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The Importance of Proper Estate Planning

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Much is being written about the potential repeal of the federal estate tax. This is the tax that may be levied on your estate when you die. The state of Pennsylvania has a similar tax called the inheritance tax. Writers speculate over the federal tax's repeal or the amount of the asset exclusion that may be enacted, if the tax remains in force.

That discussion, while important, serves to obscure the larger issue. Proper estate planning is not limited to death-tax planning. Reducing tax that the federal and state governments may legally assess against the assets you have accumulated is a very important exercise. But the larger issue involves answering the questions of who will get your assets, how much will remain for them after taxes and other costs, when will they get it and what protections have been put in place against unforeseen circumstances and wayward actions by beneficiaries and others.

Consider estate planning as a continuum of preparation and action that begins when you first accumulate assets such as a home, possessions, retirement plans and personal investments, and continues unabated

until after you have died. So, estate planning is about accumulating, enhancing, preserving and then, finally, transferring assets to the best advantage of the people and institutions that you care about. Estate planning considers the proper titling of assets so they are best protected. It designates the proper beneficiaries for

retirement plans and insurance contracts so as to protect those beneficiaries and their heirs. Intelligent estate planning thinks through the possibility of disability and nursing home stays. It allows for the education of children and grandchildren if that is your desire. Estate planning concerns itself with your charitable gifting wishes while living and after death. And,

finally, it tries to lessen the federal

estate tax, which can go as high as 47% under current law, and the state inheritance tax rate, which can top off at 15%.

Estate planning is a multi-faceted endeavor that requires serious planning. It is not a do-it-yourself project and should include your attorney, your accountant and your financial planner/investment manager. We build this analysis and discussion into each initial financial plan with new clients and revisit it with each annual review meeting. It is that important. Call us with your questions, as we are happy to help start or accelerate you along in this necessary and important process. Also, read the rest of this issue for more on this topic and attend our adult financial education classes beginning in the fall that cover this and other financial topics.



**Bob Fragasso, CFP®,
CDFA, President**



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Minimize Taxes with Estate Planning and Gifting



Michael Fertig
*Managing Director,
Sales and Marketing*

A comprehensive estate plan that includes gifting will help you manage your tax bill and your beneficiaries' inheritance taxes, and also ensure that your wealth is transferred according to your wishes. Please read on for a summary of items that may be useful to you and your family. Also, be sure to read the entirety of this newsletter for more in-depth detail on many of these topics.

Reduce estate taxes by giving annually:

Gifting not only allows you to share your wealth with your loved ones, it also lessens the amount of your estate, thereby reducing the taxes your family may eventually pay on your estate when you pass away. Starting on January 1, 2006, each taxpayer will be allowed to give a maximum of \$12,000 per year to as many people as he or she chooses without any gift tax ramifications and gift tax return filing. So, for example, if you have four children and three grandchildren, you can generally gift \$12,000 annually to each person for a total of \$84,000 without any gift tax liability. For a more detailed example of how to properly plan a personalized gifting strategy, please be sure to read Melissa Richey's article on Page 6.

Know your lifetime total taxable gift limit:

Gift taxes are based on all property transferred throughout your lifetime. In general, a taxable gift occurs when you give an amount in excess of \$12,000 to an individual in a single calendar year. A gift tax return is required when a gift is greater than the \$12,000 per-recipient amount. However, you will not pay any gift tax until your lifetime total of gifts is greater than the tax-free amount (\$1million). Additionally, all gifts to a spouse or to a charity generally are not taxable.

College gifting options:

If your goal is to pay for future college expenses of your children or grandchildren, you may want to consider using your annual gift tax exclusion to establish a 529 college savings plan. If needed, you can change the beneficiary or make a nonqualified withdrawal from the plan which would be subject to income tax at the beneficiary's tax rate and a 10% federal penalty tax on any earnings. You can use the accelerated gifting feature of a 529 to make a one-time gift of up to \$60,000 (\$120,000 per married couple) to each beneficiary. You will not incur federal gift taxes as long as no additional gifts are made to the beneficiary for four years after the year during which you make the one-time gift. Here's another option. You can pay a qualified institution for tuition or a medical care provider for medical expenses directly - on behalf of someone else - without being subject to gift taxes. The gift tax exclusion for tuition and medical expenses is in addition to the \$12,000 gift tax annual exclusion and is permitted without regard to the relationship between the donor and the recipient of the benefit.

How the marital deduction works:

An unlimited deduction for transfers between spouses is allowed for both gift and estate tax purposes, provided that both parties are U.S. citizens (if not, special rules apply). Upon the death of the first spouse, all estate taxes can be avoided by leaving the entire estate to the surviving spouse. However, consider the following potential drawback to this technique. When the first person dies, his or her applicable tax-free credit goes unused because all of the property passes to the spouse. If the spouse dies still owning some of that property, it will then be included in his or her estate and only one applicable credit amount will have been used. The applicable credit in the first estate would be wasted. This is

particularly important for larger estates in which up to \$4 million (in 2006) can be sheltered from taxes with the use of two applicable credit exemptions.

