

## Deficit Reduction Act of 05

In Connecticut the state spends roughly 14 cents of every dollar in revenue to take care of people in nursing homes. That's 14% of the states budget – a huge number growing exponentially. This problem isn't in Connecticut only – most states share the problem. The costs are high in Connecticut – second highest in the nation behind Alaska. With this in mind on February 8<sup>th</sup> the president signed a new law called the Deficit Reduction Act of 2005. What a joke – they need an act to reduce a deficit rather than just act fiscally responsibly to begin with. Anyway, the bottom line is this act changes the landscape drastically for what people will be responsible for with respect to nursing home and home care for those who need it. Historically people would call here in what I call "crisis management" mode. Someone just got hurt or sick and it looks as though they won't recuperate fully – now they look to me and to elder care attorneys to try to help them "hide" the assets of the person who is

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## Inter – Generational Communications



With as much information that is in our society today, it amazes me that people don't have important conversations within families. I think most families talk amongst partners but what about children, grandchildren, parents, guardians, trustees? These people are all ultimately going to become involved in the affairs of a family and the more that is known, the better it goes. Have you ever sat down to have an important conversation with your children and grandchildren to discuss finances? Do the kids know who the trustees are, how to contact them and what they're responsible for? It is important that values are known and shared, expectations are explained and tentative plans discussed. People typically never have these conversations and if they do, they're superficial and unproductive. We're happy to have these meetings and help facilitate the discussions to make sure everyone is on the same page and important information is shared between interested parties. If your family "made" the wealth it is important to convey the family values to the next generation so they don't squander it once you're gone. If you don't have these conversations your family wealth will almost certainly disappear shortly after your demise. If you do have these conversations and foster a open line of communications where the children and grandchildren can begin to understand, agree

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ill to preserve them from the cost of care. Under the old rules there were some planning opportunities that worked well. This law makes some substantial changes in the games people play to protect their assets. Here are the big changes:

The "look back period" is now 5 years instead of 3 years. If you transfer or gift assets, money, securities, real estate, etc. to someone there is now a 5 year period that has to be satisfied before these gifts are "safe" from the system. The look back period now begins with when a person applies for Medicaid, not the date of the gift. The old method allowed a person to make a gift and then the clock began ticking....if you were lucky enough to be well for 3 years then the gifts you made were "safe." The new law eliminates that window – you make a gift now and when you get sick, the timeline begins and a penalty period is put in place for as long as you would have had to pay had you not made the gift. This is a big deal as the cost of nursing care in Connecticut is around \$10,000 each month. ☹ The value of your home can come into play here as well. There are new thresholds - \$500,000 or \$750,000 depending on where you live – if your home is worth more than that call a realtor before you plan on applying for Medicaid. Did you know Medicaid is a nice name for welfare? That's what it is – welfare when we run out of money and the state has to pay for our care. People don't like the sound of welfare, they prefer to call it Medicaid or title 19 – but everyone likes what it does – pay the bills. I hate to say this but the bottom line is with this new legislation the only real way to protect what you've worked a lifetime to accumulate is to have Long Term Care Insurance. I'm not a big fan of the insurance industry but the risk here is too large to ignore or roll the dice on – now most of our moves are history with this legislation. If you're unsure how this applies to you call the office and we'll discuss your options. Good luck, don't procrastinate with this, crisis management is no longer an option here. ☹ ☹ ☹

## Running From Volatility

I don't think any rational person can argue that volatility is very high today. We live in a different world where terrorists believe suicide bombings will bring them eternal bliss – there's going to be plenty of work for Psychiatrists moving forward but let's look at this as it relates to our economic world. I believe America will get hit again by terrorists – they will not change our world as they think they will but they will cause major short term worries, major short term market jitters and likely kill thousands of people. A military expert we help here uses the following analogy – America is a Polar Bear and the terrorists are a bee's nest – they'll sting us from time to time but we'll ultimately terminate them. (I love the word he used – terminate) Lets all pray this never happens but my gut tells me it eventually will. In addition to this there is craziness in the price of petroleum and other energy products. We have countries that are attempting to develop nuclear weapons – hopefully unsuccessfully. Some people believe that with all of this volatility in the world the only thing to do is run away. I submit this is the time to make money because volatility is an emotional issue and those who are bright, patient and persistent will come out healthily ahead of all others. Oil is up and down almost 5% daily – huge swings in price we haven't seen since the 70's. Real estate is beginning a serious decline – Toll Brothers reports a 21% decline in new orders – precious metals are at 25 year highs and very volatile. These markets often result in years of up and down movement – decades of "sideways" markets where no real progress is made in indexes. That doesn't mean smart investors can't make money – it does mean that index investors likely won't make any money unless the index they invest in has a high dividend – something that doesn't exist today. Don't run from the volatility, profit from it. This is why money does not come with instructions. ☺ ☺ ☺ ☺

