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Financial Planning Strategies

A Financial Planning Update

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Insurance Protection for Life's Key Stages

Whether you are just starting your career, in your peak earning years, or enjoying retirement, your insurance protection needs may change over time. **Life cycle planning** helps identify insurance needs that are common to particular stages of life. This can help individuals and families to examine their insurance requirements in order to make future plans.

Starting Out

Between the ages of 25 and 35, many people are just starting out in life—getting married, establishing families, and building careers. During these years, the death of the primary breadwinner, or one partner in a dual-income couple, could seriously jeopardize a surviving spouse's or family's financial future. Young couples probably have not had time to accumulate significant assets. For those in this age group, **life insurance** can be used to help create an "instant estate." In the event of an unexpected death, a life insurance policy death benefit can provide funds to help cover a mortgage, pay for a child's college education, or maintain the family's standard of living.

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The Four Forms of Co-Ownership

Owning property with another individual or partner may create a complicated relationship. Due to the complexity of the situation, the way in which you take title or ownership must be determined *in advance*. Consulting with your legal professional can help you establish the form of ownership in such a way that will benefit you and your future heirs. The four forms of co-ownership, one of which will likely be better suited to *your* circumstances, are as follows:

Tenancy in common. This is a form of co-ownership often used between unrelated individuals. Tenants in common may own unequal shares of property. For example, one person could own a one-fourth interest and another could own a three-fourths interest as tenants in common. If the shares of the co-owners are not specifically designated, they are presumed to be equal or proportionate.

Tenants in common are said to hold "undivided" interests with the other co-owners. This means each co-owner owns a proportionate interest in the entire property. So, if two people are equal tenants in common to a parcel of land, it

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The Four Forms of Co-Ownership

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is inaccurate to identify one as owning the west half and the other as owning the east half. Rather, both co-owners own a one-half interest in the entire parcel.

Joint ownership. This specific type of co-ownership has unique legal characteristics. Unlike a tenancy in common, where co-owners may possess unequal interests, the legal interest of each joint owner is equal to the interest of every other joint owner. If there are three joint owners, each owns an equal, undivided, one-third interest in the entire property. However, this proportionality does not necessarily apply to the tax consequences of joint ownership.

The most important legal component of a joint ownership is the **right of survivorship**, which means that when a joint owner dies, the surviving joint owners automatically succeed in ownership of the deceased joint owner's interest in the property. For example, if there are two joint owners and one of them passes away, the surviving joint owner automatically owns the entire property. If there are three joint owners and one of them passes away, each of the two surviving joint owners automatically becomes one-half owner of the entire property. The survivorship rights of a joint owner take precedence over the claims of the deceased joint owner's creditors. This form of ownership may be common among married couples.

Tenancy by the entirety. This form of co-ownership is recognized by many states as a variation of joint ownership that applies only to spouses. A tenancy by the entirety generally has the same legal characteristics of a joint ownership with a few additional features. Normally, the protection against the claims of creditors that applies to joint tenancies at the death of a joint tenant is also available against the lifetime creditors of the tenant by the entirety.

Community property applies to married couples who own property in any of the following nine states, which are sometimes referred to as community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Regardless of whose name is on any ownership papers, such as a deed, any property accumulated during the marriage is "owned" by both parties. This includes cash, real estate, and any other acquired assets.

Remember, splitting property, for any reason, can be a difficult task. Therefore, the decision to purchase property with another party requires careful consideration. Consult your legal and tax professionals for the most suitable course of action to take. $

Why Your Retirement Age Matters

When preparing for your retirement, think about how much income you may need each year to accommodate your desired lifestyle. To help maintain your living standard, you may need to save enough money to supplement other sources of retirement income, such as a company pension and/or Social Security. It is also important to be aware of how your *age* factors into your retirement decisions. Here are some important age milestones to consider:

Age 55. If you take an early retirement, quit, or are otherwise terminated from employment, you can generally withdraw money from **401(k)**, **403(b)**, **SEP** (**Simplified Employee Pension**), and **profit-sharing plans** without being subject to a 10% Federal income tax penalty for early withdrawals. In order to meet the qualifications (as specified in IRS *Publication 575*), you must reach age 55 by December 31st of the year you leave the workforce; money must stay in and come from your employer's plan, and cannot be transferred to an **Individual Retirement Account (IRA)**; early withdrawals are subject to the plan's provisions; and only money from your last employer's plan will qualify (not funds from previous employers). You may take early distributions

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Insurance Protection for Life's Key Stages

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The Peak Earning Years

Between the ages of 35 and 55, a family's assets may increase, therefore changing their life insurance needs. At this point, individuals owning **term policies** may want to convert to **permanent insurance**, which offers the potential for tax-deferred cash accumulation. The cash value can be accessed through a policy loan, free of taxes or penalties up to the amount paid into the policy. The loan interest rate generally is comparable to traditional lending rates. However, it is important to note that policy loans and/or withdrawals will reduce the cash surrender value and may reduce the policy's death benefit. Taking a policy loan could have adverse tax consequences if the policy terminates before the insured's death.

