Volume 13, Issue 4

Money Management

Money Management Throughout Life Stages

On your way to developing and maintaining good financial health, you are determined to accumulate emergency funds for a rainy day. A good financial plan often begins with saving three to six months' worth of income, and progresses into developing the capacity to meet your personal financial goals in the short term, as well as the long term. You have taken the first step, and have started to save money.

A solid financial plan can play a big role in building financial security for you and your loved ones. And yet, are you *regularly* reviewing your finances? Doing so becomes particularly important whenever you reach a new life stage. New additions in your life such as a spouse, homeownership, or the birth of a child make reviewing your financial plans a necessity. You may need to give your finances extra consideration upon reaching the following milestones:

First Job. When you obtain your first "real" job it's likely that you will be presented with **employer-sponsored retirement savings plans**. It is never too soon to begin saving for retirement, and taking advantage of your employer's retirement savings plan as soon as possible will give your account the maximum amount of time and potential to grow. The combined effects of time and compound interest are powerful, and the sooner you start the better. Try to contribute enough to your fund to take full advantage of any **employer-provided matching contributions**.

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Disability Income Insurance: Some Features Say It All

Prospective insurance buyers are often confused about **disability income insurance** because the features and benefits vary widely from one policy to another. Essentially, there are a few key elements that could make a big difference when you make your choice. If you are in the market for disability income insurance, turn to page 4 to review some of the things you should consider.

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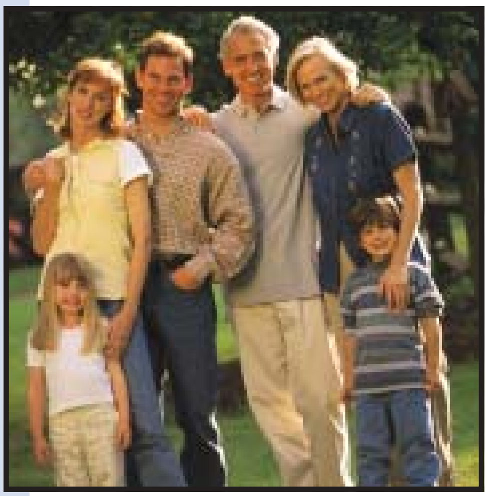
The ABCs of Estate Planning

Many people share the common misconception that estate planning is something only very affluent individuals should do before they die. However, estate planning is an important part of life, even for those individuals of modest means. Planning for the disposition of one's assets upon death offers significant benefits to all parties involved.

The greatest benefit may lie in knowing that your wishes will be respected. Naming your heirs—and relieving them of unnecessary costs and stress by carefully designating *which* assets they will receive—is preferable to having a court make such decisions for you.



The estate planning process not only includes designating your heirs, but may also include establishing vehicles—such as **trusts**—to protect your assets. This will help ensure your assets go to the people you care about, and can help minimize taxes. In the event of mental or physical incapacity, an estate plan can designate people to help care for you and your property through a **durable power of attorney** and a **health care proxy**. You may also want to include a **living will** among your estate planning documents, so your health care providers know your wishes regarding the possible use of life-sustaining measures in dire situations.

Put It in Writing

A **will** is the basis of any estate plan, whether it is simple or complicated. In drawing up your will, consider using the services of a qualified attorney. Although you may think you can do it yourself, an estate planning professional has the experience to ask questions you may not have considered. For instance: Would your elderly parents be able to manage an inheritance if they were to survive you? Would you want your children's spouses included in your estate? If your estate were affected by a divorce or the death of a child, how would you want those situations to affect the distribution of your assets?

Name Names

The first name to settle on is that of your **executor**. Next will be the **beneficiary(ies)** of your **insurance policies**. Beneficiaries, and ***contingent* beneficiaries,** of assets in retirement accounts, such as **pensions, 401(k) plans,** and **Individual Retirement Accounts (IRAs),** are kept on record with the retirement plan administrator, and these nominations take precedence over your will. Retirement assets pass *directly* to the beneficiaries, bypassing probate court, unless the executor of the estate is named.

What about Estate Taxes?

Assets transferred to a spouse will not be subject to estate taxes, regardless of value. However, transfers to other beneficiaries, such as children, may be subject to estate tax if in excess of the **applicable exclusion amount** ($1,000,000 in 2003).

Certain advanced planning tools can be used to fund the payment of estate taxes, such as life insurance and trusts. For high-value estates, a **gifting program** is often used to reduce the value of the estate, thereby minimizing taxes. For specific guidance, consult your qualified tax and legal professionals.

Regardless of your net worth, there are a number of reasons why you should consider an estate plan. Take steps *now* to help ensure your wishes will be followed and that provisions will be made for your dependents and loved ones. MM

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Also, learn about the insurance provided by your employer's benefits plan including **health, life,** and **disability insurance**. If your employer's plan offers insufficient coverage, or if a plan is not offered at all, consider obtaining coverage independently. If you change jobs, pay attention to the benefits. Benefits will often vary greatly from employer to employer, and changes in insurance coverage and retirement options must be factored into your personal financial plan. For example, funds in your retirement plans might need to be **rolled over** as you continue to save.

