



# Horton Financial Services, LLC

Insights about choices  
Volume 2, Issue 6  
November — December  
2004

## Financial Choices

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### A Season of Change

Although we did not change Presidents, "change" is inevitable with time, and "change" seems to be the theme of a George W. Bush administration. Taxes, terrorism, and the economy were the big change issues of the first term of the Bush administration. That theme will likely continue.

The "change" factors of the next four years cannot really be said until we are a little farther down the road of the new term. However, there are at least a few issues that are at or near the top of the stack:

- The U. S. involvement with countries bent toward hurting us, will likely continue. As objectionable as this is to a large portion of our own society and other peoples around the globe, it will likely become the cornerstone of the legacy of the Bush administration, and will likely gain support from our allies. Stamping out terrorism where it lives will continue in order to keep it off our own soil.
- Tax cuts of the past will not only be continued, they will likely be enhanced by the tax cuts for small business owners that passed right before the election. And, there may be even more tax cuts to come, as the insidious Alternative Minimum Tax looms bigger as an issue for the middle class. We expect some form of tax reform. The flat tax idea will be looked at along with a consumptive tax approach, either of which would be a huge undertaking.
- The budget deficit, which is enormous, will be addressed. In theory, as taxes are lower, productivity will be higher, and the higher productivity will drive the economy to produce more funds to support the government, some of which will be used to reduce the massive deficit, which is 4% of our Gross Domestic Product. For comparison, it had reached 6% during the Reagan administration.
- There will likely be changes in how Social Security operates. An element of the Bush solution is to allow younger workers to divert a portion of the FICA withholdings into self-directed investments, which, in theory, will hold down the cost of operating social security. At the same time, it will increase gross domestic product.
- With "moral values" said to be the number one priority of voters in this recent presidential election, there may be a greater focus by society upon individual and corporate social responsibility. A trend might emerge.

There will be other issues of change, and it will be interesting to see what develops with these and unknown events to come. The Bush administration appears to be counting upon the Gross Domestic Product of the U.S. to be sufficient to fuel the costs of these changes. It is an economic point of view shared by the President, his economic advisors, the majority of both houses of Congress, and a majority of the populace of the United States. Economics is not a science. Many hold other views. Economists generally agree to disagree.



Raymond C. Horton, Sr.

The "Financial Choices" bi-monthly newsletter is dedicated to the idea of making good choices, financial or otherwise, and is distributed to our firm's clients, professional peers, potential networking professionals, and potential clients to inform and to strengthen relationships, present and future.

### In This Issue:

Page One:

- *A Season of Change*
- *Financial Choices Newsletter*
- *Merry Christmas*

Page Two:

- *By The Way*
- *Required Minimum Distributions*
- *Economic Commentary*
- *Did You Know?*
- *The Devil Is In The Details!*
- *2004 Income Tax Savings!*

Page Three:

- *Cafeteria Plan Participants*
- *Hot Ideas*
- *Medicaid Myth # 3*

Page Four:

- *About Our Practice*
- *Closing Thoughts*
- *Tax Professionals Only*



## Merry Christmas & Happy New Year!



To all our friends, clients, family, extended family, peers, and our networking professionals....

Our hope and prayer for each of you is to be in God's will and that you will experience His many blessings!

Ray, Rita, Jim & Staff



**By the way...**

*Some Universal Life and Variable Universal Life policies now come with a “no-lapse guarantee”, a long overdue feature created by necessity in the wake of many insureds outliving their policies. It does cost a little more for this feature, but new insureds are voting in favor of it, as evidenced by their purchasing patterns.*

**Required Minimum Distribution**

The “Required Minimum Distribution” (RMD) is one way the government gets your IRA money back into circulation and taxable. If you are required to take a minimum distribution from your IRA, those IRA holders who are age 70 1/2 or beyond, make sure you do it before the end of the year. The penalty for not complying with this section of the law is very onerous, at 50% of the amount you should have taken out.

**Economic Commentary**

The economy is all over the place, depending upon to whom you talk, or whose commentary you read or listen. Both inflation and interest rates are up a little. The Federal Funds Prime Interest Rate is now 2.06%, and Bank Prime is 5.00%. Inflation appears to be running about 3.9% for the year, which is the same as the fifty year average. Consumer Confidence is weaker recently, but higher than a year ago. Construction and housing are improving. Jobs are growing too. Health care costs are still problematic, but most key elements for growth are in good shape.

