(Special issue: Annual IRA and income planning guide)

boomer MARKET ADVISOR™

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What do boomers fear more than death? Taxes.

Jim Ciocia knows that better than most. His tax-efficient strategies ensure his clients' money lasts longer than they do.

BEN STEIN is not a comedian
10 questions for the lifelong economist

Top performing REITs
Shaking off the sub-prime woes

A simple formula for boomer success

[Here's an easy equation. Jim Ciocia's three decades of tax preparation and accounting work, plus his experience as a comprehensive advisor, equals one of the country's foremost tax-efficient planners.]

By John Sullivan

Photography by David Johnson

Scheduling our photo shoot with Jim Ciocia proved difficult.

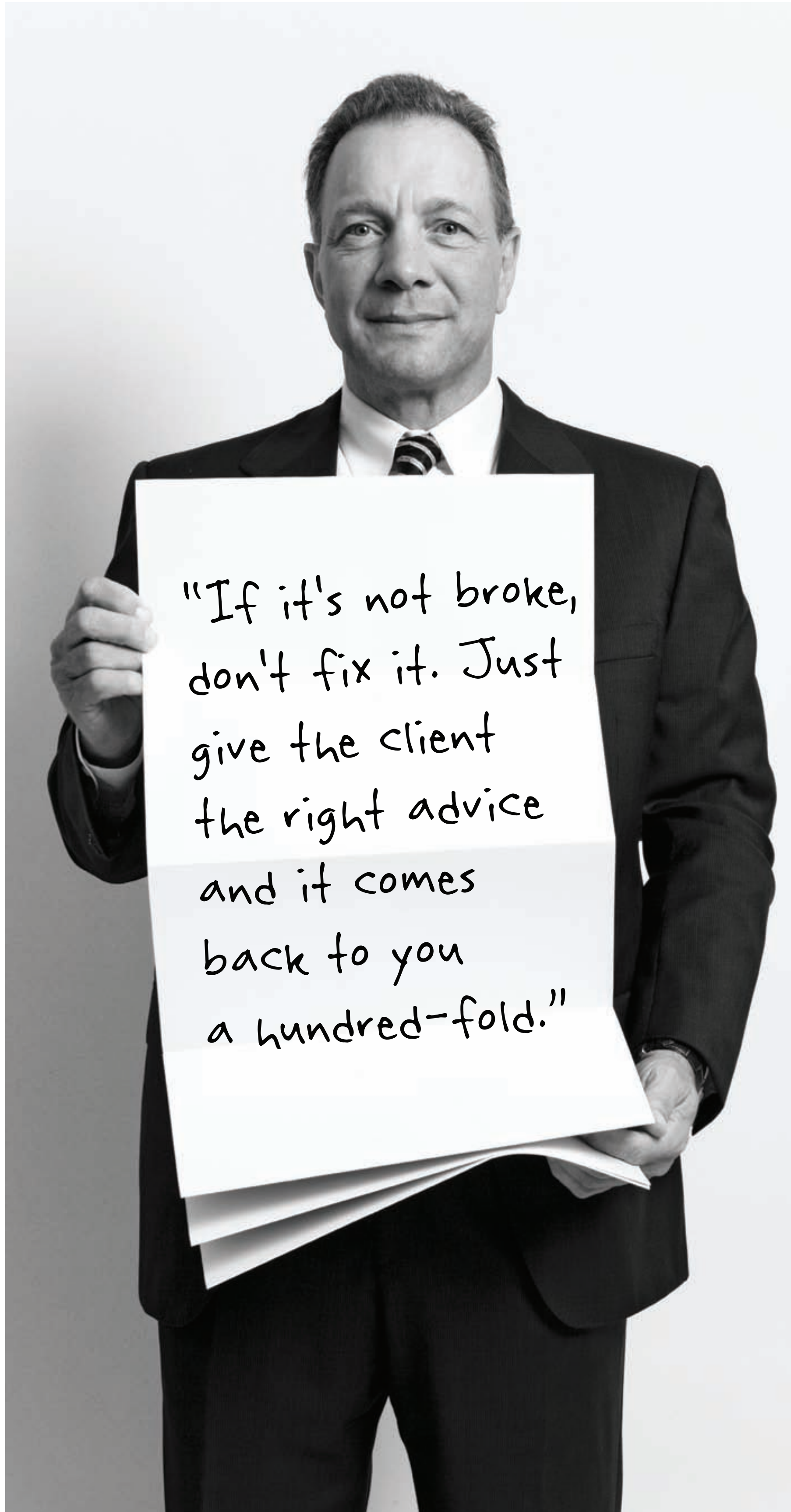
With his offices in Poughkeepsie, we thought it'd be a quick trip for our Manhattan-based photographer. That is, until we realized Ciocia's now based in Tampa, Fla. Which makes sense: If you cater to high-net-worth retirees, you go where there are high-net-worth individuals — and retirees.

