

CREATIVE

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EVEN EVEL KNIEVEL HAD A PARACHUTE

If you are “of a certain age” you remember Evel Knievel.

In the late 60’s and early 70s, Knievel made a name for himself by attempting outrageous stunts on his motorcycle, sometimes with disastrous results. Indeed, part of Knievel’s attraction was the very real possibility that his death-defying behavior might end in tragedy.

For example, on January 1, 1968 Knievel tried to jump his motorcycle over the fountains at Caesar’s Palace in Las Vegas. He cleared the fountains, but landed awkwardly and crashed, suffered multiple serious injuries, and was in a coma for 29 days.

But film footage of his horrific landing made him a superstar, and after his recovery, Knievel drew even larger crowds for ever-greater jumps. On national television, and in front of large live audiences, he gunned his motorcycle down a runway, up a ramp, and soared over cars and trucks, each time attempting to “break a record.” Sometimes he made it, sometimes he didn’t. Quite often, when he missed, there were more injuries. Call it pointless, call it a death wish, call it *sick*. But watching Knievel was riveting. Something about the whole stupid thing grabbed your attention.

In 1974, Knievel took his daredevil ambition to a ridiculous extreme. Building a rocket-powered “SkyCycle,” Knievel declared he would attempt to jump a quarter-mile wide gorge over the Snake River in Twin Falls, Idaho. Even though two previous unmanned test flights had failed to clear the gorge, on September 8, 1974, Knievel climbed on his SkyCycle and hit the ignition switch.

The SkyCycle went up the ramp. Almost immediately, a safety parachute deployed (supposedly a malfunction) and Knievel and the SkyCycle drifted 600 feet down to the canyon floor. No jump, no injuries, no drama. As a death-defying performance, it was a dud.

On the other hand, there was Karl Wallenda.

Wallenda was a member of renowned family of highwire performers whose signature act included working without a net – all the time, even though several of his relatives and children had suffered serious injuries from falls. On March 22, 1978, in San Juan, Puerto Rico, at the age of 73, Wallenda slipped while



attempting to traverse a wire stretched between the roofs of two hotels. He struggled with his balancing pole, flailed for the wire, then plunged to his death. Television captured the entire grim sequence. It was the ultimate in reality programming, but when the show ended, no one wanted a rerun.

Why do people do stuff like that? Why do the rest of us watch it?

Because it’s exciting!

Not to turn this into a psychological analysis, but from a human perspective, there’s something compelling about risk. The prospect of danger, even for someone else, commands your attention. We may respect, even admire, the risk-takers. For the performers, some of the apparent risk is offset by years of practice, but when you imagine *yourself* out there, on a motorcycle or the highwire, it seems even scarier. *Observing* danger is exciting, yet safe, and it sells, because a part of you says, “Wow, I wonder if I could do that?”

Compared to Evel Knievel or Karl Wallenda, most of us have a much lower threshold for physical risk. Jumping cars or walking a tightrope between two hotels is *way* out of our comfort zone. But many still have a desire for the rush that comes from taking long odds and winning – or even surviving. This explains why a lot of people attempt “death-defying” financial stunts all the time. Here’s a typical sequence:

Everything seems okay as long as you keep a precarious balance between debt and cash flow. You (and others) are amazed at how much you can spend, and have, and do, on your income. And besides amazement, you find there’s a rush that comes from taking on so much, and succeeding. It’s not “death-defying”, but it feels good to take a risk and have it pay off.

But then something happens.

- ◆ A company reorganization.
- ◆ A career change.
- ◆ A gambling trip that got a little out of hand.
- ◆ Another child.
- ◆ A sickness.
- ◆ A bad investment.
- ◆ A divorce.

Whatever. But that “something” throws you off balance.

Maybe you slip a bit. Miss a payment. Don’t have anything extra to put in your kid’s college fund. The new company doesn’t have the same benefit package. You take out a second mortgage to pay last year’s income taxes.

Forget trying to balance everything. All of a sudden, you’ve got only one hand on the wire, and your fingers hurt, and you are headed for a crash landing.

If you fall, what happens when there’s no net, no parachute?

Ask someone who’s been through bankruptcy, or had to sell their home and move back into an apartment. Taking a financial tumble can be a brutal experience. Even if you survive, you can feel crippled.

Now ask yourself: Is it really worth it to tightrope your way through difficult financial situations or plunge into some financial obligation without considering some sort of safety net? Even Evel Knievel had a parachute, and he was crazy!

Isn’t your financial future worth too much, to you and your family, to risk it by failing to properly plan for the unexpected?