**Did You Know?**

- The best prevention for the common cold is “hand-washing”.
- More than 1,000 senior Louisianians die each year from pneumonia.
- The greatest cause of death to pregnant women is homicide, the majority at the hands of men, often by the spouse.
- Alaska leads the nation (per capita) in homicides of women by men.
- 14% of the nation’s motorists are uninsured. Colorado leads with 32%.
- There were more than 16,500 homicides in the U.S. last year, about six for every 100,000 residents, or an increase of 1.7%.
- Other than murder, violent crimes in the U. S. were down 3% in 2003.
- 61% of U. S. workers have never calculated how much they need to retire.
- Eight of the world’s ten largest insurers are outside the United States; four are Japanese, and four are European.
- Socially conscious investing is on the rise, shunning things like tobacco, alcohol, gambling and guns.
- Each year, three in one hundred die; eight in one hundred suffer a long term disability of ninety days or more.
- Forty-eight percent of home foreclosures are the result of a long term disability by the primary wage earner.
- Eighty-three percent of U.S. residents do not wash their hands after using the toilet.
- Approximately one million persons in the U.S. are living with HIV/AIDS.
- The U.S. Gross Domestic Product produces per capita about \$38,000 per year.
- Twelve percent of U.S. residents live in poverty.

**The Devil Is In The Details**

An advertising executive, whom we will call “Don”, was in an auto accident involving an uninsured drunk. He suffered “closed head injuries”, and could not function. His partners in the firm told his wife, Joan, not to worry about anything because they were going to keep Don on the payroll “from now on”.

After six months, the loss of Don’s services to the firm began to seriously impact the partners, and the paychecks stopped. Joan was not very understanding of their predicament. What about hers? Don was still incapacitated.

The partners told her that Social Security would begin paying disability, and after about a year or so, it did. By this time, Joan and Don had scant little in the way of assets.

The partners, trying to do right by Don, kept him on the health insurance as if he were still working the required thirty hours per week, and failed to notify Don and Joan of his COBRA rights under the insurance. Since Don was not a qualified insured during the time huge medical bills were continued to be paid, the insurance company demanded back the monies it had paid out, and a judgment was ruled in favor of the insurance company. The service providers sought remedy from Don and Joan, and finished the job of ruining them financially.

The IRS ruled that the salary that was paid during the first six months of Don’s disability was “dividends” in the absence of a qualified sick pay plan, and therefore not tax deductible. It gets worse. Joan hired an attorney who went after the advertising agency, and gained a seven figure settlement.

The boys back at the office may have been great advertising executives, but they were terrible at making financial decisions without having complete information, or the assistance of a financial professional. The devil really is in the details! (Article contributed by Peter M. Bratlie, CPA)

**Business Owners & Professionals  
2004 Federal & State Income Tax Savings\***

Though time is running short, you still might be able to set up a Qualified Retirement Plan for yourself that could create a tax deduction of five to ten times the deduction under your present plan.

What was once thought impossible is now a practical way to get huge tax deductions, while building up to two million dollars in a tax-exempt trust for yourself. And the IRS will give you a favorable determination letter saying it is okay.

A properly established plan will comply with current IRS rulings. Special design features and utilization of plan assets make the plan work in this manner, where nothing else even comes close.

Section 412(i) has been in the Internal Revenue Code for thirty years, but has only recently become popularized, due to changes in pension law.

- **Tax Deductions of as much as \$300,000 Per Year!**
- **Invested Assets to Grow Tax-Deferred!**
- **Invested Assets Protected from Creditors’ Claims!**
- **Invested Assets Eligible for IRA Rollover!**
- **IRS Approval of the structure!**

\* Claims in this article are subject to certain and individual assumptions, proper plan design, IRS discrimination testing, and favorable determination.

***Cafeteria Plan Participants***

You have heard it before...“use it or lose it”! If you are participating in a Section 125 Cafeteria Plan, and the plan has a Flexible Spending Account feature to which you have been contributing before tax for certain medical expenditures, you have only until the end of the year to spend the money in your account.

Now is the time to see the dentist, the optometrist, get your eyeglasses updated, contact lenses, annual physical exam, and related medical supplies. Read the section under Flexible Spending Account in your plan description to see what it pays and go ahead and get those routine things done. You will either “use it or lose it”!

***Hot Ideas !***

Because interest rates hit near the bottom of the barrel, and then stayed there for quite a while, some interest-sensitive life insurance policies have been undermined. Unless they were heavily funded, the policies simply did not generate enough interest to keep the cash account growing in a manner that would hold down the internal mortality and expense costs. Eighty percent of these types of life insurance policies are under performing, so much so that many are beyond restructuring, and will likely need to be replaced. Newer policies are generally more efficient. There is often more than one “catch”, however. The insured is older, and may not be in good health. Replacement also begins a new contestable and suicide period, that usually runs two years. It is a good idea to review.