In college in the late 1970s, Ciocia honed his skills by working for accountants during tax season. After graduating from St. John's University, he prepared tax returns for a small accounting practice in New York City. The year after that, he met partner Tom Gilman. In November 1980 they started Gilman/Ciocia. The combination of tax preparation and comprehensive financial planning has served them well. In 1994, the firm went public, listed on the NASDAQ as GTAX. After years as a Royal Alliance-affiliated firm, they purchased Prime Capital, and today have 300 reps.

Ciocia's expertise in tax-efficient investing makes him an obvious choice for our annual IRA and income planning issue. We asked Ciocia about his success in the tax-efficient investing arena, and what boomer advisors should know about rollover and income provisions in light of recent regulatory changes.

***Boomer Market Advisor*: You're entering your third decade in the business. When did you decide to move away from tax preparation and CPA work and more into the financial advisory realm?**

James Ciocia: I want to stress that we never moved away from tax preparation. Tax preparation is a marketing advantage that we use to gain advisory clients. The way I would describe us is as an upscale H&R Block practice. I like to think the quality of our tax returns are as good as any CPA firm out there, but for H&R Block



prices. We compete with them on price and we compete with anybody on price. We do a top-notch job in tax preparation and we've been reviewing past returns for 30 years. I call it the tax challenge. I'll review their old returns and challenge them that I can find them money. My own studies find that about 50 percent of the returns I review get people money back. It's been an effective marketing tool.

***BMA*: So why move into comprehensive financial planning?**
JC: I don't want to diminish the importance of income tax preparation. But 25 years ago people asked us, "What are these new 401(k)s coming out, Jim? Should I sign up for this 401(k)? How do I deal with my elderly parents' retirement?" We found that when we referred these clients to others for that advice, they were getting the wrong advice and it was costing them money. It was costing them not only in more fees and commissions, but more in taxes as well. So we got licensed and gave them the right advice. We're independent, and we have no loyalty to any one company or any one product. You are in an environment where you can choose no load, low load or managed accounts and give the client the right tools and the right products and do it in a tax-efficient manner.

***BMA*: There are a lot of boomer business owners looking to retire. Are you moving into that market as well?**
JC: Absolutely, retirement plans for small businesses. Defined benefit plans under the Pension Act were expanded. They've also made it easier to transfer money between plans. If you had an old 401(k), in order to do anything with it you had to move it into an IRA. Now you can move it from

401(k) to 401(k) to defined benefit if the plans allow. Another important part of the act that probably make sense for your readers is that most of the plans allow for what are called in-service distributions. They can take money out of the plan if they are at least 62 years old, as I read it, even if they are still employed.

***BMA*: As we so often hear, "It's not what you earn, it's what you keep." In light of the Pension Protection Act and other recent regulatory changes, what should advisors watch out for with tax-efficient investing?**
JC: I'll describe a situation with a client I had just last night. The guy retired from Verizon and has got three accounts, a taxable account and a 401(k) and IRA account. The gentleman has about a half a million in each account, a little less than a million in his non-qualified account. There are all his corporate bonds that are in his non-qualifying account. So they should be in the IRA account so they accumulate without taxes. And he understood that in 12 seconds.

***BMA*: But it hadn't been done until then.**
JC: It hadn't been done. And in that situation it wasn't a matter of making an overhaul. It's more a matter of a tune up and an oil change for that client. That has been my philosophy. If it's not broke, don't fix it. Just give the client the right advice and it comes back to you a hundred-fold.

***BMA*: Let's get specific to IRAs. What should advisors watch for when rolling out of their qualified plan?**
JC: Common sense dictates that the advisor figures out where the client is in terms of income. If the client is in a high income bracket (like that client I had last night) and will continue to be in a high bracket, then do a traditional rollover. If they drop into a they're in a lower bracket after retirement consider Rothifying. What I find is people are advised to sock away money in a retirement plan or a 401(k) plan when they are going to be in higher brackets than when they retire. Under the new retirement act, they could be now using the Roth 401(k) as a permanent provision. So instead of putting your $15,000 or $20,000 (if you are over 50 years old) into a 401(k), you could put it into a Roth 401(k) and that will grow tax free. If it's there for five years everything out of it is tax-free after 59½.

