

# BOONE FINANCIAL ADVISORS INC.

*Helping You Shape Your Financial Future*

## Effective Financial Strategies

### Let's Talk Social Security

Social Security has been a topic of much conversation and media attention in the last few years — particularly since President Bush's state of the union speech urging that changes be made to the program. Because this is such a hot potato in the political world, there have been far too many extreme positions taken and far too little effort to find a win-win solution in which everyone contributes.

Without revisiting territory you've probably read quite a bit about, here's the basic problem: When Social Security began, we had 16 workers for each retiree. This made it fairly easy for those working to cover the cost of the program. It was also designed to start paying workers at age 65 — an age at which few workers lived beyond at that time.

Social Security was designed as a "pay-as-you-go" program. This means that the taxes

paid by workers went to the government and was used to support current recipients. There was no explicit savings component. Because tax revenues exceeded required expenditures, the excess was kept in a "trust" fund for future use (in reality much of this fund has been "borrowed" by the government to finance its operations).

Since it was first established, a number of things have happened with Social Security. First, benefits have risen enormously. As a result, the taxes to pay for these benefits have also risen. Second, today, there are only three workers for each retiree (versus the 16 to 1 ratio at Social Security's inception). Not only have program costs risen, but fewer workers are available to pay for these costs. Given changing demographics, it's estimated that the worker / retiree ratio will soon decline to

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### Life Insurance—Getting it Through Your Employer

As you go through life, it's a smart move to reevaluate your life insurance needs every once in a while. One of the questions that arises from time to time is whether individuals should rely on the insurance provided by their employer under a "group life insurance" plan.

Many companies provide their employees with some amount of term life insurance (typically a small amount — \$25,000 or \$50,000). Those who need more coverage can often purchase it through their employer and have the premium deducted from their paycheck. Since these group policies generally don't require a physical exam, they usually limit the amount of additional coverage to two to five times a person's salary (though the amounts provided can certainly exceed this limit). A limited multiple of one's annual salary is often much less insurance than is needed for a household income contributor.

There are two potential problems with group insurance plans: First, in most cases, if you leave your employer, you will lose your

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two-to-one. Finally, people are living substantially longer than they ever have before. This has made the average period over which a retiree receives benefits nearly ten times as long as it was originally.

Given the current structure of Social Security, it's estimated that in about ten to fifteen years, the taxes paid into the program will no longer fully support the benefits paid out of the program. If the current program were to continue unchanged, the funds currently held in Social Security trust fund will likely be used up in about 38 years. At that point, assuming no changes, the income received from then-current workers would only support about ¾ of the estimated benefits due under the program.

It's not important whether we do or don't call this a "crisis" or characterize the system as "bankrupt." What is important is that we all recognize the on-coming problem and share in the solution. The sooner we do that, the smaller the sacrifices needed.

Asking people to sacrifice is rarely a winning political strategy. Consequently, the leaders of our country often fail to address known problems until they do in-

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coverage. There is no COBRA benefit for life insurance. This could be a problem if you develop health problems that affect your insurability. While you may be insurable today, should circumstances change, you could find yourself unable to replace your group coverage once you've left your employer.

Of equal or perhaps greater importance, most group policies, by definition, agree to insure anyone — including those who are not otherwise insurable. If you can qualify for insurance easily on your own, you can likely purchase this insurance for less than the cost of a group plan (since your premiums will be based solely on your insurability — as a healthy applicant).

Group insurance plans are almost always traditional term insurance. You have coverage under such as a plan only for so long as you pay premiums. Typically, premiums are fixed by age group (for example 25-29 or 45-49) and rise as you get older. The good news is

***There are any number of ways to fix Social Security. For each possible solution, some group of us sacrifices more than others. To be acceptable, all of us will need to give up something.***

deed become "crisis." It's not a good way to run a railroad (or a country).

There are a number of approaches to fix the Social Security problem. Each solution requires sacrifices of one group or another. We could raise the income cap on Social Security taxes, so that high income earners pay more. We could change the way that we calculate benefits, so that the annual benefit increases don't compound so quickly. We could tax more of the benefits or pay less to those retirees with higher incomes. Or, we could continue to raise the age at which benefits begin (a process started in the last few years). These are only some of the possible solutions that could be explored.

It is not our point here to take a position on which solution or combination is best. This is a financial issue for all of us — and it needs to be addressed in the most reasonable manner possible and as soon as possible. We will all need to contribute to the solution. Please add your voice to this discussion. And, please make sure that you are saving on a regular basis so you don't have to rely on Social Security as your primary means of retirement income.

that term life insurance is less expensive than it was just 10 years ago.

We believe that group life plans make most sense for those who have existing health problems that may make them uninsurable or the cost of insurance very expensive. In these cases, a group policy may be the only solution — or it may provide a core of coverage that can be supplemented with an individual policy.

How much do you need? There are lots of simple calculators on the internet that can help you make that decision. When our clients ask the question, we try to ensure that a surviving spouse will not suffer an economic change in lifestyle and that any children are well taken care of (including education costs). Every family's needs can be different.

