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Financial *Planning Strategies*

A Financial Planning Update

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Where Does the Money Go?

Do you ever wonder where all your money goes? Many people spend their money in small increments without realizing how it all adds up. Usually, it is not that mysterious when you write it all down. As you begin to track your income and expenses, you can craft a workable budget you can stick with in order to help you manage your personal finances.

Creating and maintaining a household budgeting plan is an activity that can involve all family members. Since children affect the budget and are affected by it, they can also be included as participants in the process. When your children see that the family's income is not limitless, it may help them to better understand why finances are important at an early age.

Here are some steps to help you design an overall budget for whatever your situation may be:

1) **Track Income and Spending.** To start, tally all your sources of income and spending for a few weeks or months. An easy way to do this is to keep a receipt for all expenditures over $1.00. You may also refer to credit card statements, receipts, and check stubs.

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Zeroing in on Your Retirement

If life is a journey, retirement is the destination where you reap the hard-earned rewards for decades of working. But, as with most good things in life, a comfortable retirement doesn't just happen without effort. It requires a sound, comprehensive financial strategy.

Retirement planning can be like a jigsaw puzzle. Once you put the interlocking pieces together, you will be ready to develop a retirement plan that can meet your financial goals. Let's look at the following four pieces of the puzzle:

1. **Social Security**. Most working Americans will receive Social Security benefits that provide a basic level of retirement income based on the length of time worked, amount of earned income, and age at retirement.

2. **Employer-Sponsored Pension Plans**. If you have a defined benefit or pension plan, your employer provides a retirement benefit in the form of either monthly income or a lump sum. The amount of your benefit is generally based on your salary, length of service,

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The Pros and Cons of Probate

Two main responsibilities of the probate court are to determine the validity of a **will** and to ensure that it is faithfully executed. Although most states have exemptions for smaller estates, a will ultimately falls under the jurisdiction of the probate court.

Similar to a will, a **trust** involves the transfer of assets. **Testamentary trusts** are subject to probate because they are created by a will at death. If you wish to avoid probate, one option may be to implement a "**living**" or **inter vivos trust**.

Since there are both advantages and disadvantages to the probate process, let's consider some of the following points to determine how probate could affect your estate:

Advantages

Fair Estate Value. If your heirs believe your property has been overvalued, and therefore potentially increasing the estate tax, a lawyer or executor can consult with an independent appraiser. The judge may approve the new appraisal or choose a value between the independent appraisal and the court-appointed appraisal.

Protection from Creditors. Once an estate has been probated and its assets distributed, creditors cannot make any further claims against the assets.

Lower Legal Costs. Drafting a will is often less expensive than drafting a living trust or other legal document in an attempt to avoid probate.

Disadvantages

Higher Costs to the Estate. Probate can be a costly process. Fees are set by law in some states, and they may be based on gross, rather than net, values. They generally cover only "ordinary" services. If an attorney performs "extraordinary" work, the fees may be higher. The executor may also charge fees, and unless those fees are waived, the cost to the estate may double.

Delay on Transferring Assets. Settling an estate in probate can take a year or more. During the settlement period, assets in probate are often managed conservatively. In some states, it can take a month or more to receive court permission to sell an asset. This delay may prevent an executor from responding to sudden changes in market conditions. During probate, executors may choose to act conservatively to minimize their risk of financial liability.

Public Knowledge of the Estate. The probate process is a matter of public record, so a will is open to public scrutiny.

Probate laws, with their advantages and disadvantages, vary from state to state. Be sure to consult with a qualified legal professional to determine how the probate process may affect your estate, and whether a living trust may be an appropriate alternative. $

Broaden Your Family's Life Insurance Protection

In today's fast-paced world, many families find themselves caught up in a whirlwind of activity juggling work responsibilities with family obligations and recreational pursuits. With so much going on, it's easy to take the basics for granted: the home you live in, the food on your table, the clothes in your closet, and the vacations with family and friends.

However, life may not always turn out as planned. The untimely death of a spouse could dramatically alter this picture, both now and in the future. For many families, two incomes are needed to maintain their desired standard of living. Even if only one spouse brings in cash income, the non-earning spouse may provide critical "non-cash" services, such as the many tasks involved in maintaining a home. If your family's income suddenly stopped or was reduced, the impact on your lifestyle could be significant.