Additionally, if all assets are held by a husband and wife as joint tenants with right of survivorship (JTWROS), no matter what the will says, all of the assets will pass by law to the surviving spouse. To effectively use each spouse's applicable credit along with the unlimited marital deduction, it is essential that at least enough property be individually owned.

Estate equalization and the marital deduction:

Equalization can be an effective tool when married couples want to leave their heirs property that is valued above the deduction limits and would create higher estate taxes. Many individuals use the combination of their applicable credit and their unlimited marital deduction to transfer some assets to a trust for their spouse (equal to the applicable credit amount) and 100% of their remaining assets to their surviving spouse (under the unlimited marital deduction), thereby avoiding paying any estate taxes on the death of the first spouse. One possible planning technique is to leave more assets to the non-spouse heirs and pay some estate taxes on that property when the first spouse dies. In some cases, this can result in a lower total estate tax (when you add the tax liabilities of both spouses' estates) because both spouses' estates get the benefit of the lower estate tax brackets. Equalization can shift more assets to future generations and ultimately pass more money on to the heirs. However, in some cases, it may not be worthwhile to pay any estate taxes at the death of the first spouse because the tax savings are not significant. You should ask

your estate planning professional whether this strategy would be appropriate for you, your financial portfolio and your estate plans.

Tax advantages of giving to charity:

Gifts to charities generally are not subject to gift taxes. Lifetime charitable donations have two advantages. The donation is eligible for an income tax deduction, and the property donated is removed from the donor's estate, thereby reducing the ultimate estate tax exposure.

Charitable bequests made upon death via a will or a specially designed trust will also generate estate tax savings. For example, Joe and Sheila Smith each have \$1 million in separately owned property. They have no children and wish to leave as much money as possible to their favorite charities. When Joe dies, he could give all of his property to the charities, and there will be no federal estate tax due upon his death. Sheila could continue to use her own assets for her support and then leave the remainder to the charities, again avoiding any estate taxes. Alternatively, Joe could leave everything to Sheila and have no estate taxes because of the marital deduction. When Sheila dies, she could leave all of the property to charity, and her estate would get the full deduction.

After-death estate planning options:

While the best estate planning is done during your lifetime, there are some steps your heirs and executor may be able to take in order to save some estate taxes. Various income tax elections and other federal income tax planning options can be used after your death to produce overall tax savings for your family. For example, some medical expenses can be deducted either on the decedent's final income tax return or on the estate tax return. The decision of where to deduct them will be based on the tax rates applicable to each return. Some expenses incurred in the administration of the estate can be deducted either on the estate tax return or on the income tax return for the estate. Again, an analysis of the effective tax rates will be necessary to

determine the best course of action. Another postmortem planning device is a disclaimer. A disclaimer occurs when a beneficiary refuses to accept assets passing to him or her from the deceased. The disclaimer will qualify for estate tax purposes if it is made within nine months of the decedent's death and if the beneficiary has not accepted any benefits from the disclaimed property. This can be an effective way of maximizing the use of the applicable credit or of getting around state intestacy rules when proper planning was not done before death.

Trusts can help save on estate taxes:

Irrevocable trusts can be valuable estate planning tools and generate substantial estate tax savings. Trusts designed to hold life insurance policies can help keep the proceeds from the policies out of your estate. Other types of trusts can accomplish different objectives such as facilitating charitable giving and effectively using the applicable credit and unlimited marital deduction. Your estate planning professional and/or attorney can assist you in constructing an estate plan that fits your needs and minimizes taxes.

For further information:

Randolph, Mary, and Clifford, Denis. *9 Ways to Avoid Estate Taxes*, Nolo Press, 2001.

Randolph, Mary. *8 Ways to Avoid Probate*, Nolo Press, 2004.

Welch, Stewart H., J.K. Lasser's *New Rules for Estate Planning and Tax*, John Wiley & Sons, rev. 2005.

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Meet the Fragasso Team:

Each quarterly newsletter features a profile of one of the members of The Fragasso Group Team. In this edition, we want to introduce you to Melissa Richey, CFP®, Vice President, Investments.



Melissa celebrated five years with The Fragasso Group in January. When she started with the firm, she worked as a Financial Planning Analyst and then moved into her current role of Financial Consultant. She has been a financial planner for nine years.

Melissa graduated from Slippery Rock University where she majored in Business Administration with a concentration in Finance. In 2004, she obtained her Certified Financial Planner designation through the American College of Financial Planning.

Melissa lives in Wexford with her husband Doug, who is also a financial planner. When Melissa married in 2005, she found herself in a very large family. Doug is one of 11 children, while Melissa grew up in a small family with one older brother. She says it took some time to comprehend all of those people when his family gets together. She has an eight-year-old stepdaughter named Madison.