Hey, it’s a rhetorical question! Of course you shouldn’t try to operate without a parachute!

But let’s face facts. Preparing a financial safety net usually means obtaining insurance (*boring*), putting some money in a low-interest savings account (*when “everyone else” is pulling double-digit returns in the stock market*), and preparing a will and trust (“*Yippee! I get to pay for the privilege of working with an attorney!*”). Of all the things you could do with your money, these three options probably wouldn’t make the top 100. Maybe not even the top 1,000.

And just like the trapeze guy, you might rationalize the risk of working without a net. After all, if you haven’t fallen thus far, that means you haven’t needed the net, right? And the better you get, the less likely you are to fall or wipe out. And in order to succeed, you have to think positively. Spending time and money to pay premiums, make deposits to a savings account, or write up a document for something that probably won’t happen, that may seem to be “just a waste of money”.

Enough rationalization moves to denial. A parachute is only for people who crash, and you aren’t going to crash. (*How about this line: “Even if I’m disabled, I’m still gonna work.” Huh? How can that be? “Disabled” means you can’t work, so how can you, if you can’t?*) Even if you do crash, you’re pretty sure you can handle it. There’s your pension, and Social Security, and a secure job. With this persuasive combination of thoughts, it’s not surprising that many people don’t put a financial safety net in place.

The Typical Safety Net is Your Paycheck

For most Americans, their financial solvency is based almost entirely on their ability to earn a regular income. As long as a paycheck is coming, everything is okay. But what happens if the income stops?

According to a new survey by the non-profit LIFE Foundation, 70% of working American adults say they could

only afford to take off one month or less of unpaid vacation before everyday expenses would force them to return to work. America’s Health Insurance Plans however, reports that nearly one out of every three workers over the age of 30 will suffer a disability for three months or more at some point in their career - making that “unpaid break” a possibility for millions.

“The reality is that most Americans lack the financial cushion necessary to weather an unexpected disability - which might stop your paycheck, but won’t stop your bills,” said David F. Woods, CLU, ChFC, president of LIFE Foundation.

With a one-month safety net, it doesn’t take much for a financial crash landing to occur.

Examine your own financial safety net.

- Do you have a current will?
- Do you have disability income protection – and is it enough to keep paying your “family overhead?”
- Do you have adequate life insurance?
- Do you have liability protection?
- Do you have liquid cash reserves equal to three to six months of living expenses?

If you answered “no” to any of these questions, your safety net may need some mending. (continued...)

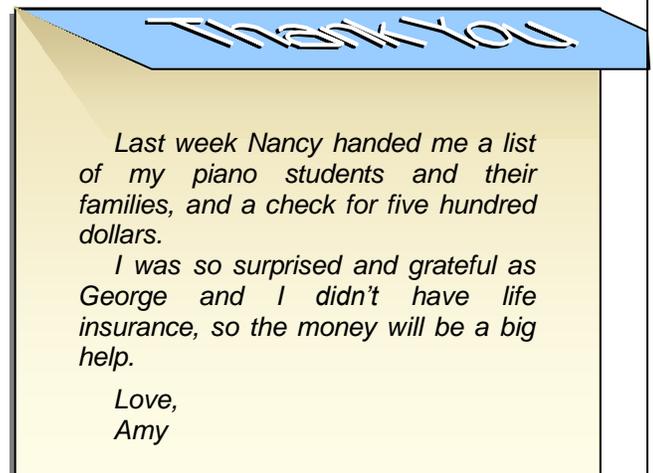
A real-life look at life *without* a parachute

The names have been changed, but the rest of the story is true.

“Miss Amy” is a beloved piano teacher in the community. For the past 30 years she’s taught several generations of children. Right before Christmas, her husband George died, at age 56, of a sudden heart attack. It was a shock for everyone, not only emotionally, but financially. George was the main breadwinner, but didn’t have a pension or a sizable retirement account. Amy now faces an uphill financial battle just to stay in the house where she and George lived for the past 27 years.

Nancy, one of Amy’s “graduate” students who also taught lessons, quietly collected donations from Amy’s students.

A week later, this thank-you note was received:



A Real Safety Net Allows For Greater Success

The problem is one of perspective. With the safety net, we look at the wrong thing.

Go back to the highwire performer. Is it likely he would be able to “push the envelope” and practice new stunts without a net? No. It’s too risky. In order to have the freedom to reach new heights, he would need the comfort of a net beneath him, at least during practice.

Knieval and Wallenda wanted to thrill the audience. Adding risk was part of the thrill. But is your financial objective to create a thrill?

