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October 10, 2004

**GETTING GOING**  
By JONATHAN CLEMENTS



## Rule No. 1: Don't Always Follow Rules

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Some rules were made to be broken.

As we manage our money, we are forever being told "don't do this" and "don't do that." And most of the time, we should heed these warnings.

But not always. Here are seven financial dictums that usually make a ton of sense -- but that some folks ought to ignore.

### 1. Skip Company Life Insurance.

Many companies not only provide employees with life insurance, but also offer the chance to purchase additional coverage, often without a medical exam.

Don't bite, advise experts, who note that employees in reasonable health should be able to get cheaper coverage on their own. But what if your health isn't so great? In that case, buying life insurance through your employer could be a savvy move.

### 2. Don't Buy Funds at Year End.

Around this time of year, experts start warning investors not to make big stock-fund purchases in their taxable accounts, because their new mutual funds may make hefty year-end capital-gains distributions.

Shareholders then have to pay taxes on these distributions, even though they didn't benefit from the gains involved.

But for some folks, the distributions won't have much sting. Thanks to the long bear market, "a lot of people have a bunch of tax-loss carry-forwards," notes Minneapolis financial planner Ross Levin.

These losses could be set against any capital-gains distributions, thereby nixing the tax bill.


### 3. Limit Gifts to \$11,000.

Every year, you can give up to \$11,000 to anybody else without worrying about the gift tax. For instance, if you and your spouse have three kids, you could together give each of them \$22,000 a year.



What if you give more than that? It probably won't trigger an immediate

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#### ABOUT THE AUTHOR

Jonathan Clements has written The Wall Street Journal's Getting Going personal-finance column since October 1994. Born in London, Jonathan is a graduate of Emmanuel College, Cambridge University, where he edited the student newspaper. He was a writer and researcher for Euromoney magazine in London before moving to the New York area in 1986. Prior to joining the Journal in January 1990, he covered mutual funds for Forbes magazine.

Jonathan is the author of "You've Lost It, Now What? How to Beat the Bear Market and Still Retire on Time," published in 2003. His earlier books include "25 Myths You've Got to Avoid - If You Want to Manage Your Money Right" and "Funding Your Future: The Only Guide to Mutual Funds You'll Ever Need." He has two children and lives in Metuchen, N.J.

tax hit.

But the excess could get applied against your \$1 million lifetime gift-tax exemption, thus reducing the amount you can leave tax-free at death.

Still, for some people, giving away more than \$11,000 a year can be a wise move.

As Mr. Levin explains, "it gets the growth on the money out of your estate," thus trimming the eventual hit from estate taxes.

Moreover, you may be able to give more than \$11,000 without eating into your gift-tax exemption. The reason: Gift taxes don't apply if you pay for another person's education or medical expenses.

#### **4. Don't Lend to Uncle Sam.**

Many employees have too much tax withheld from their paychecks, because they like getting a big tax refund each year. That isn't smart money management, because you are effectively making an interest-free loan to Uncle Sam.

Nonetheless, getting a hefty refund could be helpful for folks without much financial discipline. "If it gets to be a big enough number, they might save it," says Cincinnati financial planner David Foster. "But if it comes to them in their paycheck as \$22 every two weeks, that money isn't going to get saved."

#### **5. Avoid Variable Annuities.**

Many experts advise against buying variable annuities, which allow investors to purchase mutual funds inside a tax-deferred wrapper.

Not only do variable annuities often have steep costs, but also everything withdrawn from a variable annuity is taxed as income, rather than at the lower capital-gains and dividend tax rates.

Despite these drawbacks, a variable annuity might be a decent option for some investors, argues Art Canter, an investment adviser in Boca Raton, Fla.

For instance, a variable annuity could be a reasonable investment if you have a long time horizon, you have maxed out on your 401(k) plan and individual retirement account, and you plan to buy bonds and real-estate investment trusts, which would get dunned largely at income-tax rates anyway.

Moreover, in some states, variable annuities are protected from creditors, which can be a big plus if you get sued.

Sound appealing? If you are a do-it-yourself investor, Mr. Canter recommends the low-cost variable annuity run by Vanguard Group in Malvern, Pa.

#### **6. Keep Annuities Out of IRAs.**

While buying tax-deferred variable annuities is usually a bad bet, experts say there is one thing that is even worse: Buying tax-deferred annuities inside an IRA. (By contrast, some unscrupulous investment advisers heavily promote variable annuities, including inside IRAs, because they earn fat commissions on these sales.)

"Buying a tax-deferred annuity in your IRA is stupid," says Bob Frey, a financial planner in Bozeman, Mont. As he points out, you are paying extra fees for the annuity but you aren't getting any benefit from the annuity's tax deferral, because the IRA already gives you tax-deferred growth. Nonetheless, Mr. Frey says buying a tax-deferred

annuity inside an IRA could make sense -- but only if you plan to turn the annuity into a stream of income right away. His reasoning: Money withdrawn from an IRA is taxed as ordinary income, so there's no tax disadvantage to holding an income-paying "immediate" annuity inside your IRA.

#### 7. Don't Waste Money on Rent.

Despite the startling rise in home prices, buying can still be smarter than renting. "If you plan to be here for the long term, it's safer to buy, even though I think the prices are crazy," says Michael Maloon, a financial planner in San Ramon, Calif. "And the reason is the cheap financing."

Suppose you delay purchasing a house, because you expect home prices to drop. "The risk is that, even if home prices go down, mortgage rates go up and you end up with a larger mortgage payment," Mr. Maloon says. All this, however, assumes you plan to stick around for a good long time. What if you don't? "Wasting money" on rent may indeed be the sensible choice. After all, if you put down \$30,000 on a \$300,000 home and move two years later, all it would take is a 10% dip in home prices to wipe out your down payment.

**Write to Jonathan Clements at [jonathan.clements@wsj.com](mailto:jonathan.clements@wsj.com)<sup>1</sup>**

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