Both Melissa and Doug are native Pittsburghers. Melissa grew up in South Park Township. She admits that she did the unthinkable and crossed bridges and came through a tunnel to settle in the North Hills and has never looked back. Additionally, Melissa's family followed her through the tunnel and over the bridges as well.

Melissa is an avid sports fan. She loves to golf and belongs to a league that plays weekly during the spring and summer. She is a huge Steelers fan and goes to all their home games. She absolutely can't wait for August to arrive and the start of another gridiron season!

Choosing Beneficiaries



Kevin Daeschner
Vice President of Investments

Anyone who has filled out a 401K application or filled out a life insurance application knows that you are always asked to designate a beneficiary. So what exactly is a beneficiary? There are over 10 widely used definitions for beneficiary, but for Financial Planning purposes we will use the following definition: *A beneficiary is the person designated to receive the proceeds (death benefit) from the life insurance policy or qualified retirement plan when an insured dies.* A beneficiary is the person you choose (while you are alive) to inherit or receive that particular asset.

So, now that we have defined what a beneficiary is, we are going to look at some common questions regarding beneficiaries.

Q: Why would someone want to pick a beneficiary?

A: When you designate a beneficiary, you are deciding who gets your assets when you pass away. Choosing a beneficiary does not cost money as having a will drafted would.

Q: What is the importance of choosing a beneficiary?

A: The importance of choosing a beneficiary is twofold: (1) you designate who will receive your asset upon death; and (2) you allow your assets to be easily passed on after death without having to worry about probate.

Q: What is Probate?

A: A court-supervised process of validating or establishing distribution of assets of a deceased, including the payment of outstanding obligations. In essence, the courts decide who will receive your assets, NOT YOU.

Q: I have a will so do I need to pick beneficiaries?

A: You do not have to decide on beneficiaries but, upon death, your assets will go into your estate and your legal will would determine the distribution of assets.

Q: If my beneficiaries on a particular fund or policy are different than what is in my will, what happens?

A: The naming of a beneficiary supersedes your will. This simply means that if your will states that your assets are to go to your brother, but your 401K has your sister as the beneficiary, then your 401K will go to your sister and all other assets will go to your brother.

Q: Can I pick more than one beneficiary?

A: You can choose as many beneficiaries as you wish and you can also decide the percentage that each one is to receive.

Q: What happens if my primary beneficiary passes away as well?

A: One of a couple of things can happen: (1) you can name secondary beneficiaries who receive the asset if the primary is no longer alive; or (2) your assets will revert back to your estate and your will would decide how assets will be passed along.

Q: Can I name a minor as a beneficiary?

A: The answer is yes, but there are things to consider. When leaving money to a minor, the Division of Pensions and Benefits might hold the proceeds until the child is no longer a minor or until a court-ordered guardian of the property of the minor is appointed and proof of this is forwarded to the Division, in which case the benefits will be paid to the guardian on the minor's behalf and/or the court.

Q: If my 401K has my brother as a beneficiary, do all of my accounts have to match?

A: NO. You have the freedom to have different beneficiaries for each account.

Q: Can I change my beneficiary?

A: YES. You are the owner of the asset, and you have the right to change the beneficiary.

Q: Do my beneficiaries have any ownership over the assets or any control?

A: The answer is NO. It is your asset until death and the beneficiary designation simply decides who gets the asset upon death.

The choosing of a beneficiary is quite simple, but it's a decision that needs to be calculated. The decision must also coordinate with your overall estate plan. Your estate plan might be designed to take care of your spouse and children, but your 401K beneficiaries-whom you designated when you were 21 and single-are your parents. You are now 65, and a majority of your assets are in your 401K. Your family is not the primary beneficiary on the 401K account. As important it is to choose beneficiaries wisely, it is equally important to continue to review your beneficiaries. As your goals and lifestyle change, your beneficiary should likely change as well.

The Charitable Remainder Trust

Charitable Gifts that Preserve Personal Wealth and Create Income

Making charitable gifts to a Charitable Remainder Trust (CRT)¹ can help you to not only achieve your charitable objectives, but also to preserve your personal wealth. When you use a CRT, both you and the charity benefit from the assets you give away. Moreover, assets you transfer to charity using a trust can be replaced at a discount for your family through the use of life insurance.

How a Charitable Remainder Trust Works

Instead of making a charitable gift directly to a charity, you can make a gift to a tax-exempt CRT to benefit a specifically named charity, or a specific cause. By using a trust, both you and the charity benefit.

A CRT is set up for your lifetime, or for a period of years not to exceed 20, before the charity receives the balance of trust assets. In the meantime, you (or some one designated by you) will receive an income stream generated from the trust for the trust term.

When an asset is transferred to a CRT, there is no capital gains tax on the appreciation. And, when the trust diversifies the asset, there is no tax as well, since the trust is tax-exempt.