As you know, we don't sell insurance, but we can help you evaluate your needs and recommend appropriate products or agents. Call us if we can be of help.

# Estate Planning and Your Privacy

## Potential Pitfalls Associated with HIPAA Legislation

The U.S. Department of Health and Human Services has recently issued regulations regarding the privacy provisions of the Health Insurance Portability and Accountability Act (commonly known as “HIPAA”). The regulations provide new legal requirements for how health care providers must treat a patient’s medical information and records.

***While HIPAA is intended to protect the privacy of patients, it has some unintended consequences in the estate planning arena.***

Doctors and hospitals must now comply with strict rules regarding the privacy of patient information. If medical practitioners violate these regulations, they could face fines and even criminal penalties. Accordingly, health care providers are being very careful about the release of patient medical information. While HIPAA is intended to protect the privacy of patients, it has some unintended consequences in the estate planning arena.

Typical estate planning involves the use of “advance care directives”, including living wills and health care powers of attorney. In general, you use these documents to give authority to someone you’ve selected to make healthcare decisions on your behalf when you are unable to do so (in cases of incapacity).

***Health care powers and other directives drafted before HIPAA regulations came into effect will no longer work as intended. They must now make reference to HIPAA.***

However, the HIPAA regulations contain strict requirements about the wording required in these advance directives. The commonly used standard wording that generally authorizes the power holder (your agent) to receive all of your medical information will no longer work. There must now be a specific reference to HIPAA. Health care powers and other directives drafted before these regulations came into effect will not contain such a reference. In these cases, even well thought out planning may be thwarted.

HIPAA impacts another area of estate planning as well. Many people create living trusts as part of their

estate plan. These trusts always make provision for a successor trustee to take over the responsibilities of managing the trust, if the existing trustee (typically, the person who created the trust) becomes incapacitated or unable to act. However, in most cases, before a successor trustee can step in, the trust usually requires that a treating physician certify that the current trustee is unable to continue. Without appropriate authorization from the current trustee, such a disclosure by the physician might well violate HIPAA.

In this type of case, a court proceeding might be necessary to accomplish the change of trusteeship. This is clearly contrary to one of the goals of the living trust in the first place — to provide expeditious administration of the trust in the event of incapacity. A number of national and state legal organizations are examining these issues and are developing proposals as to how to deal with the HIPAA regulations in the estate planning context. Proposals to address the problems, particularly with respect to already existing documents, are likely to be coming out in the near future.

***We recommend that you ask your estate planning attorney whether your documents properly address the HIPAA***

In the meantime, if you are currently creating or updating a living trust or advance directive, we recommend that you ask your estate planning attorney whether your documents properly address the HIPAA issues. Moreover, anyone with existing documents should consult with their estate planning attorney to discuss this important issue.

## Employee Spotlight—Susan Morse

Susan Morse, CFA, CFP® joined us at the beginning of the year bringing over twenty-five years experience in wealth management, private equity and debt investing, and portfolio management.

Susan has a MBA from Wharton, a BA from Tufts University, and holds both a CFP® certification and her Chartered Financial Analyst designation (CFA). In addition to holding senior positions with major institutional investors and a private bank, she has been a consultant to the World Bank and to clients of the company she co-founded. Susan looks forward to getting to know, and working with our

clients, as well as assisting us with new business development and the myriad compliance issues critical to our clients' security.

Susan and her husband have lived in San Francisco since 1981 — when they moved West for their financial careers and to raise their two sons. She is involved with the Financial Women's Association, works on high school financial literacy through the Security Analysts Society, and serves on the Board of Directors of the Olympic Club. She enjoys downhill and cross country skiing, golf, working out and bike riding.

### Around the Office

**At the Podium ... Norm Boone and Linda Lubitz** had the “unfortunate” experience (hey, somebody's got to do it...) of being in Puerto Rico in January to give a presentation to the American Institute of CPAs on Investment Policy Statements. They took the opportunity to explore the island for a few days afterward.

**Education a Continuing Affair ...** While in Puerto Rico, **Norm** and **Linda** sat in on several investment classes at the conference. In January, **Kevin Gahagan** attended the Alternative Assets Symposium which examined research and investment strategy implications when working with hedge funds, private equity and direct owned investment real estate. **Susan Morse** attended a recent teleconference on compliance matters for advisory firms. **Norm** attended a two-day seminar in January sponsored by Charles Schwab & Co to discuss company valuation approaches in the context of mergers and acquisitions. **Juliet Wisdom** completed a program on developing Excel computer skills to help our administrative department track activities better.

**Furthering the Profession ... Kevin** was appointed to the task force organizing the Financial Planning Association's national conference. The past few months have seen him hard at work developing educational sessions for the conference. **Norm** and **Linda** have started a new company to assist the profession in developing and writing Investment Policy Statements. You can visit [www.IPSAdvisorPro.com](http://www.IPSAdvisorPro.com). **Dave Cowles** was interviewed for the article “Investing in Exchange Traded Funds — A Shrewd Idea with Big Tax Advantages” for the March issue of the “Tax Hotline” newsletter.