Another concern during this period is protecting your ability to earn income. According to the Life and Health Insurance Foundation for Education (LIFE, 2011), before the age of 65, roughly one in three women and one in four men will sustain a disability that lasts three months or longer. Further, nearly one in seven Americans will be disabled for five or more years before retirement. Since even one year of disability could easily wipe out many years of savings, you may want to consider **individual disability income insurance**. This type of insurance provides a benefit to replace a percentage of the insured's income, in the event of a qualifying disability.

To address disability concerns, some life insurance policies offer a rider called a **waiver of premium**, usually available at an additional cost. With this additional coverage, if the insured becomes disabled, the insurer picks up the cost of the premiums with no repayment required, and the insured's life insurance coverage is not affected.

Nearing Retirement

As retirement approaches, you may want to prepare strategies to minimize potential estate taxes. Life insurance offers a practical and affordable means of creating liquidity at death to help pay estate taxes. One approach is to establish an **irrevocable life insurance trust (ILIT)**. When properly executed, the trust is used to purchase a life insurance policy in an amount at least equal to the projected estate taxes. The policy premiums are paid with gifts from the insured to the trust. At the insured's death, the trust provides tax-free funds to help cover the estate tax liability. To be involved in the estate planning process, you would need to work with an estate planning team, including tax and legal professionals.

The Retirement Years

Upon retirement, new concerns may arise. Personal assets that have taken years to accumulate could be quickly depleted should an individual require long-term care in a skilled nursing home facility. Most people are unaware of the actual costs associated with long-term care. According to the most recent survey of Americans age 45 and older conducted by the American Association of Retired Persons (AARP), only 8% of respondents could estimate the cost of a nursing home stay within 20% of the national average; 17% did not know the cost; and 63% thought it would cost less than the national average: $75,192 per year (or more depending on certain geographic locations).

Although Medicare generally begins at age 65, it does not cover extended long-term care services. Medicaid is the government program designed to help those in financial need. However, individuals must "spend down" their personal assets and meet the Federal poverty guidelines before qualifying for nursing home care under Medicaid.

Long-term care insurance (LTCI), if *previously* purchased, may help cover extended care expenses, including at-home, assisted living facility, or nursing home care. Long-term care insurance may also help preserve assets, while easing the financial and caregiving burden on family members.

Back to the Future

An appropriate insurance protection plan can help you and your family throughout life's key stages. By understanding the concerns that are common at each life stage, you may be in a better position to anticipate future needs. $

Why Your Retirement Age Matters

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from a traditional IRA without penalty, provided you receive "substantially equal periodic payments." Since certain rules govern this provision, be sure to consult a qualified tax professional beforehand.

Age 59½. Generally, you can withdraw money from traditional IRAs and qualified retirement plans after the age of 59½ without being subject to the 10% tax penalty, if plan-specific qualifications are met. Ordinary income tax will be due if your contributions were tax deductible. No income tax or penalty will apply to distributions from a **Roth IRA**, provided you have reached age 59½ and have owned the account for at least five years.

Age 60. Widows and widowers may be eligible for Social Security benefits. For the most up-to-date information, visit the Social Security Administration's website at www.ssa.gov.

Age 62. Some companies may allow retirement at 62 with full pension plan benefits. This is also the earliest age for receiving Social Security benefits, but the benefit amount will be permanently reduced.

Ages 62–64. For those who are working and collecting Social Security benefits while under full retirement age—the age at which an individual is eligible to receive full Social Security benefits—the earnings threshold is $14,640 for 2012. One dollar in benefits is withheld for every $2 earned above that amount. A portion of benefits may also be taxed as income based on a complex formula, including wages and tax-exempt income.

Age 65. Many company pension plans provide full benefits at this age. However, the age may vary by the company plan. **Medicare** eligibility also generally begins at age 65.

Ages 65–67 (or the year in which full retirement age is attained). Traditionally, full retirement age was 65. However, for those born between 1938 and 1959, full retirement age is rising incrementally, and for those born in 1960 and later, the age for receiving full benefits is 67. The lower earnings threshold amount still applies for years prior to full retirement age, *and* a second earnings threshold rule applies for the year in which full retirement age is attained.

For those who are working and receiving Social Security benefits, there is a benefit give-back of $1 for every $3 over $38,880 in 2012 earned in months prior to attainment. Once full retirement age is attained, the earnings threshold no longer applies, and a portion of benefits may be taxed as income based on a complex formula, including wages and tax-exempt income.

Age 70½. Required minimum distributions (RMDs) from qualified retirement plans, such as a 401(k) or IRA, must generally begin by April 1st of the calendar year following the year in which you reach age 70½. Roth IRAs, however, are not subject to the age 70½ mandatory distribution rules.

You have worked many decades to accumulate assets in preparation to enjoy your "golden years." Be sure to consult with qualified tax and financial professionals to help you stay on track to achieving your retirement goals. $