If the trust is established as a Charitable Remainder Unitrust (CRUT), the income will be based on a stated percentage of the annual value of trust assets. The trust can also be established as a Charitable Remainder Annuity Trust (CRAT) in which the income payment is based on a fixed-dollar amount. In either case, the income paid to you is taxable. A charitable income tax deduction may also be available when you transfer the asset to

the trust and is calculated based on the present value of the assets, net of the trust income to be paid to you.

Replaced the Asset

The asset give away to charity can also be replaced for your heirs through the use of a Wealth Replacement Trust (WRT) funded with life insurance.

Tax Benefits

Gifts of most types of assets can be made to a CRT, and in most circumstances a charitable income tax deduction is available for the gift. However, the deduction will be limited based on the type of assets transferred, the type of charity to benefit as well as its adjust gross income (AGI). If you are not able to utilize the total amount of the deduction in the year of the gift, you may carry-over the unused portion for an additional five years, subject to the same annual limitations.

Case Study: Peter and Virginia Anthony

Peter (75) and Virginia (72) Anthony have a large estate and own highly appreciated stock currently worth \$2,000,000. They have been actively involved with the National Cancer Society (NCS). They have learned that by establishing a CRAT, the trust can diversify the assets for them without incurring taxation, they can receive income payments from the trust for their joint lifetimes, and they can name NCS as beneficiary of the trust balance.

Assuming a 7% annual trust income payment, the Anthonys can receive \$140,000 of taxable gross income annually from the trust. In addition, the Anthonys can achieve savings from the charitable income tax deduction of \$548,732, assuming a current 5% federal rate used to calculate such gifts. Their current AGI, including the income from the trust, is \$315,000. The maximum amount the Anthonys can deduct when they make the gift based on deduction limitations is \$94,500. However, the remaining amount can be deducted over the next five years subject to the same limitations.

The Anthonys can also establish a WRT funded with \$2,000,000 of life insurance on their joint lives to replace the asset for the children at their death. A John Hancock Survivorship UL-G policy has a guaranteed annual premium of \$37,555. The Anthonys can use a portion of the net trust income they receive to fund the life insurance. Furthermore, after income taxes and the life insurance payment, the net spendable income, including the tax savings from the deduction, in year one is \$90,520.

Comparison of Benefits at Assumed Life Expectancy - Year 15

	Sell/Reinvest	CRAT and WRT
Fair Market Value of Asset	\$2,000,000	\$2,000,000
Income Tax Deduction	\$0	\$548,732
Capital Gains Tax on Sale	\$270,000	\$0
Total Net Spendable Income	\$1,220,196	\$1,020,800
Total Family Benefit (Including Insurance)	\$2,320,061	\$3,020,800
Endowment to Charity	\$0	\$2,543,042
Total Gift to Family and Charity	\$2,320,061	\$5,563,842

The data shown is taken from a hypothetical illustration. It assumes a hypothetical rate of return and is not a representation of expected future results. Unless indicated, these values are not guaranteed. Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.

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1. Trusts should be drafted by an attorney familiar with such matters in order to take into account income estate tax laws (including the generation-skipping transfer tax.) Failure to do so could result in adverse tax treatment of trust proceeds.

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Gifting Strategies for Many Good Reasons



Melissa Richey, CFP®,
Vice President
of Investments

You may have many reasons for making gifts, and they often include:

- Help someone in financial need.
- See the recipient enjoy the money or property.
- **Reduce your estate tax burden.**

Whatever the reason, you will want your gift to accomplish both personal and tax objectives. Most people choose to gift because they are financially able to do so. As a matter of fact, some individuals should consider gifting more. The Federal estate tax system presently allows each person to leave up to \$2 million in assets without a tax. Any amount of the net estate in excess of this figure is subject to a Federal estate top tax bracket of 46%. Some states also have an inheritance tax. For example, in Pennsylvania, it is 4.5% if children are beneficiaries. You could possibly be giving 50% back to the government instead of your heirs!

There is talk that the government may repeal the federal estate tax; so many wealthy individuals assume that, in the current environment, waiting and watching is easier than implementing an estate and gifting plan. However, the tax code is always a moving target; there's no guarantee how long the current tax code will be in force.

Gifting is an often overlooked way to reduce taxes while you are living and for your heirs. It is an effective tool to reduce the estate value over time, and potentially avoid costly estate taxation. **Gifting should only be done if estate owners have sufficient income and assets after gifting to provide for their desired lifestyle and financial security.** In considering a long-term gifting plan, one should begin with two important questions:

1. *How much can I gift?*
2. *Which gifting vehicles are best suited to my objectives?*

Give too much too soon and you may wind up not being able to meet your personal

financial needs. Give too little and you may leave a legacy burdened with a huge estate-tax liability.

In figuring out how much you can give, the most important factors tend to be the size of your investment portfolio, time horizon, and lifestyle requirements-how much it will take to meet your needs over time. You want to consider your living expenses, debt obligation payments, and leisure and recreational expenditures. The key variables of time, wealth and spending are interrelated in determining how much one can gift.

Once you decide that gifting is a good strategy for you, you should know that the federal government imposes a substantial tax on gifts of money or property above certain levels. Generally, if you give someone money or property during your lifetime, you may be subject to a federal gift tax.

