Volume IV • Number I

# Strategic Planning

The Fee Based Financial, Investment, & Tax Report

Helen Murphy, CLU, ChFC

PINNACLE
Financial Services, Inc

Westfield, NJ
Tel (908) 654-8370
Tel (800) 250-9942
Fax (908) 654-8369
www.pinnaclefinancialservice.com

info@pinnaclefinancialservice.com

## Zeroing in on Life Insurance Needs

How much **life insurance** do you need? One general rule of thumb suggests that you should buy an amount equal to five to seven times your annual income. While perhaps a reasonable guideline, this method may not properly align life insurance needs with your *personal* financial goals.

Often, a better method is matching your coverage to your specific financial needs. This process helps you determine the short-term and long-term financial needs of you and your family. Here are some of the more common factors used in determining life insurance needs:

**Protecting your home.** Your first consideration may be whether your life insurance proceeds are sufficient to help pay the mortgage remaining on your home. If you are carrying a large mortgage, you may need a sizable amount. If you own a second home, the mortgage on that home also needs to be factored into the formula.

**Securing your child's future education expenses.** Many people want life insurance proceeds to be large enough to help cover their children's future college,

*(continued on page two)*

## Trusts and Your Estate Plan—Worth a Look

Providing for the distribution of assets after death is not a task most people approach eagerly. It is, however, a task everyone must face. And that's where **trusts** enter the estate planning arena. A trust, simply defined, is an arrangement whereby one person holds legal title to an asset and manages it for the benefit of another. In one form or another, trusts may be used in personal financial planning.

The ability of a trust to bridge the gap between life and death is one of its most valued characteristics. A trust allows a person to "rule from the grave" so to speak—perhaps not forever, but to the extent the law allows. Generally, a trust may be established to last for many generations, ending 21 years after the death of the last named **beneficiary** or after a specific number of years as provided by state law.

### Benefiting Oneself

You could establish a trust for your own benefit for tax purposes and many other reasons. For instance, you may want the benefit of professional asset management. If you want to personally participate in a new business venture with strong potential but high risk, then

*(continued on page three)*

## *Zeroing in on Life Insurance Needs*

*(continued from page one)*

and possibly graduate school, expenses. The amount needed can be roughly calculated by taking into account the ages of your children and the anticipated return from life insurance proceeds during pre-college years. This figure should be compared against projected college costs adjusted for inflation and revised periodically as your children grow closer to college age. Bear in mind, however, that it is impossible to project inflation and earnings many years into the future with any measure of precision.

**Providing continuing income for your spouse and family.** The amount of income you may need to help provide for your surviving spouse and dependents will vary greatly according to your other assets, retirement plan benefits, Social Security benefits, age, health, and your spouse's earning power. Many surviving spouses may already be employed or plan to find employment if needed. However, your spouse's earnings, alone, may be insufficient to cover the monthly expenses of your family's current lifestyle and future needs. Providing a *supplemental* income fund will help your family maintain its standard of living.

**Funding for estate tax liability.** Life insurance has long been recognized as an effective method for creating liquidity at death so that estate taxes can be paid and asset transfers to future generations can be maximized. However, this use of life insurance requires qualified legal experience to help ensure the proper results.

Life insurance is a major part of any family's financial protection. As you develop your insurance plan, make sure to analyze your existing policies. Calculate the additional coverage you may need based on your family's financial obligations and any other resources available, such as retirement benefits and savings.

Determining your current and future financial needs will help you make appropriate insurance choices to protect the lifestyle you and your family enjoy. Even if your family's current income doesn't stretch far enough to satisfy all your financial objectives, this process will help you establish *priorities*. With your short- and long-term goals in mind, you "zero in" on the right amount of life insurance coverage for your particular situation. $

## Choosing Your Estate Executor

One of the most important decisions you must make when planning your estate is selecting an executor. An executor's duties include determining the value of your estate, paying outstanding debts, filing tax returns, maintaining a record of all transactions, and ultimately, distributing the remaining assets to your heirs.

Your choice generally comes down to a family member, friend, or professional. Each alternative has its advantages and disadvantages. A family member or friend may be familiar with your intentions and usually expects little or no pay for settling your estate. However, he or she may lack a knowledge of estate administration and may be too close to the situation to be able to effectively collect debts from relatives or friends, or settle family disputes.

A professional administrator has experience dealing with estate administration and can be held to a higher standard of conduct than a friend or relative. However, he or she may be unfamiliar with important personal circumstances affecting your estate. Also, his or her services can be costly.

Your choice should be someone able and willing to manage your affairs responsibly and according to your wishes. $

## *Trusts and Your Estate Plan—Worth a Look*

*(continued from page one)*

use an irrevocable trust into which you have gifted other assets to assure yourself an income in the event of failure. You may set up a family trust with the primary purpose of observing its operation and then eliminating any deficiencies that appear in actual operation.

