. Agreeing to a more restrictive policy, however, will lower your cost. For example, disability insurance that covers accidents but not illnesses is likely to be less expensive than a policy covering both.

Also influencing your policy cost is whether your insurer is permitted to raise your premiums ("non-cancelable" policies prohibit this as long as you keep paying your premiums) and the length of your "elimination period," or how long you must wait before you begin to receive benefits after a disability.

How much is enough?

Conventional wisdom says you should make sure you're covered for 50% to 60% of your net income. Because there's no single correct answer for everyone, sit down and calculate how much money you'd need each month to meet all of your expenses. Your financial professional can be of help here.

You may be able to save money by not duplicating benefits you already have. For example, if your employer provides short-term disability coverage for one year, you might want to set your policy's elimination period for at least that long. Consider also how long you could afford to go without receiving any income at all. If you have substantial savings, you may be able to save on premiums by further lengthening your elimination period, similar to a higher deductible on health or property insurance.

While individual disability policies tend to be expensive, trying to save money by skimping on coverage is probably not your best strategy. Less expensive policies often lack important protections and may severely restrict your benefits. Your worst-case scenario would be to suffer a disability and then find yourself without the protection you thought you had purchased.

Get it while you're healthy

There's no one-size-fits-all rule about how much disability insurance you need. But this much is certain — the time to get disability insurance is before you suffer a serious accident or illness. Unfortunately, too many people don't think about it until it's too late. ■

Deciphering the language of trusts

When you work with a financial professional to create an estate plan, you're likely to encounter an alphabet soup of unfamiliar terms relating to the planning and structuring of trusts. Many of these acronyms may seem meaningless, but gaining an understanding of the language of trusts will help you better communicate your estate planning goals.

These are some of the more common terms you'll hear:

CLT. A charitable lead trust is established for a set term to benefit a charity and family members. The charity receives set distributions during the term and, at term's end, the balance typically passes to the heirs.

CRT. A charitable remainder trust is created for a term not to exceed 20 years or for the recipient's lifetime. The donor, or a noncharity beneficiary, receives annual distributions during the term, with the balance passing to charity at term's end. A charitable remainder trust is the reverse of a charitable lead trust.

GRAT. With a grantor retained annuity trust, the grantor contributes cash or an asset and receives a predetermined annual payment back from the trust for a certain term or until his or her death, and what is left at the end goes to a beneficiary.

GST Trust. A generation-skipping transfer tax-exempt trust is an irrevocable trust designed typically to provide income for the life of a child, while ultimately preserving assets for future generations while preventing the assets from being taxed to the child's estate.

ILIT. The irrevocable life insurance trust owns, and is the beneficiary of, life insurance on the grantor or on both the grantor and the grantor's spouse. Proceeds are generally designed to be excluded for estate tax purposes from the grantor's and spouse's gross estates.

QDOT. With a qualified domestic trust, transfers for a noncitizen spouse's benefit can qualify for the estate tax marital deduction.

QPRT. With the qualified personal residence trust, a personal residence or vacation home is transferred into a trust for a term and the beneficiaries will own the home at the end of the trust's term. This removes the appreciating remainder interest from the transferor's estate for estate tax purposes if one survives the term of the trust, while the taxable gift is reduced because its enjoyment is delayed. During the trust term, the transferor can continue to reside in the home rent-free.

QSST. The qualified subchapter S trust is a nongrantor trust designed to qualify as an S corporation shareholder. Individuals and certain trusts are the most common permissible S corporation shareholders.

QTIP. The qualified terminable interest property trust qualifies for the gift or estate tax marital deduction. The spouse receives all trust income each year, and the principal goes to children or other beneficiaries after the spouse's death, with the surviving spouse having only limited power to change this result.

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Please call us today at 407-629-7008 (Winter Park) or 239-598-3146 (Naples) to discuss your needs, or visit www.CFSEonline.com for more information on our services.

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