Volume XXXIII • Number 1

Financial *Planning Strategies*

A Financial Planning Update

From the Desk of:
Tate Christopher
Investment Advisor Representative

FOOTHILL SECURITIES INCORPORATED
Investing in your Future Since 1962™

3751 Sunswept Drive
Studio City, CA 91604
(800) 318-6050
tchristopher@foothillsecurities.net
CA Insurance Lic. # 0B19335

Considerations for Estate Planning

Estate planning encompasses more than simply saving money and minimizing taxes. The process also raises some difficult emotional and personal concerns. Planning your estate forces you to think about 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 of us, the most difficult step in estate planning is deciding *who* gets *what* and *when*.

To whom you leave your money and property is a personal decision only you can make. Most people naturally think of 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

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The Value of Disability Income Insurance

Have you ever wondered how you would manage financially if you were to sustain an injury or illness that left you unable to work? How long could you maintain your standard of living, pay your bills, and cover your daily expenses? The likelihood of such an event may be greater than you think. According to the Insurance Information Institute (III, 2012), 43% of all people age 40 will have a long-term (lasting 90 days or more) disability event by age 65.

To be prepared for such a situation, it is important to *plan ahead*. To help protect yourself, you may wish to purchase an **individual disability income insurance** policy, which would replace a portion of your income in the event that you experience a qualifying disability. Consider the following when choosing among the coverage options:

- **Definition of Disability.** Carefully review the policy's definition of disability. Some policies may provide coverage if you are unable to work in the occupation in which you were employed or for which you were trained, or if you can no longer earn as much as you once did in

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Strategies for Debt Management

Accumulating personal debt is nearly inevitable at some point in life. Whether debt is a cause for concern, however, depends upon a number of factors, including the condition of the economy, your current earnings and future economic prospects, and the type of debt incurred. By monitoring your spending habits, including credit card use, you can better understand ways to control debt—before it starts to control you.

Simplify Debt Management

In order to properly manage debt, it is important to distinguish between "good debt" and "bad debt." From a purely financial perspective, good debt is borrowing in order to purchase an asset that is likely to appreciate in value (e.g., a home or business). In some cases, good debt may become "better" if, for instance, you itemize certain repayments (e.g., home mortgage interest) on your tax return and, as a result, qualify for certain tax deductions.

On the other hand, bad debt is borrowing in order to purchase an asset that is likely to depreciate in value (e.g., an automobile) or borrowing for non-asset consumption (e.g., a vacation). And, bad debt has been made "worse" now that the government has limited tax deductions for certain kinds of debts (e.g., interest on credit card debt is no longer tax deductible).

In order to manage your debt effectively, it is helpful to consider the following points:

Categorize Your Debt. Ask yourself how much "good" and "bad" debt you have. Then, sort your debts into groups: short-term (e.g., credit card), intermediate-term (e.g., car loans), and long-term (e.g., mortgage and home equity).

Pay Off the "Right" Debt First. It generally makes sense to pay off high interest debt first, particularly if the interest is not tax deductible. Stretching out payments is most appropriate for intermediate- and long-term debt. For short-term debt, try to keep enough money in savings to pay it off, if necessary.

Reduce Your Credit Card Use. Although credit cards may be convenient, 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, you may want to reduce your dependence on them. It is also best to try to avoid the minimum payment trap. By making only the minimum monthly payment, the interest that accumulates can make even "bargain" purchases costly in the long run.

Control Impulse Spending. If you have a tendency toward impulse spending, avoid shopping unless you have a specific purpose. Or, try delaying your impulse purchases for 24 hours. You may find the desire passes once you've had a chance to sleep on it.

Be Realistic

Keep in mind that spending is not always based on financial considerations alone. Emotions can sometimes blur the line between *wants* and *needs*. Nevertheless, the reality of living in today's society leaves most of us with little choice but to amass some "bad debt." However, common sense strategies, such as the ones outlined above, can help you control your debt and make it more manageable to live within your means. $

Baby Boomers: Looking toward Retirement

Many Baby Boomers are concerned that they may not be able to depend on their Social Security benefits for retirement income in an unpredictable economic climate. Further, many employed Boomers may not have or contribute to employer-funded retirement plans. Following the shift that has occurred in recent decades whereby employees, rather than employers, generally assume full responsibility for funding their retirement plans, it's not surprising that many Boomers are planning to remain in their jobs longer.

How do you determine if your savings and assets

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Considerations for Estate Planning

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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 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's 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. Avoid underestimating the size of your estate, which may leave your heirs with an unanticipated estate tax bill.

If you are a business owner, 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 exclusion amount.

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**. 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 (generally, 2% to 5% of the gross value of the 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 starting *now*, may help to provide for your family's future. Be sure to consult an estate planning team, including your tax, financial, and legal professionals. $

Baby Boomers: Looking toward Retirement

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will sufficiently fund your retirement years? Here are some areas to estimate and analyze to get a clearer picture of where you stand:

- Potential income sources (e.g., income-producing real estate, inheritances, etc.)
- Projected balances of retirement and savings plans
- Costs of future health care needs
- Annualized rate of inflation over retirement years
- Social Security income
- Percentage of present income required during retirement years
- Length of years retirement may last or life expectancy.

As is true of every generation, Baby Boomers need a disciplined savings program in place. With a commitment to save as much as possible and a scheduled plan, you can work toward building the necessary retirement funds to secure your own financial future. Be sure to consult a qualified financial professional about your unique circumstances. $

The Value of Disability Income Insurance

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that field. In contrast, other policies may offer coverage only if you are unable to work in *any* occupation. In other words, if you were to sustain a disability but were able to work in a lower skilled, lower paying job, you may not receive benefits.

- **Residual Benefits or Partial Disability Coverage.** Under specific circumstances, if you become disabled and are only able to earn a *portion* of your previous income, residual or partial disability coverage pays a percentage of your benefits.
- **Guaranteed Renewable.** With this feature, the insurer cannot refuse to renew your policy prior to the policy expiration date or change any terms, except for premium cost, as long as you continue to pay your premiums on time.
- **Guaranteed Insurability.** This provision allows you to increase your coverage amount, even if you experience health changes that would otherwise prevent you from obtaining additional disability coverage.
- **Cost-of-Living Adjustment (COLA).** This feature helps protect your benefits against the effects of inflation during a long-term disability.

It is important to note that the cost of a disability income insurance policy varies according to the scope of coverage you choose, and there may be an additional premium for adding any **riders**.

The Outlook without Protection

Without a disability income insurance policy in place, there are alternatives, but they come with shortcomings. For instance, you could self-insure. But, even if you save 10% of your salary each year, one year of disability could easily deplete many years of savings. Or, perhaps your employer provides group disability insurance. Unfortunately, **employer-sponsored plans** are often limited in scope and duration, and generally coverage is not portable upon termination of employment. **Workers compensation** may be an option if an injury occurs on the job. However, eligibility and benefits vary by state.

To qualify for **Social Security** disability benefits, specific criteria must be met, and you may have to wait several months for payments to begin. Social Security disability was not intended to be an individual's sole source of disability income. Benefits are often less than what is needed to cover living expenses.

An illness or injury that reduces or eliminates your primary source of income can be a financially challenging experience. Therefore, you may want to consider disability income insurance as part of your overall financial strategy. Be sure to consult with a qualified professional. $