### Benefiting Others

On the other hand, trusts can be established for the benefit of others, such as your spouse, children, parents, or grandchildren. In addition, an individual may want to provide for beneficiaries who may need the extra help that financial planning can provide.

This is clearly the case where minors, or others deemed legally incompetent, are the intended recipients. Trusts may also be created for the benefit of secure, independent adults for many beneficial reasons, including freedom from management burdens, expert administration, mobility, and other practical purposes—the most important being cash savings. While avoiding **probate** may be a consideration, the estate and gift tax savings made possible by the use of trusts is especially helpful in many cases.

Use of a trust device can often permit a donor to transfer assets for the benefit of a beneficiary, while at the same time shielding such assets from the reach of creditors. For example, the laws of most states permit the creation of **spendthrift trusts**. Use of such trusts may permit the person establishing the trust to place both trust income and principal beyond the reach of the beneficiary's creditors. For the most part, these laws prevent the beneficiary from assigning any part of the interest in the income or principal of the trust, since most creditors look to property that could freely be assigned by the beneficiary. Their attempts to reach assets can be thwarted, or at least made more difficult. The person establishing the trust is generally permitted to make free use of his or her own assets, even if the result is to prevent a beneficiary from dealing with the trust's assets at will.

Care should be taken to ensure that trusts are properly established. Therefore, be sure to seek the advice of a qualified legal professional before final decisions are made. It is important to create an estate plan that fulfills your unique planning goals. $

## Mapping the Road to Retirement

Somewhere along the road to retirement, it is a good idea to pull over to the side and consult your "map." Will your ride be smooth or filled with potholes? How far off is retirement day, and have you packed enough financial resources to last the journey? Regardless of your current location along this road, it's important to recognize that the financial "bags" you've packed may only take you so far.

### The Sooner You Begin, the Better

Many people in their prime earning years don't save enough for retirement. One advantage of being relatively young when you start a retirement savings program is that you can amass a potentially larger nest egg due to your longer planning horizon. The more you accumulate *before* you retire, the less you may need to worry about working *after* you retire to maintain your desired lifestyle. For these reasons, it is important to spend time *now* developing a well-organized plan—or "road map"—for retirement.

What does such a road map look like, and how can it help you chart a smooth course? Try using these five signposts as guides:

1. **Determine your retirement needs and resources.** With people living longer than ever before, a sound retirement strategy may need to provide you with an income stream, indexed for inflation, that can last anywhere from thirty to forty years. Even with a 4% annualized rate of inflation, the cost of goods and services will triple in about 29 years. Your financial professional

*(continued on page four)*

## *Mapping the Road to Retirement*

*(continued from page three)*

can help you determine the amount you will need *during retirement*.

These projections will help you analyze your financial resources and plan for your required income stream. What assets do you currently have? What savings plans do you have in place? By reviewing your retirement program with your financial professional, you can develop strategies to fill any gaps between what you have saved to date and your retirement needs.

2. **Don't count on your Social Security and pension benefits to meet all your needs.** In the past, Social Security and a company pension have been significant sources of retirement income. However, the days of "living off" a pension or Social Security have passed. If you plan to depend solely on Social Security or your pension, you may find your income is insufficient to meet your retirement needs. This may indicate a significant *gap* in your retirement savings program.
3. **Increase your personal savings.** One way to start filling the gap is to increase your retirement savings. Consider adjusting your budget to provide cash for a savings program that is suitable for you.
4. **Take advantage of your company plan.** If your employer sponsors a retirement program, consider contributing the maximum amount. This can help you take advantage of pre-tax contributions and accumulations on a *tax-deferred* basis. In addition, many employers *match* employee contributions—usually up to a maximum percentage. For example, suppose you contribute 10% of your income to your 401(k) plan and your employer matches 50% of your contribution. Thus, for every dollar you contribute, your


employer adds 50 cents. Consequently, your account receives 50% more money than you actually contributed. In this way, the gap narrows even further.
5. **Use personal tax-advantaged alternatives.** Individual Retirement Accounts (IRAs) allow you to save on a tax-deferred basis. In addition, cash values of life insurance policies and annuities may also provide tax-deferred opportunities.
6. **Put time on your side.** By saving early in the year, you can take advantage of up to 12 months of compounding. This can add up significantly over time.

### You're in the Driver's Seat

Retirement may seem a long way down the road, especially when you have immediate and pressing family concerns. However, the younger you are when you begin taking advantage of your saving opportunities, the better off you will likely be when your retirement day dawns. Why not pause *now* to review your long-term strategies? When you reach retirement age, you will have hopefully navigated around an bumps on your road to retirement and secured a comfortable financial future. $