## Noteworthy News! ! !

Congratulations to Rich & Nikki Murowsky on their recent marriage – our best wishes for a long and happy life together. ☺

Congratulations to Maletta Pfeifer on the birth of her grandson Ethan in Rome – finally a little boy to go along with those little girls. ☺

## Housing Musings

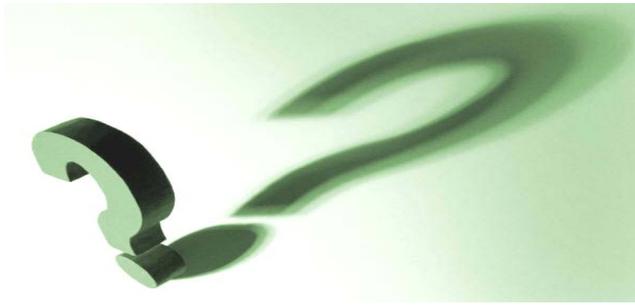
The house you live in is not an investment unless it's a multi-family or a commercial/residential combination where you have rental income offsetting your expenses. The fallacy that American's have been taught that your home is your biggest investment should be an illegal one. Think about it – if your house were a great investment banks would own all of the houses in town, fact is they own none and when they foreclose on one they sell it off quickly, typically for less than what it's worth. The bank knows there's no real money in the homes we live in. Some people make a living "flipping" properties – buying and selling them. That is a very small percentage of the population – you and I are likely live in homes not investors in homes. Don't confuse this because it can cost you your future. Toll Brothers, the largest home builder in the country has a 21% decline in sales for the quarter – a sure sign the real estate market is on its way down. Real estate feels eerily like the late 1980's again to me. There has been a 50% increase in the number of realtors since 2002. In California there are 437,000 realtors for 680,000 listings – that's an average of 1.556 homes per realtor. There are so many people getting into the real estate business there are TV shows as to how to do it. This sounds like the gold rush 150 years ago – how many actually struck gold? .0001% of those who tried? The housing boom of the last 10 – 12 years gives people the fallacious feeling that it is safe and can't go down – not true. Be sure to check your financial floorboards for strength before you walk on them. ☺

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with and own the family values, chances are good you can create a multi-generational estate plan that will help your family, your heirs and society in general. With wealth comes an important responsibility as to how to handle it – how to be a good steward of it - how to give it away – how to respect it and not let it own you. It's just a tool but we often become too emotional about it to make wise decisions. For many families the conversation isn't about the transfer of tremendous wealth but of survival of the family members. With many of our parents and grandparents we need to gently initiate conversations to open the lines of communications regarding financial matters. Some people are very tight lipped about finances and things just aren't discussed, period. Many times in a family situation there are several children and one isn't good with money – or perhaps he's downright awful. This can hamper inter generational communications altogether. It's just easier not to talk about it. Don't let that stop you – discuss it with the "healthy" kids and hopefully over time things will even out – if they don't at least you've got the majority of family on board with your plans, hopes and dreams. It's often difficult to open these lines of communication but here are a few ideas that may break the ice. Make sure you begin the discussions when things are well, not when in crisis mode after a tragedy or incident happens. Respect their right to privacy and proceed slowly – gently share articles that may be pertinent, share this newsletter, and share your thoughts on the matter – tastefully. Don't ask "what are you doing with your money" – rather ask "is there anything I should know with respect to your estate plans." You could also offer to share some of the things you've done and hope for a reciprocation. You can offer to help with anything they may need Never infringe on peoples independence or act as if you expect anything. Opening these lines of communication is difficult but once done, everyone is much happier in the end as it provides a window of time to do some planning that otherwise wouldn't have existed. Call if you need help with this. ☺