The general rule is that any gift is a taxable gift. However, there are many exceptions to this rule. Generally, the following gifts are NOT taxable gifts:

- Gifts that are not more than the annual exclusion for the calendar year.
- Tuition or medical expenses you pay for someone (the educational and medical exclusions).
- Gifts to your spouse.
- Gifts to a political organization for its use.
- Gifts to qualified charities (a deduction is available for these amounts).

Gift Tax Annual Exclusion

You may give up to \$12,000 each year to as many individuals as you want without incurring any gift tax. If your spouse joins in making the gift, as a couple, you can give \$24,000 to each person annually. Take advantage of the annual exclusion allowance - use it or lose it!

For example, Joe and Mary Smith are married and have two kids. They have a large estate and want to see their children

enjoy their money instead of giving it to Uncle Sam at their death. Joe and Mary can give \$24,000 to each child, which is a total of \$48,000 each year. After 10 years of gifting, they have removed \$480,000 from their estate.

****Gifts do NOT provide a tax deduction to the donor and are NOT taxable to the recipient.****

Lifetime Gift Tax Exemption

You can gift up to \$1 million (in addition to your annual exclusion amount) during your lifetime without incurring any federal gift tax. This aggregate exclusion for gifts is known as the applicable exclusion amount (If the applicable exclusion amount is not used during one's lifetime, it is available at death to reduce one's estate tax burden). No tax will actually be due until and unless your exemption equivalent has been exhausted.

Education Gifting

There is one exception to the gifting limits above. You can give an UNLIMITED amount in order to pay someone's medical or educational expenses. You must make the payment directly to the institution providing the service. The beneficiary himself/herself must not receive the payment.

You can also gift to a 529 College Savings Plan, which allows you to save for the higher education expenses of a named beneficiary. Current law allows you to pre-fund a 529 plan. As a single individual, you can contribute a total of \$60,000 in the first year of a five-year period. Married couples can contribute \$120,000. Note that the overall contribution amount varies by state.

Charitable Gifting

Making a donation to a qualified organization provides some very attractive benefits. You could potentially receive an immediate income tax deduction. You can contribute almost anything to a qualified organization. The deduction limits are more restrictive for gifts other than cash, but you are free to give almost any property of value.

Gift Selection Factors

Selecting the type of asset to be gifted is very important. The types of assets gifted will usually be real estate, publicly traded securities, and cash.

- Typically, you'll want to gift property that will likely appreciate substantially in value. Removal of the appreciation in the property from the estate can potentially save estate taxes. (i.e. gift stock that has a low cost basis)
- Transfer high-income-producing property to a family member in a lower tax bracket. (i.e. high dividend preferred stock)
- Consider gifting property that you may not need in the near future.
- Be careful of gifting property subject to indebtedness. If the debt owed is greater than what was originally paid for the property, this may result in a taxable gain to the recipient.
- Consider your age, health, and emotional and family circumstances.

The old adage that "it's better to give than receive" can hold some truth in estate planning. Gifting can help reduce taxes and administrative expenses that might otherwise be deducted from the estate's total value. With more of the estate available, a greater portion of the assets that took a lifetime to build is available to benefit family, friends and charities of choice. Coordination among your team of tax, legal, and estate-planning specialists is essential. Contact your Fragasso Group Financial Consultant to learn more about gifting strategies and estate planning.

Is it Time to Check your Life Insurance?

In early April, you should have received a packet of information from your financial consultant at The Fragasso Group recommending a life insurance review.

This packet was sent to you because changes in the life insurance market have prompted many of our clients to request an audit of their existing life policies to confirm that (1) their coverage continues to address their needs; and (2) their policies are performing as intended. Although a formal review of your life insurance coverage was conducted at the time of your initial financial plan, it may have been a while since that review took place. Over time your personal, professional, and health status can change which may positively or negatively impact your life insurance needs. Because of these inevitable changes during your lifetime, we recommend that all of our clients participate in a periodic life insurance review.

A formal review of your existing life insurance policies will confirm that your coverage is aligned with your current financial needs and that the policies are performing to expectations. If we find that is not the case, we will offer recommendations to optimize their potential.

During the review we will assess your policy or policies for:

1. **Design** - Is the policy type, ownership, beneficiary designations, trust integration and premium strategy current? Does it still fulfill your needs?

2. **Performance** - Are funding levels sufficient to maintain coverage in the current interest rate and equities environments?

3. **Premium Efficiencies** - Life insurance coverage continues to evolve. Newer policies tend to be more efficient. In addition, new payment structures often give rise to significant cost savings.

4. **Unique Requirements** - Our expertise and focus is centered on the distinct needs of our clients. Our

recommendations will address financial and familial obligations, intergenerational planning, charitable bequests, estate and gift tax minimization and any additional needs unique to your family.