***BMA*: Do you recommend a 72(t) strategy for people in this situation who remain in traditional IRAs; those clients that are in lower pre-retirement brackets who don't want to convert?**
JC: For the client I just described,

a 72(t) was the answer. The client is 57, so I talked about setting up two IRAs. And we would do a 72(t) on one and we could take more or less money out of the other later on if we need it.

***BMA*: Is he using it just for ordinary expenses or is he doing something else with it?**
JC: Mainly for expenses. Some of it is going to expenses and some of it will be for Rothification. So you can set up separate IRAs and then 72(t) one of them and take the balance of your living expenses out of a non-qualified account. In this case, we were able to take the balance out of a non-qualified account until he was 59½, and then have the other IRA to use as needed after 59½.

***BMA*: You're well versed in the IRA rollover strategies. How do you market yourself to clients about your IRA expertise?**
JC: We do planning workshops and we have a [great PR person]. But one thing that worked well for us is that we did spring training down in Florida. We have a number of baseball teams down here and we did workshops and provided free tax returns at Legends Field. We did the same thing at the Phillies' stadium in Clearwater, with the Twins in Fort Myers and the Orioles in Fort Lauderdale.

***BMA*: Obviously you opened offices in Florida to capture more high-net-worth retirees.**
JC: Yeah. We are looking to expand in Florida and make acquisitions of these mom-and-pop tax practices. We have an office in Bonita Springs and one in Fort Myers.

***BMA*: In terms of other competition, who are you bumping up against? Is it the local guys around your office locations, or is it more on the national level?**
JC: It's everybody. Your big firms obviously have a presence here. You have a number of independents. I'll tell you the biggest competition — and it's a shame in a way — these small insurance agencies that sell long-term surrender indexed annuities. It really is a sin. We are human beings first. I had an 82-year-old lady here this morning with $35,000 to her name and $10,000 is in this 15-year-surrender thing. You have got to be kidding me.

***BMA*: Are you a fan of the living benefit products that are hitting the market?**
JC: Yes, I use living benefits. But I try to use the very short-term surrender products because three or four years from now there will be a better deal. Advisors are out of their minds if they're selling more than a four-year surrender product. And then if the client stays with you, you get your trail.

***BMA*: I don't know if you read some of the regulatory rulings coming out of Massachusetts lately, but…**
JC: Oh yeah, I have. I always tell people that if they come in with a solid financial plan, I'll tell them it was a good job on the part of my competition. The numbers don't lie. I look at four things when I look at a client's portfolio: The performance they get, the risk they are taking, the cost they are paying and tax efficiency. If you look at performance as it relates to risk and to cost, you can't say you're going to do something better if you can't.

***BMA*: And how do you use exchange-traded funds from a tax-efficiency standpoint?**
JC: There's a Web site, www.personalfund.com, where you can compare funds. Today I keyed in a particular mutual and it gave me four alternatives. It showed that if you had $10,000 invested 10 years ago in that fund, you'd have $24,000 today. But if you'd used ETFs, you'd have $30,000. When the client saw that, they said, "wow." The total cost of the mutual fund the client was in was 4½ percent. It was crazy. It would take a year to justify even a 1½ percent charge.

***BMA*: Explain the relationship between Gilman/Ciocia and Prime Capital.**
JC: Prime Capital is a wholly owned subsidiary of Gillman/Ciocia. We purchased Prime and then moved all our reps from Royal Alliance over to Prime Capital. It clears though National Financial Services, Fidelity's clearing firm. We have two channels of reps. We have traditional independent financial planners and we have what we term company-owned reps, where they are housed by us. We provide them with marketing through the tax preparation services. We pay their overhead and they get a reduced payout. I think we have about 350 total reps.

***BMA*: Are you bumping up against H.D. Vest and some of the other firms that align themselves with CPAs?**
JC: Yeah. The industry is very fragmented. I mean when people say there is a Hertz in our industry and No. 2 is Avis, well our Avis is the thousands and thousands of mom-and-pop shops out there. So when we go into acquisition mode, we're really going after mom-and-pop CPAs and mom-and-pop financial preparation firms to merge and associate with.

***BMA*: Do you have a minimal level of investable assets that you require?**
JC: I don't. You don't know who the little guy knows. And right now no one wants to talk to the little guy. The little guys sometimes become big guys. b