

Money Management

Estate Planning: Guidelines to Consider

Estate planning encompasses more than simply saving money and minimizing taxes. The process of planning your estate also raises some difficult emotional and personal issues. It forces you to contemplate your own mortality; you are trying to plan for a time when you won't be around to make decisions. Others, particularly those you love, will be affected by the plans you make now and will be required to exercise their own judgment once you are gone. For many people, the most difficult step in the estate planning process is deciding *who* gets *what* and *when*.

To whom you leave your money and property is a personal decision. Most people naturally think of planning for their spouse, children, and relatives first. After the family is provided for, perhaps a favorite charity, such as an alma mater or research foundation, might be included as a **beneficiary**.

The best approach for you will depend upon your family, the size of your estate, and your personal wishes. Here are some guidelines to consider:

Talk to your children. When your children are mature enough to discuss financial matters, let them know the general size of your anticipated estate, and talk over your plans with them. If they are old enough, give them the

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Insurance Needs for Dual Income Families

The concept of the “traditional” American family is continually changing. The dual income family—with husband and wife each maintaining separate careers and contributing to the financial success of the household—has now become commonplace.

The economic challenges and opportunities of this century may require two incomes to meet overall family expenses. Many families ask themselves, “How will we be able to plan for our retirement, pay for our children’s education, and perhaps help our aging parents deal with some of their financial burdens?” These concerns may be especially pressing given today’s high cost of living and the current economic climate.

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Evaluating Your Retirement Expectations

Nearly everyone has expectations and dreams about retirement. One dream being realized is that people are healthier and living longer, which allows them to enjoy retirement for a greater portion of their lives than ever before. In fact, it's not uncommon for people to spend one-third of their lives in retirement.

Consequently, your retirement assets must last longer and accommodate cost-of-living increases. Proper planning and follow-through can help you avoid income shortfalls and assure a smooth transition from the world of work to the world of retirement.

Keeping Pace with Change

Planning ahead means setting goals and deciding *how* they will be met within the framework of a changing financial landscape. Without a solid financial foundation, you may face some hard choices during your retirement years. A successful financial plan, executed faithfully, may help to simplify many of those choices.

As retirement approaches, consider these factors to achieve an enjoyable retirement:

Regardless of your age, projecting the income you will need in retirement can help you

develop long-term savings strategies. Once you have a goal in mind, take advantage of any tax-efficient retirement savings vehicles available to you, such as a 401(k) plan or Individual Retirement Account (IRA). Be sure to maximize contributions to these accounts, if possible, and if you're over age 50, take advantage of additional "catch-up" contribution limits.

Some people think that they will be able to maintain the same standard of living they enjoyed during their working years when in retirement. The likelihood, however, is that you may have to make adjustments and reconsider certain expenditures. Take a hard look at your lifestyle. Since it's not uncommon to spend 20 or more years in retirement, plan to ensure that your retirement assets will be sufficient for the long term.

Regardless of *when* you plan to retire, it is important for your goals and expectations to be realistic. To be sure that you are on the right track, review your retirement savings, along with your objectives, with your financial professional. It may bring you one step closer to your retirement dreams. *MM*

Getting a Handle on Debt

Regardless of whether the economy is weak or strong, it is important to manage your personal debt wisely and proactively.

One way to get a handle on debt is to distinguish between "good" debt and "bad" debt. *Good debt* refers to borrowing to buy assets that are likely to appreciate in value, such as a home or business. Good debt may become even "better" if you are able to itemize certain repayments, such as home mortgage interest, on your tax return and, as a result, qualify for certain tax deductions.

Bad debt results from borrowing to buy consumable items, such as a vacation, or to purchase assets that are likely to depreciate in value, such as an automobile.

In order to manage your debt wisely, consider the following points and implement them today:

Pay off the "right" debt first. Generally, it's wise to pay off high interest debt first, particularly if the interest is not tax deductible. Extending payments is most appropriate for intermediate- and long-term debt. For short-term debt, it's ideal to have enough money in savings to pay it off, if necessary.

Limit your credit card use. Credit cards make life easier, but they can also tempt you to live beyond your means. If you tend to use credit cards to purchase consumables, rather than assets that appreciate, think about reducing your dependence on them. Try to avoid the minimum payment trap. The interest that accumulates over time can make even bargain purchases costly.

Control impulsive spending. If you have a tendency toward impulsive spending, avoid

Insurance Needs for Dual Income Families

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The Cost of Working

Although it may seem as if dual income families will have more disposable income to afford life's necessities, this may not always be the case. Families with both spouses working often lose *some* portion of the second paycheck to extra expenses, such as unreimbursed childcare, domestic help, job-related transportation, business attire and dry cleaning, and take-out meals. These additional expenses can eat away at that second income.