Deborah Sales, CFP®,
Managing Director, Operations

As a client of The Fragasso Group, this service is being offered to you at no cost. In order to properly evaluate your

life insurance portfolio, however, you will need to spend some time in completing an insurance questionnaire. Upon receipt of the completed questionnaire, your financial consultant will begin to evaluate your insurance configuration and will contact you once that process has been completed to discuss the analysis.

We encourage you to take advantage of this opportunity to ensure that your family, your business, and your assets are properly protected. To request a life insurance review questionnaire, please contact your financial consultant at 412.227.3200.

So Now What Should We Do? *Caring for Aging Family Members*

Taking care of aging parents or other family members is something that many of us have faced or will face in the future.

One of our employees, Lisa Federici, has experienced this recently in making decisions for her mother's care. Though her mom does not need to be in a care facility right now, Lisa determined she did need certain other services, but was not aware of what was available. "The not knowing part was the big concern for both my mom and me," Lisa says.

Because of her mother's condition, Lisa knew the care needed to start immediately and would become progressively more important as the condition developed. In doing her research, Lisa found out there are many services available from both local and state agencies. Lisa states, "Knowing that these services are available for my mom gives both of us peace of mind."

People in these situations report that it is a learn-as-you-go process. Depending on the circumstances and one's financial situation, there are myriads of services available, such as:

- Payment of one's Medicare medical insurance premium;
- An enhanced Access card issued by the state that covers medical services not covered by one's managed plan;
- A PDA waiver program which assigns the individual to a caseworker who evaluates the individual's need for services, such as:
 - Companions who can help the individual with shopping, housekeeping, etc.
 - Transportation to medical appointments and other activities, such as adult day care;
 - Issuance of a LifeAlert necklace;

- Personal hygiene needs and special equipment needed by the individual;
- Food stamps up to \$152 per month.

Lisa states, "We had no idea what was available and how much things would cost." Because her mother did not have many assets, they discovered that most of these services were available to her. Today, Lisa's mother is very content with the care she is getting in her home, and Lisa is comforted by the fact that her mom is well cared for on a daily basis.

In the world of the investor class—which means you if you save and accumulate money over time, regardless of exactly how much—these agencies would have declared most of us ineligible due to our assets and income levels. But, we all know how expensive this care can become. The choice is ours whether to pay ourselves, possibly until almost nothing is left, or to have an alternate method in place to cover these costs.

Planning can and should be done. We can pay for these services and care for ourselves until we qualify for the government support, or we can insure ourselves against the risk of having to cover the costs out of pocket. Long-term care for insurance can be set up in various ways and can help us as we face these issues with our loved ones. It can help cover the cost of having to be placed in a care facility, if and when those services are needed, or of providing care in the home. It is very important to think about these issues as you approach retirement, as you may find that some of these options no longer exist, or are no longer affordable, the farther you go into your golden years.

The Fragasso Group is always here to help. Don't hesitate to contact your financial advisor with any thoughts or questions you have. We'll be happy to assist you in planning for the future.

Supporting Educational Charities: How the Education Improvement Tax Credit Program (EITC) Works

The Educational Improvement Tax Credit program is administered by Pennsylvania's Department of Community and Economic Development (DCED). Its intent is to encourage support of innovative educational programs.

Here is how it works. A business makes a contribution (cash, property or services) to a qualified Educational Improvement Organization.

The business earns a tax credit equal to 75% of the contribution - or 90% if the same contribution is made for two consecutive years. Additionally, the business may take the standard deductions at the state and federal level.

Pennsylvania business taxes eligible for credit include:

- Corporate Net Income Tax
- Capital Stock Franchise Tax
- Bank and Trust Company Shares Tax
- Title Insurance Companies Share Tax
- Insurance Premiums Tax
- Mutual Thrift Institutions Tax

The maximum annual amount of tax credit per business is \$200,000.

Deadlines apply. For additional information, please visit the Pennsylvania Department of Community and Economic Development (DCED) at www.newpa.com.

The Fragasso Group is always here to help. Don't hesitate to contact your financial advisor with any thoughts or questions you have.

Source: Homeless Children's Education Fund

Neither The Fragasso Group, Inc. nor Linsco/Private Ledger provides tax services or advice. Please seek advice from your tax professional regarding your specific situation.

Profiles in Progress: Client Stories

Ray and Dorothy Bauer

Dorothy Smith was the daughter of Pittsburgh's Postmaster, James C. Smith, and his homemaker wife Elizabeth. In 1945, Dorothy was working for the U.S. government's weather bureau in Pittsburgh when a friend suggested a blind date with her cousin, Ray Bauer. Ray had just returned from serving in the U.S. Army Air Corps during World War II and was working as a building products salesman. Ray had grown up as the son of a steelworker, Alvah, and his homemaker wife, Mathilda, in the North Side's predominantly German-American neighborhood. It was an interesting and confusing time with the world struggling to recover from history's most cataclysmic war, and the United States trying to find employment for several million returning service personnel and avoiding a return to the unemployment levels of the Great Depression.