Financially, you can’t take on opportunities that offer the highest rewards if you don’t have the risks covered. You may be “getting by” without a net, but getting by without a net may also mean never getting ahead.

Some of this may sound like psychological mumbo-jumbo. That’s because, in a way, it is. Your financial mindset makes a big difference in your financial outcomes. In our experience, people who have the mindset of establishing a financial safety net usually make other profitable financial decisions, find more opportunities, and are prepared to take advantage of them.

As for those who play without a net, well, they probably didn’t read this far.

WHAT’S THE CONDITION OF YOUR FINANCIAL PARACHUTE? ARE THERE “HOLES” THAT NEED TO BE PATCHED? OR ARE YOU RATIONALIZING THAT THE HOLES DON’T EXIST?

THINGS THAT MAKE YOU GO “HMMM...”



HUH? A REPEAL OF ESTATE-TAX WOULD HURT THE ‘SMALL RICH’

In the ongoing legislative debate over the future of the estate tax in the United States, most of the discussion is over whether or not the tax should remain in effect when the current regulations expire. But as far as taxpayers are concerned, there may not be a difference; with or without an estate tax, the government regulations will levy a significant tax on assets transferred at death.

In a June 13, 2006 *Washington Post* article, Allan Sloan suggests that repealing the current estate tax law would actually be detrimental to those he refers to as the “small rich,” loosely defined as anyone who leaves an estate valued between \$1.3 million and \$3.5 million. Here is his summary:

Under current law, when you die your heirs get a stepped-up tax-basis. That means the assets you bequeath are valued for income-tax purposes at what they were worth the day you died – not what you originally paid for them. Say you paid \$50,000 for a stock that’s worth \$500,000 when you die. Your heirs can sell it for \$500,000 and owe no tax on the \$450,000 gain. As long as your total doesn’t exceed the exemption limits, there’s no estate tax either.

Now watch. Under the 2009 rules, estates of up to \$3.5 million (\$7 million for a married couple) would be exempted from federal estate tax. The tax rate on assets above that level would be 45%. Inheritors would be able to step up the tax basis of \$3.5 million (or \$7 million) of inherited assets to their value the day they inherit them. Fast-forward to [the year] 2010, when the estate tax is repealed. Yes, the estate tax is gone. But heirs would be able to step up only \$1.3 million in assets on the day of their death. (Don’t ask why; that’s just how it is.)

Uh, wait a minute. According to Sloan’s assessment (supported by several expert sources) if the estate tax law is repealed, the default option is another more costly tax. And the basic explanation for this default tax regulation is “Don’t ask why; that’s just how it is.”

Arguments about the merits of the estate tax aside, the complexity of the tax code is the bigger issue. In a May 17, 2006 *MarketWatch* article, Robert Powell noted that the newest tax legislation, the 2005 Tax Increase Prevention and Reconciliation Act, “forces Americans to scurry about, revisiting and likely revising at great expense (and perhaps to great savings) their retirement plans.”

Sheldon Richman, editor of *The Freeman*, declares “the tax rules are so opaque that only someone intimately familiar with the labyrinthine code could say if any given person would benefit or suffer from the repeal of a particular tax...The tax code as a whole leaves the taxpayer in the dark about how he might minimize his personal governmental burden.”

Hmmm... Quoting a comment from the Foundation for Economic Education web site, “When government is so complicated that repealing a tax is *bad* for those who would have paid it, something is seriously wrong.”

IS YOUR HOME PROPERLY INSURED? - THE THREE MOST IMPORTANT QUESTIONS TO ASK YOUR INSURER

In a May 8, 2006 press release, the Insurance Information Institute (III) reported that 59% of today’s homes are underinsured by an average of 22%. With the onset of a new hurricane season, III encouraged homeowners to update their insurance regularly to account for improvements, major purchases and higher replacement costs.

“Hurricane Katrina was a painful reminder to homeowners that they should contact their insurance agent or company representative at least once a year to make sure that their insurance is up to date,” said Jeanne Salvatore, senior vice president and consumer spokesperson for the III. “A major home alteration or addition, even a lifestyle change such as marriage, or a family member moving in (along with his or her belongings), should trigger a call to your insurance company.”

The cost of building or repairing a home has increased dramatically in recent years. Materials like lumber, cement, gypsum and structural steel products have become scarcer, not only because of the devastation from last year’s storms, but also because of increased global demand.

To properly insure your home, the III recommends asking three critical questions regarding your homeowner's insurance coverage:

1. Do I have enough insurance to rebuild my home?
2. Do I have enough insurance to replace all of my possessions?
3. Do I have enough insurance to protect my assets?

