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Hi Everyone,

Summer vacations are just around the corner, but don't let your finances slack. Contact us today to schedule a review to keep your money on track while you're soaking up the sun.

Steve, Brittany & Angel

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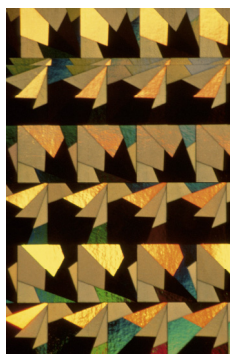
Ask the Experts



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## Style Drift: Do You Know Where Your Assets Are?

Every investment you own should have a specific role in your portfolio. However, even if you've established an appropriate asset allocation, it's a rare portfolio that remains static for years. Even if you don't alter your holdings, style drift may make changes for you.



Style drift occurs when a portfolio undergoes changes in its original approach. It is neither good nor bad, but monitoring changes helps ensure your portfolio reflects your intentions.

### Watching for hidden shifts

Mutual funds provide a good example of how style drift can occur. Each fund has an investment objective; however, its manager may have flexibility in how that objective is pursued. For example, an actively managed stock fund may be known for investing in value stocks--those the manager feels are underpriced--while another fund might favor growth stocks with rapidly growing earnings. Depending on a manager's view of the market's future, a fund that has focused on growth stocks may shift toward value--or vice versa. Its style has drifted, even though its investment objective may have stayed the same.

The more specific a fund's name, the less latitude its manager may have. For example, a fund with a specific asset class or style in its name--let's say the hypothetical XYZ Small-Cap Fund--must invest at least 80% of its assets accordingly. Be sure to review a fund's prospectus before investing; annual and semi-annual reports should show any changes.

### Getting caught in a drift

Another common example of style drift is a small-cap mutual fund that has large inflows of

new assets. Because there are restrictions on how much of one company's stock a single mutual fund can hold, small-cap fund managers sometimes find themselves unable to invest enough in any individual small company to affect the portfolio's performance, and invest more in mid-caps. Or they may be reluctant to sell a solid small-cap company that has grown to mid-cap size. Still other examples:

- A manager who includes a significant percentage of international securities in a portfolio that has typically focused on domestic issues
- A portfolio that departs substantially from its so-called "neutral mix" of multiple asset classes

Even though it may be within a manager's discretion to make such shifts, style drift can affect your asset allocation. If your portfolio's expected return assumes that you have a certain percentage in, say, small caps or international stocks--or that you exclude them--your allocation and overall strategy can be thrown off without your realizing it.

### Drifting away from an index

Style drift also can affect the standard by which you judge a portfolio's performance. Most mutual funds are benchmarked against a relevant index to ensure that you're comparing apples with apples. If a fund's style drifts dramatically, the index may be less useful as an indicator of how that fund compares to its peers. More importantly, determining the level and type of risk to which the fund exposes you may also become more difficult.

### Don't overreact

Style drift may be part of a manager's overall strategy to try to boost performance. Staying on top of whether your investments may be undergoing a makeover, and understanding the reasons behind any style drift, can help keep your portfolio on track.



#### **When giving to charity:**

- Only give to "qualified" charities. See IRS Publication 78.
- Avoid giving cash, unless you get a receipt.
- You must obtain a "qualified appraisal" for donations of property worth over \$5,000 (other than cash and publicly traded securities), and you must attach an appraisal summary (IRS Form 8283) to your tax return.

## **Tax-Wise Gifting Strategies for Seniors**

You've spent most of your life building your wealth. Now, your concern may have shifted to reducing your estate and saving taxes. Making gifts is one way to reduce your estate. But because gifting can trigger federal gift tax, as well as federal generation-skipping transfer tax (GSTT) if the gift is to someone who is more than one generation below you (e.g., grandchildren), you'll want to consider making gifts in ways that will minimize tax. Here are some tax-wise gifting strategies to consider.

### **Take full advantage of the federal annual gift tax exclusion and lifetime exemption**

For 2008, you can give tax free up to \$12,000 per recipient (\$24,000 if the gift is from both you and your spouse) under the annual gift tax exclusion. Gifts over that amount are tax free to the extent of your \$1 million lifetime gift tax exemption (\$2 million lifetime GSTT exemption).

### **Contribute to 529 plans**

If you fund a 529 plan for your grandchild's college education, you can contribute up to five years' worth of gifts at once; that's \$60,000 per child, or \$120,000 per child if you and your spouse elect to make the gift.

### **Pay tuition and medical expenses**

You can make unlimited tax-free gifts by paying medical bills or college tuition on behalf of a recipient. Payments must be made directly to the medical care provider or college.

### **Make charitable donations**

Donations to charity are completely free from gift tax and are also generally deductible for income tax purposes, subject to certain limitations.

### **Make gifts and pay the gift tax**

This may seem counterintuitive, but sometimes making gifts and paying the gift tax can be advantageous. The reason is that gift tax paid is removed from your estate. So, gift taxes paid on lifetime gifts can significantly reduce overall federal gift and estate taxes.

### **Types of property to gift**

Selecting the type of property to gift can be very important. Here are some things to consider:

- Gift property that may grow substantially in value over time, such as common

stock, antiques, art, and real estate. This strategy removes any future appreciation of this property from your estate.