Marriage. Weddings are special occasions that become cherished memories long after the bouquet has been tossed and the rice has been thrown. They are also events that bring about financial changes. After getting married, you may consider opening a shared bank account, owning property jointly, as well as sharing auto insurance and possibly medical insurance. You may also want to begin saving toward the purchase of your first home and start preparing to raise a family.

Obtaining and/or updating **life insurance** plans to reflect a name change, if applicable, as well as including your spouse as your **beneficiary** will help to ensure that financial goals will continue to be met. Review retirement plans and goals to establish a savings plan that aims to fulfill your retirement needs. Getting married will also most likely affect your tax situation. Think about the most effective tax strategies that will help with annual filings, as well as your long-term goals.

New Home or Refinancing. Buying a first home is a happy event. Now, the money you may have spent on rent will build **equity** in a place that you own. Whether you are a first-time homeowner, or are looking to refinance, research the various **mortgage** types available to find the one that best suits your needs. In addition, you will have to find a **homeowners insurance** policy that will suit your coverage needs. This is also a good time to review life insurance policies to assure that mortgage obligations will remain covered.

Children. With the added joy and responsibility of a child comes the need for extra financial security. Update your medical plans to include the child. In addition, review your life insurance policy to ensure you have adequate coverage amounts, and include the child on the beneficiary list.

For a baby, college is 18 years away, yet the sooner the family starts saving, the better. A college fund that has many years to earn interest and contributions is ideal. Children may also change your estate plan. Writing or reviewing your **will** becomes especially important to make sure the child will be provided for and suitable **guardians** will be named.

Starting Your Own Business. If you leave your old job to start your own business, you will have to assume responsibility for previously employer-sponsored benefits. It is important to maintain retirement, medical, and life insurance plans, as you continue building financial security.

Retirement. Now is the time to enjoy the fruits of your labor. You may be considering relocating to a warmer climate, and are anticipating all of the adventures you will have there. However, your funds will still require attention as you continue to manage your money. Remember to maintain adequate health care coverage, and know your **long-term care** options. Proper planning can help protect your hard-earned assets from being spent on potential medical expenses.

Perhaps one of the most secure feelings in life is knowing that you are financially secure and are prepared for whatever may happen. Through annual checkups you can assess financial goals, provide for your loved ones, and build for the future. As you approach each new life stage, you will find that additional consideration and planning are well worth the effort. MM

Disability Income Insurance: Some Features Say It All

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Definition of "Total Disability." Look to see if the policy defines total disability as a condition during which you cannot perform the duties of your "own occupation" or does the policy refer to "*any* occupation"? "Own occupation" generally pays benefits if you cannot return to work in your own field or if you return to work in a lower paying job or a job in another occupation. "Any occupation" generally would pay benefits only if you were unable to perform any job, either your own, a lower paying job, or a job in a new occupation.

Duration of Benefits. Even if you have to choose a smaller benefit amount to keep the premiums affordable, look for coverage that protects you until age 65. *Note*: There are policies available that offer benefits only for a limited period, for example, a maximum of two or five years, and the nature of your occupation may affect the duration of coverage.

Amount of Coverage. Most plans set a limit on the percentage of income you can insure—usually 50% to 60% of your total gross earnings. If you have an employer-provided plan that offers only limited coverage, you may consider buying *supplemental* disability income coverage from an outside source.

Elimination Period. The waiting or "elimination" period is the amount of time you must wait before disability benefits can start. Remember, shorter waiting periods involve higher premiums and vice versa. In addition, the waiting period is determined when a policy is *issued*, not when disability commences.

Taxation of Benefits. Benefits may be tax free if you pay the premiums using *after-tax* dollars. Benefits under most employer-provided plans are taxable because they are usually paid with pre-tax dollars (although it may be wise to verify this with your tax professional).

Partial or "Residual" Coverage. After a serious disability, many people are able to return to work only on a part-time basis. Partial or "residual" benefits allow you to receive partial disability benefits, as well as your part-time income, until you fully recover. Without this feature, your benefits may stop as soon as you return to work.

Portable Coverage. Policies that allow you to carry your coverage from one job to another have an obvious advantage. Coverage from a professional association could be one such example of portable coverage that is not tied to your place of employment, not to mention any individual disability income policy that you might buy on your own.

Of course, prior to shopping for a policy that best suits you, it is important to determine the right amount of coverage you need in light of what coverage you may or may not already have. Therefore, make it a point to review your insurance coverage and needs on a regular basis in order to ensure you are adequately protected. MM

A Parting Thought. . .

Even if your retirement seems years away, it's important that you understand how **inflation** can affect your retirement savings plan. You may be aware that inflation can deteriorate your savings over the course of time. But, how seriously do you take inflation? Did you know that at 3% inflation, $100 today would be worth only $34.44 in 35 years? Therefore, in order to outpace inflation, your long-term retirement savings plan must account for a decrease in the purchasing power of the dollar over the years to come.

Talk with your financial professional today to create a strategy that can withstand the test of time.

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