Having **life insurance** coverage on your spouse can play a valuable role in helping to protect your lifestyle. The proper coverage can help replace your spouse's income or provide supplemental funds so your home can be maintained and continue to function as normally as possible. If both you and your spouse work,

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2) Categorize Expenses. The two basic types of expenses are: fixed—not optional, including mortgage or rent, insurance, and utilities; and discretionary—optional, such as clothes, movies, sporting events, and dining out.

3) Set Goals and Prioritize. When you begin to see how much money comes in and how much goes out, you can then prioritize your future financial goals. Do you want to buy a house or a new car? Are you saving for your retirement or children's college education? Are you paying down your debt? Once you establish your priorities, you can begin working toward achieving your objectives.

4) Prepare the Budget. Now that you have an idea of your current monthly income and expenses and have established some priorities, you are ready to prepare a budget. Remember to keep it simple. The less complicated your budget is, the easier it will be to maintain. For instance, to estimate expenses for tax bills or insurance premiums, simply calculate the annual expense and divide by 12. It may take several attempts before you finalize your budget, however, you will eventually be able to zero in on which expenses need to be cut in order to reach your financial goals.

5) Stick to It. Review your budget on a regular basis with your family, so that everyone is reminded that the budget is effective only if everyone sticks to it.

6) Conduct an Annual Review. Be sure to review your budget at the end of each year. By totaling what you spent and comparing it to your projected budget, you may identify areas to focus on for the coming year.

"Rainy Day" Reminders

After your household budget is created, remember to set aside emergency savings for that "rainy day," as in the case of an unforeseen situation, such as a job loss or an unexpected major expense. An emergency savings fund typically covers up to six months' worth of living expenses. Money may be set aside on a weekly or monthly basis toward this goal. Also, closely monitor your credit card use. Due to the ease of using credit cards, many consumers buy merchandise that is not really needed, which, in the end, costs more when interest charges are added to the monthly payments.

Having a household budget is a money management tool that both individuals and families can use to keep track of their personal finances to reach their financial objectives. A spending plan may even serve to teach children to establish positive spending and saving habits early on. $

Broaden Your Family's Life Insurance Protection

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consider the value of your spouse's lost income. Or, if your spouse is a non-cash earner, think about how much it would cost to fulfill all the tasks he or she performs at no charge.

The unexpected death of your spouse could easily unravel the lifestyle you shared together. Funds set aside for a child's wedding, or your retirement, may need to be reallocated to cover basic expenses.

However, these types of situations can be addressed ahead of time with the appropriate amount of insurance coverage.

While it's human nature to take life as it is for granted, unexpected turns can sometimes happen. Life insurance coverage on your spouse may help you be better equipped to maintain your lifestyle in the event of your spouse's death. $

Zeroing in on Your Retirement

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and a benefit formula that averages the employee's earnings over a prescribed period of time.

3. Employer-Sponsored Retirement Plans. If your employer sponsors a defined contribution plan, such as a 401(k), you may contribute a percentage of your pre-tax income to a retirement account, as defined by the company plan. Your employer may also match a percentage of your contributions. Earnings have the potential to grow tax deferred.

4. Personal Savings. Personal retirement savings may be key to achieving your financial goals. A disciplined savings program can help you accumulate additional assets to supplement Social Security benefits and employer-sponsored plan funds.

Taking Action

Your first step is to assemble the pieces of your retirement planning puzzle to determine if your projected income and assets will be sufficient to fund a comfortable retirement. Although Social Security and any employer-sponsored pension plan may offer relatively fixed benefits, you may also be able to increase your 401(k) contributions and personal savings to supplement any expected shortfall. Regular contributions and tax-efficient vehicles can help build your assets over time.

If possible, maximize contributions to your 401(k) or other employer-sponsored retirement plan. Contributions to a 401(k) come from pre-tax salary, and taxes on both contributions and earnings are deferred until you retire. Note that there are limits to the amount you can contribute each year.

You may also choose to contribute to an Individual Retirement Account (IRA). If you are under age 50, up to $5,500 may be contributed to an IRA or a combination of IRAs in 2013. For those age 50 and over, an additional $1,000 may be contributed. Contributions to a traditional IRA may qualify for a tax deduction, and earnings have the potential to grow tax deferred. However, taxes will be owed on withdrawals in retirement, without penalty, if you are over age 59½. Contributions to a Roth IRA are not tax deductible, but earnings have the potential to grow tax free. Distributions in retirement are also tax free, provided you have owned the account for five years and are at least age 59½.

Whether you are in your 30s, 40s, or 50s, *now* is the time to start planning for your retirement. Be sure to consult a qualified financial professional to help you devise a strategy for the retirement you envision. $