Dorothy Smith and Ray Bauer fell in love and those global and national problems were pushed aside in favor of their desire to be married. This happened in May of 1947. The next year, the first of their six children, Ray Jr., was born. He was followed by Christine in 1950, Michael 11 months later, Mark in 1954, Pete in 1958 and finally, baby Maryann in 1960. Meanwhile, Ray was working long hours selling commercial room divider doors to architects and contractors for the boom in office buildings, schools, churches and other institutional buildings.

As often happens, it was the proverbial "straw" that caused Ray to quit his job and begin his own business in 1958. His employer refused a request for partial reimbursement for the enormous gasoline bills that Ray incurred in his constant driving while selling the company's products. Ray had breakfast

with his fellow salesman, Don Lascher, and suggested they partner in this new venture. Don's laconic reply was, "I guess we should" and a 30-year partnership between the two men ensued that still exists today among their sons called Straits Door Co. The business grew by adding a new home construction division to the commercial side and is today known for its specialty products and service. But the initial location for the business back in 1958 was Ray's garage.

When asked how their partnership endured for so many decades, Ray's wife, Dorothy, quickly interjected that Don Lascher is an honest and nice person. That type of response is typical of Dorothy and Ray as they quickly give credit to others and thank God for their blessings. Ray explains further that he and Don Lascher had the inevitable disagreements over business decisions and tactical direction at times. But it never became personal and neither ever carried a grudge. That's quite a testimonial to Ray's and Don's sense of humanity and fair dealing.

Ray and Dorothy worked plenty hard for their family and business success. During that first year of business while Ray awaited payment from contractors on those long-duration commercial jobs he sold, he worked second shift in the post office to feed his growing family. The business carried itself from the second year on and Ray was able to quit his night job.

In 1966, Dorothy's sister and brother-in-law died and left four boys about the ages of Ray's and Dorothy's children. Without hesitation, Ray and Dorothy brought the Gannon brothers, John, Jim, Francis and Rich into their home and raised them as their own. Rich, unmarried, still resides with the Bauers.

It is staggering to consider the financial and time pressures that Ray and Dorothy assumed with their family of 10. Yet, then as now, they minimize the effort and simply refer to their 10 children, their 23 grandchildren and six great-grandchildren, as what they call the Bauer and Gannon branches of their family.

Ray and Dorothy are experiencing their share of health concerns but characteristically deal with that without complaint and with their typical good humor. Ray retired from business in 1987 and occupies himself with his seniors' golf league, their church and home projects. But, for Ray and Dorothy, their primary focus remains their family. Until Dorothy's recent illness, all holidays were celebrated at the Bauer house with Dorothy presiding over a small army of Bauer and Gannon helpers making the holiday feasts. Every occasion is punctuated by much laughter and reveling in the accomplishments of every grandchild and great grandchild. No child's accomplishment is too small to escape their notice and praise. As they tell it, they are sustained by their family and friends.

Ray was quick to praise our 20-year investment management relationship wherein, as he tells it, he has much more money now than when they began, and they have drawn all of the income that they've needed. We are equally pleased that we were able to be instrumental in the financial success and security of such wonderful people who continually reinforce our belief in the goodness of human nature

WHAT IS MORTGAGE PLANNING?



Contributing Author:
Derek Bayer of Maximum
Mortgage Services

The mortgage is the largest debt and monthly expense that most people deal with in their life. We have financial planning to preserve our wealth and secure our economic future. Mortgage planning is the integration of the client's mortgage with their long- and short-term financial goals, and payment and equity objectives. Mortgage planning is quickly becoming a necessity due to changes in the makeup of our nation's employment, retirement plans and health care costs. These are just some of many economic and demographic factors making such planning a necessity, as opposed to just another overlooked option.

As an example, there has been a 30% growth in the number of self-employed persons in the United States since 1997. This brings about a change in the consumer's cash flow needs and business succession planning. Another current market fact is that 35% - 50% of mortgages written in today's market are "Exotic" Mortgages. Option ARMs, interest only mortgages and Reverse Mortgages can be dangerous if not utilized in the proper situations. They may carry predatory prepayment penalties that have no other benefit than increased commissions to the mortgage broker.

This highlights the fact that mortgage

advisors need to be able to give proper advice to clients. If we don't advise our clients, someone else will. The problem isn't going away - we can't just close our eyes to the trends in the market and hope that the 30-year, fixed-rate mortgage comes back into style. By the same token, it will completely ruin our credibility as mortgage advisors to sum up the value of our wisdom in this area by saying that the 30-year mortgage is the de facto "one size fits all solution" simply because we don't understand the other 101 mortgage options available in today's market. Even as many new investment and insurance products have come on the market in recent years, many new mortgage products have also emerged into the market. The loans mentioned above can certainly be very dangerous, but they also have their benefits for certain client situations.

Another variable that demands attention in our nation is the age demographic. Only by understanding the history of retirement, and comparing it

with the current situation, can we come to grips with the "new rules" of money that would benefit people in today's financial environment.