**Community Affairs ... Holly Kindel** recently served as a financial counselor with Tax Aid, a non-profit that helps low-income individuals prepare their tax returns. Holly disseminated information about opening checking and savings accounts, applying for select benefits, and registering for financial education workshops designed to help attendees move towards self-sufficiency and economic security.

**Congratulations are in Order ... Kevin Gahagan** has been named a principal of Boone Financial Advisors, Inc. Kevin has been with BFA for seven years and has contributed in many ways to the building of the firm. He oversees many of our important client relationships, has added to our investment expertise, and regularly contributes insight and wisdom to our team. Kevin has served as the past president of the Financial Planning Association's East Bay chapter, teaches investments in the UC Berkeley Financial Planning program and is active in many other community endeavors. **Sabrina Lowell** successfully completed her CFP® exam and is now working on meeting her work experience requirements. CONGRATULATIONS, Sabrina!

**Personal ... Norm and Linda** are pleased to announce their engagement. No date has been set as yet. Norm's daughter **Nani** (19) has just pledged the Delta Delta Delta sorority at Vanderbilt University. She's interested in exploring a career in international business. Son **Andrew** (21) is now a junior at the University of Southern California. He too is interested in business. Both will be looking for internship opportunities this summer and would appreciate any help you might be able to provide.

## Professional Organizers — Can They Help You?

A professional organizer is someone who comes to your home or office to help develop and install organizational systems that work for you. An organizer may act as your personal assistant running errands and helping you maintain your home and / or office. Depending on the specific skills of the person you hire, they may help coordinate a relocation, supervise a home construction project, or simply help you rearrange your home environment — helping you get rid of accumulated clutter.

When it comes to financial matters, an organizer who specializes in working with finances and organizing data can help you in a variety of ways including:

- Setting up financial and tax files.
- Setting up financial software (Quicken, etc.) on your computer and automating the interface with your financial institutions.

- Automating your bill payments.
- Working with family members in collecting and organizing the paperwork associated with filing an estate tax return.
- Working with an elderly parent to pay bills and manage their checking account.
- Helping you track your spending to better understand your cash flows.

We recommend organizers for some of our clients, particularly those needing help with tracking their finances. But for many of us, working with an organizer can make sense — helping us achieve better organization and control and ultimately helping to simplify our lives. The National Association of Professional Organizers (NAPO) and for the local San Francisco Bay Area NAPO Chapter have informative websites which can be found at: <http://www.hireanorganizer.com> and

## Protect Your Identity with Free Credit Reports

Each of the Big Three credit reporting agencies; [Equifax](#), [Experian](#) and [TransUnion](#) are now required by federal law to provide you with a free credit report, each year. Given the frequency of identity theft, one of the best ways to protect yourself is to frequently review your credit report. Getting an updated report from one of the agencies every 4 months is an excellent way to protect yourself.

### What is a credit score?

A credit score is a financial health rating various lenders use to determine your creditworthiness. A score below 600 is typically unfavorable, while one above 700 is considered good. Credit scores are calcu-

lated from a variety of factors including your level of indebtedness; monthly payments; number of open credit cards; available, but unused credit; payment history and a host of other factors.

Access to your free credit reports are available via the internet, phone or by mail:

[www.AnnualCreditReport.com](http://www.AnnualCreditReport.com)

Call toll-free 877.322.8228 or write:

Annual Credit Report

Request Service, PO Box 105281

Atlanta, GA 30348-5281

## Changes are Coming to BFA

Two important changes will be occurring at Boone Financial Advisors this year. First, our current lease on California Street in San Francisco terminates at the end of June. **We will be moving our office location** to a larger and better suited office here in San Francisco. We are in final negotiations regarding a new space.

Second, and more importantly, with the move, **we will be changing the name of our firm**. While Norm was the sole owner, it was logical to call the firm Boone Financial Advisors. Kevin Gahagan is now a principal with the firm. We expect others in the future. We believe “re-branding” the firm makes sense for our company’s longer term vision. This is not in any way a signal of changes in Norm’s role or the company status. We see it as an opportunity to move the company onto the next stage of success. You will be hearing more about each of these changes in the coming days.



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*If the only prayer you ever say in your entire life is thank you, it will be enough. — Meister Eckhardt*

*We are all faced with magnificent opportunities brilliantly disguised as impossible situations. — Charles R. Swindell*

*No one really knows enough to be a pessimist. — Norman Cousins*

*The only sure thing about luck is that it will change. — Bret Harte*

*...and then the day came when the risk to remain tight in a bud was more painful than the risk it took to blossom. — Anais Nin*

*"How does one become a butterfly?" she asked pensively. "You must want to fly so much that you are willing to give up being a caterpillar." — Trina Paulus,*