NEWS DIGEST

(Snippets from stuff we've read, including differing points of view, not all of which we agree with. Want to know more? Give us a call and we can provide you with the complete article.)

THAT BIG INHERITANCE WINDFALL MAY NOT EXIST

"There have been these studies that the baby boomers were going to inherit a huge amount," says John Gist, associate director of the AARP's Public Policy Institute. "But it doesn't seem to be happening." In fact, baby boomers — those born between 1946 and 1964 — may have already inherited a significant chunk of the money they're going to receive.

AARP, the Washington group for seniors, analyzed the Federal Reserve's recently released Survey of Consumer Finances, which is based on 2004 data. A key finding: Just 19% of baby boomers have received an inheritance, and only 15% still anticipate getting one. (That 15% figure includes some folks who have already collected an inheritance.)

Among boomer households that have inherited money, the typical total sum received was \$64,000, figured in 2005 dollars. "Not many have received an inheritance, not many expect it, and it's not very much money," Mr. Gist says. But, he adds, "it's a nice supplement for people who get it."

Jonathan Clements, *Wall Street Journal*, June 7, 2006.



FEWER BUSINESSES OFFERING HEALTH INSURANCE FOR EMPLOYEES

The percentage of businesses offering health insurance to their workers has declined steadily over the last five years as the cost of providing coverage continues to outpace inflation and wage growth, according to the 2005 Annual Employer Health Benefits Survey.

The survey found that three in five firms (60%) offered coverage to workers in 2005, down significantly from 69% in 2000 and 66% in 2003. The drop stems almost entirely from fewer small businesses offering health benefits, as nearly all businesses (98%) with 200 or more workers offer such benefits. Premiums increased an average of 9.2% in 2005, down from the 11.2% average found in 2004. Of an estimated \$268 billion spent on health care for working adults, ages 19 to 64, in 2004, just over one-half (\$150 billion) was provided by own-



employer insurance, leaving \$118 billion to be covered by other sources.

Business Wire, April 25, 2006.

PUTTING OFF ADULTHOOD UNTIL AGE 30 – WITH MOM & DAD'S HELP

How much do parents help their adult children financially? How much should they?

The first question is easier. According to a study by the University of Michigan's Institute for Social Research, more than a third of adults [ages] 18-34 get money annually from their parents, and in amounts that are increasing. In 2001, it averaged \$2,300 a year for kids 25 and 26 years old, for example, and \$1,550 for those 33 and 34.

Psychologist Jean M. Twenge, in her new book, "Generation Me" writes: "Ask someone when adulthood begins, and a surprising number will say 30." Your 20s are for exploring, trying on dreams and having fun, and living, if you can, off Mom and Dad's bucks, if not in their homes.

Susan Ager, *Detroit Free Press*, April 23, 2006.



FLOW OF "NEW INFORMATION" DROWNS OUT GOOD INVESTMENT ADVICE

The best investing advice is simple, timeless, paradoxical -- and often ignored. Yes, ignored, because so many investors cannot make decisions. Lacking self-confidence, they rely on the random flow of breaking news. That overwhelming rush of new information, all of it short-term, drowns out the investment advice to which we should be adhering. Those timeless principles demand that we ignore breaking news and take personal responsibility, a very scary idea for investors who have lost their self-confidence.

This message has been summarized by the Chinese master Lao Tzu: "Those who know do not speak, those who speak do not know." He offered this investment advice three thousand years ago in the Tao Te Ching.

Paul Farrell, *MarketWatch*, June 12, 2006.



AMERICANS BETTER AT JUGGLING DEBT, CREDIT CARD COMPANY PROFITS DROP

The credit-card industry has a problem: Although Americans are deeper in debt than ever, they are paying off bigger portions of their monthly credit-card bills.

For card issuers, which profit by collecting interest on unpaid balances, that's bad news. In the past, when interest rates crept up, as they are doing now, fewer cardholders could afford to pay down balances.

Although consumers are using plastic for more of their daily purchases, they are giving card issuers fits by juggling their debts more shrewdly. When cardholders are hit with high interest rates on one card, they routinely transfer the balances to new cards at lower rates. And in recent years, as real estate values have soared and mortgage rates fell sharply, more consumers wiped out credit card debts altogether by borrowing against their homes.

Robin Sidel, *Wall Street Journal*, May 25, 2006.

*The information provided here is not intended as legal or tax advice.
We recommend that you consult with an attorney or tax advisor regarding
the tax implications of purchasing long term care insurance.*



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