**10 MEDICAID MYTHS**

**You probably know that Medicaid will pay for your long term nursing home care if you meet certain limitations on income and assets. But, most people misunderstand the Medicaid eligibility rules. This series, “10 Medicaid Myths,” discusses the most common misconceptions.**

**Medicaid Myth # 3**

**“If I make a gift I can’t qualify for Medicaid for 36 months.”**

**It is possible you may be disqualified for 36 months, but only if your gift has a value of \$108,000 (\$216,000 for a couple). Most people don’t have that kind of money to give away and thus have a shorter waiting period. Under current guidelines, the waiting period is computed by dividing the value of the gift by \$3,000. For example, if you give your child a car worth \$12,000, you will be ineligible for 4 months, not 36. If you are married and the car is community property, you and your spouse will be ineligible for 2 months (\$12,000 divided by \$3,000 X 2). The maximum waiting period is 36 months. So, if you give away \$300,000, you don’t have to wait 100 months to qualify for Medicaid (\$300,000 divided by \$3,000); you will be ineligible after 36 months. However, there is a trap for the unwary. If you make this \$300,000 gift and apply for long term care before the full 36-month waiting period has elapsed, even one day before, you could fail to qualify for benefits for the full 100 months.**

**Making gifts to a trust is a little different. Here the penalty period can be up to 60 months, or 5 years. Usually, however, donating to a trust is much better than donating straight to your children, for many reasons.**

**Also, a gift to your spouse does not count against you. That’s because all the assets owned by you and your spouse, even separate property, are considered together when determining if you qualify for Medicaid.**

**As you can see, Medicaid planning is not a self help venture. If you make a large gift, don’t apply for Medicaid benefits without first consulting with a qualified elder law attorney. Better yet, consult with the attorney before you make the gift.**

**For more details and a free booklet on Medicaid Planning in Louisiana, and/or Estate Planning in Louisiana, please call my office and ask to speak to one of my staff, or just email your request to me.**

**Compliments of:**

**Joe Gilsoul, Attorney  
Board Certified, Estate Planning and Administration  
Member, National Academy of Elder Law Attorneys  
Weems, Schimpf, Gilsoul, Haines & Carmouche, APLC  
912 Kings Highway  
Shreveport, LA 71104  
318-222-2100**



Insights about  
choices  
Volume 2, Issue 6  
November — December  
2004

## About Our Practice

**Horton Financial Services, LLC**  
120 North Hardwick Drive  
Bossier City, LA 71111

Phone: 318-222-8600 or 888-897-8800  
Fax: 318-222-4023 or 888-809-2100

Email: ray@hortonfinancial.com  
rita@hortonfinancial.com  
Jimbethea@hortonfinancial.com

*Meeting Financial Challenges Every Day!*

WE are on the web. Visit us  
at [www.HortonFinancial.com](http://www.HortonFinancial.com)

For almost forty years, we have been helping people solve financial problems. The slogan of Horton Financial Services is "**Meeting Financial Challenges Every Day**"!

Our firm is paid for distributing insurance and investment products, and for the benefit of our counsel. The nature of our business is "**planning**", and working with each client, one at a time, to help them achieve certain financial objectives.

We have never focused upon our personal income, but upon doing the right thing for the client, always considering the income a by-product of our service.

We have impacted over 3,000 lives in a positive way over the years. We continue to grow our business one client at a time, typically upon referral from existing satisfied clients and contract holders.

Our pledge to you is that we will always strive to do the right thing for you and to merit your trust and confidence.

*Raymond C. Horton, Sr.*



## CLOSING THOUGHTS



With the year nearing its end, filled with Thanksgiving, Christmas, and the New Year holidays, I always wonder where it went, and why there is so much left undone. Some years are better than others, but as the days get shorter and the time gets faster, I realize that it is about time to let go, and just see if I can manage the multitude of activities still in process, some of which had their genesis about this time last year.

Therein lies the conflict of the celebratory attitude and the need to finish what I started. I have often worked steadily, with scant time off, right up until New Year's Eve, and wondered if my personal empire would not have collapsed, had I been less diligent. Other times I have vacationed in seclusion, enjoying the crisp weather and nature walks. As I reflected by the fireplace upon God's blessings, I wondered how I was able to get away with this, as I watched a lone eagle flying over calm waters just outside.

I don't know the answer. It is just that way, and whatever I do during this season just seems to be the way it was supposed to happen. Were priorities set? Were goals met? It just always seems to work out. I always tell my wife that everything will work out. She suppresses a scream, and then we move along hand in hand to whatever was supposed to happen. It has been that way for forty-five years now. I suppose it's a habit.

We are thinking we might take off a few days, between Christmas and New Year's Eve. Or, we could just continue working through it all, as we have done many times. Either way is really okay, as we enjoy both, particularly this time of year.

## Tax Professionals Only

According to Tiburon Strategic Advisors, a research-based consulting firm, tax professionals who partner with financial service professionals earn 34.5% more than those who do not practice in this manner with either a formal or informal partnering arrangement.

### Sources include:

- Wall Street Journal
- Fox Financial News
- The Shreveport Times
- Dow Jones
- National Assn of Ins. & Fin. Advisors
- American Health Insurance Assn.
- The Associated Press
- The National Underwriter
- Million Dollar Round Table
- Cable News Network
- Society Financial Services Professionals
- Reuters News Service
- Center for Disease Control & Prevention
- The Philadelphia Inquirer
- Employee Research Benefit Institute
- Joe Gilsoul, Attorney
- Peter Bratlie, CPA
- Editorial Knowledge