- Be careful when gifting appreciated property. Because a property's basis (generally its cost) is carried over to the recipient, gifts of appreciated property can be good in some circumstances but not in others. You may not want to give highly appreciated property if the recipient will recognize a substantial capital gain when the property is sold. On the other hand, you may want to make that gift if the sale of the property is imminent anyway and the recipient would owe less tax than you upon the sale.
- You should avoid giving property that is likely to lose value after the gift has been made. Also, it's not generally a good idea to give away depreciated property. The recipient's basis for recognizing a loss is the lower of your basis (carryover basis) or the current fair market value. The recipient may be unable to recognize the loss on the property. Both you and the recipient may lose the loss deduction.
- Gift assets that yield higher amounts of income instead of those that yield lower amounts. This will prevent the buildup of income in your estate. Similarly, gift assets that produce taxable income instead of those that produce less taxable income, such as municipal bonds.
- It may be possible to reduce your ownership interest in a closely held business (or an interest in real estate) so that it may be valued at a discount. For example, if you have a minority interest (49% or less) in the stock of a closely held business, you may qualify for a discount. Also, a fractional interest in real property may be valued at a discount. It may be beneficial to make a gift of stock or an interest in real estate to qualify for the discount.
- Be careful when giving S corp stock to a trust, as the business may lose S corp status.

## Can I Get Life Insurance After a Serious Illness?

Many Americans lack sufficient life insurance to provide financial security for their families. If you're in good health, you can probably get the life insurance you want at a relatively affordable cost. But what if you have an existing medical or health-related condition? What if you've had a heart attack or cancer? Can you still get life insurance? The answer in most instances is "yes," but it may be at a higher cost.



### But I've been turned down before

The fact that you've been turned down before doesn't mean you can't get life insurance now. Life insurance for people with prior health conditions has become more available and affordable because people are living longer, resulting in more liberal insurer underwriting. Life insurance underwriting is the process used by the company's underwriter to decide whether to insure you and at what rate or cost, based on your medical history and sometimes other factors as well. In general, the longer your life expectancy as determined by the underwriter, the more likely you will qualify for life insurance, and the more affordable the cost.

### What kind of information will insurers need?

Insurance companies generally request medical information from your primary care physician and any other doctors or hospitals that treated you for your illness. The insurer will also want to know the type and severity of your illness, the length of time since you were treated for the illness, and your prognosis.

The company may ask you to submit to an independent medical examination. Finally, the life insurance application will solicit information about the health history of your family, including your parents and siblings.

### Will it cost more?

Possibly. Insurance companies commonly view your health history differently than your physician does. For instance, if you've had a heart attack, but now are active and leading a normal life, your doctor may say you're doing fine. But an insurance company's underwriter will review volumes of actuarial statistics and may conclude that, given your heart attack,

your life expectancy is shorter than that of a person of the same age and gender who hasn't had a heart attack. Because it expects to have to pay the death benefit sooner, the company expects to have less time to collect premiums. The insurer then assesses a higher premium cost to you to compensate for the anticipated shorter premium-paying period.

### Some helpful tips:

#### **Discuss your situation with your doctor.**

You will then have some idea of the medical opinion your physician will give to the insurer concerning your prognosis.

**Shop for life insurance.** Different insurance companies often take significantly different views of various illnesses. While one company may deny coverage entirely or charge a much higher premium due to a specific ailment, another insurer may offer coverage for the same illness at a lower cost.

**Get help.** Some companies offer insurance to higher-risk applicants because they share the cost with another insurance company. Companies that work with other companies (called "reinsurance") are more likely to insure you if you have health issues. Consider using special-risk advocates or impaired-risk specialists who help find impaired-risk life insurance coverage.

**Start with your employer.** Many offer life insurance to all employees, regardless of their health histories. Some alumni associations and professional organizations also offer life insurance on a group basis without requiring a physical.

#### **Show the insurer you're doing better.**

Demonstrate that you're taking steps to control or improve your health. Proof that you exercise and have a healthy diet increase the chances of living a longer life, making you a better insurance risk.

### **Weighing the risk**

*Insurance companies use several categories of risk, including preferred risk, standard risk, and substandard risk. Depending on the insurer, some use subcategories within each risk class. Based on your health history, you'll likely fall within a certain risk class which will determine how much life insurance you can get and the cost.*

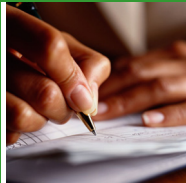
***A special- or impaired-risk advocate is a specialist who works with the insurance underwriters to try to get you life insurance at an affordable price in spite of your medical history.***

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## Ask the Experts



### Can I enroll in Medicare at age 65, even if I'm not yet eligible for full Social Security benefits?

Yes. Although full retirement age for Social Security is increasing, 65 remains the age at which most Americans become eligible for Medicare. You don't have to be retired to enroll in Medicare, so you should still consider signing up for Medicare Part A (hospital insurance) and Medicare Part B (medical insurance) at age 65, even if you plan on working longer. Make sure to contact the Social Security Administration approximately 3 months before your 65th birthday to discuss your options, because enrollment rules are relatively complicated, and there may be consequences if you wait until later to sign up.

For example, when you become eligible for Medicare Part A at age 65, you have a certain period, called your initial enrollment period, in which to sign up for Medicare Part B. Most people won't pay a premium for Part A, but you'll always pay a premium for Part B. Your initial enrollment period is a seven-month period that begins three months before your

65th birthday, includes the month you turn age 65, and ends three months after your 65th birthday. If you don't sign up for Part B during your initial enrollment period, you can't sign up until the next general enrollment period that runs from January 1 through March 31 of each year, and you'll generally pay a higher premium for Part B coverage. Your monthly premium will increase by 10% for each 12-month period you were eligible for, but did not enroll in, Medicare Part B, unless you were covered by group health insurance through your employer or your spouse's employer. In that case, you may qualify for a special enrollment period, and you may not have to pay a premium penalty.

For more information about enrollment requirements and other factors you should consider when deciding when to sign up for Medicare, contact the Social Security Administration at (800) 772-1213 or visit the Medicare website at [www.medicare.gov](http://www.medicare.gov).