## Habits

Here is a quote I came across that I couldn't include in the inspirational quotes section but had to expand upon. "We are what we repeatedly do. Excellence then, is not an act, but a habit" – Aristotle. Think about it – habits are always developed – we are human beings and by definition habitual creatures that do not like change. If you find that you constantly have a certain routine – daily or otherwise – it's now a habit. It takes 30 days to create or break a habit. Here is the tough part – left to our own devices we typically build bad habits – it takes a conscious act to develop good habits and that act needs to be repeated constantly until it is engrained in our DNA. Lets look at some habits both good and bad – Lance Armstrong's workout training, Bill Gates business building, Michael Jordan's shooting, Warren Buffet's investment discipline. These are examples of habits that have lead to huge successes. Lets think of them as healthy addictions – people don't think you can have too much of some things – money, power, health, status, etc. Now for some not so good habits – a person addicted to smoking is ruled by that demon – everything in their life revolves around smoking in one way or another – do they have it, can they light it, when will they have the next one – a person addicted to drugs or alcohol – same demon – more destructive – often builds in crimes like theft, etc. John Candy's diet, Al Capone's business building. These are all extreme examples and I don't think any of them are healthy. Balance in life is healthy – and hard to come by. Perhaps if we focus on what is important to us and consciously build routines to foster those beliefs our habits will change and our lives will get better. This isn't going to happen by accident, we need to act to make it happen. We'll help you build great financial habits. Think about it. Good luck. ☺



## Money Quiz

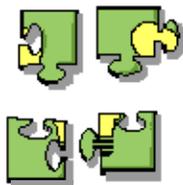
Last months' winner was Phil Lazzard, 69% of workers have access to an employer sponsored retirement plan. This month's challenge is to tell me what the average price of a 30 second TV spot cost during the super bowl – how much were advertisers willing to pay to have their seen by almost 1 Billion people? The winner is going to dinner on us at any one a few select fine dining establishments. 02:06:06

## Credits & Deductions? ☺

What is the difference between a tax credit and a tax deduction? There is a big difference and I'll take credits any day of the week over deductions. Here is how it works – a tax deduction is something you can subtract from your income to determine your "taxable income." This is the amount that your income taxes are calculated from. Let's say you made \$100,000 and put \$10,000 into a tax deductible pension or 401(k) plan – your taxable income is now \$90,000. If you are married filing jointly your marginal tax bracket at that income level is 25% of any income over \$61,300. You saved \$2500 in income taxes by putting \$10,000 in the pension. Don't forget the \$500.00 savings in state income tax as well. Now if that \$10,000 were a credit – you'd be much better off. After figuring your total income tax bill, lets say its \$11,000 for this couple - \$10,000 is subtracted from the tax bill now your net tax is \$1,000. This is a beautiful thing. A \$10,000 tax credit is hard to find but the child tax credit is \$1,000 per rugrat. The bottom line is tax credits are typically more advantageous to you over tax deductions. Feel free to call to discuss your situation. ☺

## Inspirational Quotes

- We must become the change we want to see, Mahatma Gandhi.
- Vitality shows not only the ability to persist, but the ability to start over, F. Scott Fitzgerald
- Pleasure in the job puts perfection in the work, Aristotle.
- Obstacles are those frightful things you see when you take your eyes off the goal, Henry Ford.
- Opportunities multiply as they are seized, Sun Tzu.
- Nothing succeeds like failure, unknown.
- One of the greatest discoveries a man makes, one of his great surprises, is to find he can do what he was afraid he couldn't do, Henry Ford.



## Radio Trivia

- Since 1955 how many times has our federal government run a budget deficit? 42 times or 84% of the time. If the government is doing a poor job with their finances it's no surprise that people are too – the trickle down effect ☹
- When did the 30 year government bond die? Only to be reborn in February 2006? 10/31/01 – Halloween – it just also happens to be my Samantha's birth date. ☺
- How many of the top 10 business schools in the world are US Based? 8/10 or 80% ☺
- American productivity is on the rise – in 1988 it 40 hours to do how many hours of work today? 27 – we're getting good. ☺

**We can piece the puzzle together and make your money work for you. ☺**

If anyone you care about would benefit from receiving this newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart.

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