- In 1889 Chancellor Otto Von Bismark started the first government sponsored pension plan in Germany. He set the retirement age at 65, while the average life expectancy in Germany was only 46 years old. Basically, he said to the people, if you're lucky enough to live to age 65, we'll take care of you.

"Only by understanding the history of retirement, and comparing it with the current situation, can we come to grips with the "new rules" of money that would benefit people in today's financial environment."

- In 1905, here in America, Dr. William Osler, a highly educated man, wrote a thesis that said anyone who lives to age 65 should be chloroformed to death. In essence, he was saying that old age is useless.

- In 1935, Franklin Delano Roosevelt got together with Congress and enacted the Social Security Act. They set the retirement age at 65, while the average life expectancy was only 64.



“Home equity is the single largest investment that most clients have, larger in value than all of their other investments combined. Yet, we are still applying yesterday’s rules of managing home equity to today’s financial circumstances.”

- Today, if you take an average married couple from the “Baby Boom” generation [born between 1946 and 1960], there is a 50% chance that one of them will live until they reach age 92! If they “retire” at age 65, this means that they will spend up to 30 years in retirement!

What are people going to do for 30 years during retirement? What does 30 years in retirement really mean for our clients? The moral of the story is that people are either:

- Worried too much about retirement - Active people aren't likely to become inactive once they turn 65. This means that many of our clients suddenly stop working and spend all of their time at the beach when they turn 65 years old. Often, people who are too worried about their retirement are too worried about saving money. They neglect to build strong memories with their families while they have the opportunity. It is our job to help clients understand this concept and thereby make a positive difference in their lives by dispelling their financial fears and “empowering” them to build memories with their family while they have the chance.

- Worried too little about retirement - If people are really planning on retiring at age 65, how are they going to survive financially during the next 30 years? That is almost like living another lifetime. It is our job to help these clients understand this concept and thereby make a positive difference in their lives by helping them manage their money in a way that enables them to live comfortably during retirement. That is where mortgage planning and real estate equity management really can add a lot of value to clients. Home equity is the single largest investment that most clients have, larger in value than all of their other investments combined. Yet, we are still applying yesterday's rules of managing home equity to today's financial circumstances. This story illustrates that some traditions are just passed on from generation to generation, but the rules that make those traditions viable really don't exist anymore. The old standard 30-year mortgage could be an obsolete “rule of mortgages” because:

- Most people generally don't live in their homes for 30+ years anymore.
- Most people refinance every 5-7 years.
- We can't count on the government or our company pensions to take care of us during retirement like our parents and grandparents; so we need to manage our money a little differently to take care of ourselves during retirement.

Our mortgage consultants at Maximum Mortgage Services recently earned the designation of Certified Mortgage Planning Specialists. As Certified Mortgage Planning Specialists we want to help you achieve your long-term vision, increase monthly cash flow, become debt free in less time, experience the things in your life that are most important to you and receive expert advice. Mortgage planning could be *THE SOLUTION* to many of the problems we just illustrated.

This article is provided for information purposes only.

Derek Bayer and Maximun Mortgage Services are not affiliated or endorsed by Linsco/Private Ledger.



THE
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Animal Friends Recognizes Bob Fragasso

Animal Friends, Southwestern Pennsylvania's premier companion animal resource center, recognized Bob Fragasso as one of this year's "Humane Heros."

The humane hero award recognizes people for their extraordinary work to improve the lives of our animal companions. In Bob's case, Animal Friends wanted to recognize him for his time, talents, and financial contributions to furthering its mission to improve the lives of both our two- and four-legged companions throughout the region.

For nearly 15 years with Animal Friends, Bob has been an outspoken advocate for improving the lives of unwanted, neglected and abused animals everywhere as well as identifying new programs and services to meet changing needs of our human population. Additionally, Bob has been one of the driving forces behind Animal Friends' new



facility, the Caryl Gates Gluck Resource Center.

David Swisher, Animal Friends Executive Director said, "With Bob's support and guidance, the new facility is an inviting, interactive facility where lifelong relationships are built and nurtured. It's a community classroom celebrating the symbiotic

relationship between humans and companion animals. It's a learning center teaching the most progressive concepts of animal behavior and pet care. It's a regional destination point welcoming the community and their pets to enjoy programs and activities that encourage companionship and healthy relationships. It's a center of hope for thousands of abused, neglected and simply unwanted animals. It's a place that supports a compassionate, supportive community using a unique pet-related approach. For all of his efforts in making our vision a reality, we were pleased to present Bob with the 2005 Humane Hero Award."

Our 10th Anniversary!



We have some exciting news to share with everyone! The Fragasso Group has reached an important milestone: this is the firm's 10-year anniversary. Our celebration included a birthday cake at the office. Bob Fragasso has been in business since the early 1970s, but officially named his company The Fragasso Group 10 years ago. We want to express our appreciation to everyone who has helped build our success, especially our clients. Thank you.