Childcare concerns are especially critical when both parents work outside the home. Quality childcare is a major expense for many families with working parents—after housing, food, and taxes. It is this cost that often reduces the income that could be used to help fund education or retirement.

As American businesses continue to restructure and downsize, some dual income families may face the possibility of living on a single or reduced income for an unspecified period of time. For those who need the additional income to help pay for basic expenses, a loss or reduction of one income could have a serious impact on the family finances.

Protecting Your Family's Future

How would *your* family protect its income if either working parent should die or sustain a disability? One strategy may be to purchase a permanent **life insurance** policy that will pay a benefit upon the death of the insured spouse. There are several advantages to life insurance

plans. For example, policies bought at a younger age may have lower costs, build cash value, and maintain level premiums.

Generally, the cost for life insurance policies is lower when purchased relatively early in life. However, it is important to reevaluate insurance coverage as time goes on and circumstances change. The protection that life insurance policies provide for dual income families can best be calculated by periodically analyzing *all* life insurance needs to determine the best plan for your family.

Now, what about loss of family income due to *disability*? This possibility is not as unlikely as you might think. According to the Insurance Information Institute (III, 2010), 43% of all people age 40 will experience a long-term disability (lasting 90 days or more) by age 65. A debilitating illness or injury that eliminates or reduces your family's primary source of income can be challenging. So, consider purchasing **individual disability income insurance**, which could help replace a portion of lost income in the event the insured spouse sustains a qualifying disability.

Dual income families have become a fixture in today's society. Although individuals may have different motives for working, most families come to depend upon that second income, whether it is used to meet current or future needs. Thus, it is important to consider the dual protection that life and disability income insurance policies on both spouses can provide. **MM**

Getting a Handle on Debt

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shopping unless you have a specific need or purpose in mind. Or try to delay any impulse purchases for 24 hours. You may find the desire for the item will pass once you've had a chance to sleep on it.

For some people, credit cards make it too easy to overspend. For other people,

unpredictable events, such as car trouble or illness in the family, may require the occasional use of a credit card. Either way, knowing which debt is "good" and which is "bad" can help you to manage your debt wisely and proactively, which may be the key to a brighter financial future. **MM**

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opportunity to make their preferences known. Are they interested in running the family business? Do they have a preference about how their inheritances or **trusts** might be structured? Listen to what they have to say.

Choose beneficiaries carefully. It is important to recognize the implications of your bequests for your beneficiaries. In most states, an individual is typically considered to be a legal adult at the age of 18. However, even an 18-year-old may not be mature enough to handle the responsibilities of a sudden windfall. Think about the age at which your children might be capable of meeting this challenge, and consider strategies that can help you plan for that time.

Anticipate estate taxes. As has often been said, two things in life are certain: death and taxes. Estate planning is the art of ensuring that one doesn't cause the other. Estates with a total value of less than \$5 million will escape Federal estate taxes altogether in 2011. Avoid underestimating the size of your estate, which may leave your heirs with an unanticipated estate tax bill.

If you are a business owner or professional, for instance, the value of your estate may already top the exclusion amount. But, even if you don't have substantial personal wealth, hidden assets such as **pension** or **profit-sharing plan** benefits, as well as **life insurance**, may cause your taxable estate to exceed the \$5 million threshold.

Add it all up. At death, the Federal estate tax applies to asset transfers to beneficiaries other than a spouse for estates valued in excess of the **applicable exclusion amount** (\$5 million in 2011). One of the most important elements in estate planning is calculating the value of your estate. The following steps can help you estimate your estate's worth:

Prepare a **net worth financial statement** listing all of your assets and any interests of ownership reduced by any and all liabilities. The total is your net worth. Be certain that you do not overlook hidden assets. Also, when subtracting your liabilities, include estimated funeral and burial expenses and the estimated costs of administering your estate. Next, subtract your charitable bequests and the marital deduction. Your entire estate, no matter its size, can pass to your spouse estate tax free. This deduction, however, does not eliminate the possibility that estate taxes may be due on assets transferred by your surviving spouse upon his or her death. For this reason, both you and your spouse may choose to establish estate plans that will maximize asset transfers to your heirs and minimize estate taxation.

Estate planning may be a difficult subject to broach, but the more you plan *now*, the better you may be able to provide for your family's future. As you progress through the estate planning process, be sure to consult an estate planning team, including your tax and legal professionals. *MM*

A Parting Thought...

For many parents, a child's college education is the second most expensive purchase (after that of a home) they will ever make. According to The College Board (2010), the average cost of tuition, fees, room, and board at a four-year private college is approximately \$38,000 for the 2010–2011 school year, which translates into around \$150,000 for a four-year

bachelor's degree program. There are many sources of assistance for college funding, including tax credits, financial aid, and scholarships. However, a disciplined savings plan may be the best way to help ensure that funds are available for your child's education. Let time be your ally by starting your savings program now. *MM*