

FLR WORKSHOP: *Life Planning Sessions Outline*

1. LIFE PLANNING: *A Focus of Life*

- What is Life Planning?
 - Setting Your Goals: A Continuous Process
 - Achieving Your Goals: Arrange Your Finances

2. Know Your Retirement Needs

- How much money will you need in retirement?
 - Locate Money for Retirement
- Financial Plan: *Overview*
- What kinds of accounts should you use?
- Tax-advantaged Investing
- IRAs
 - Simplified Employee Pension Plan (SEPP)
 - 401K, 403B, and 457 Retirement Plans
 - Rollovers
 - Annuities

3. Protecting Your Valuable Assets

- Health Insurance
- HSA
- Life Insurance
- Education Fund

4. Reasonable Asset Allocation

- Develop: Financial Plan
 - Diversify
 - Types of Investments

5. Wills and Trusts

6. Your Life Planning Begins Today

1. Life Planning: *A Focus of Life*

What is Life Planning?

Life planning involves finding ways to use your money to build what you desire in all areas of your life. Begin by developing a plan that helps you to use your money to create a quality life rather than using your life to create money.

Life planning is about:

What money represents to you,

What you expect your assets to provide to your life,

What preparations you need to make to handle life events and changes,

Which financial goals will affect your life goals,

What you need to know regarding your non-financial goals, and

What kind of professionals you need to consult for advice.



- **Setting Your Goals: A Continuous Process**

What do you want from your money? What do you want your money to do for you?

These are questions you need to address. To figure out what you want from your money is to have a plan in place to deal with at least some *temporary decisions* about not just your money, but your life as well.

- **Set goals for yourself**

It is important to get a grip on what you want from your money in order to successfully work toward your goals. Most people have no idea what they would like their money to do for them. Less than *one third* of the people who seek financial planning assistance have not set their goals. Research shows:

*If you...
set **goals** for your money,
know **when** you want to accomplish these goals, and
estimate **what** these goals are going to cost,
you are more likely to make these things really **happen!***

Think of setting goals in the same manner as you do when you write your “things to-do” list. The only difference is you are setting goals for several years or more instead of daily goals.

To set your goals, ask yourself:

- What do I want to accomplish financially **this year**?
- What do I want to accomplish with my money in the **next ten years**?
- What do I want to accomplish with my money for my **retirement years**?

- **Achieving Your Goals: Arrange Your Finances**

When do you want these goals to happen? What will it cost to achieve them?

Once you’ve set your goals and listed them, when do you want these things to happen? Organize your goals in order of *importance*.

Start with your short-term ones, those you wish to accomplish this year. For example, this year you may want to save an extra \$1,000 which will go toward a future down payment on a car. The same \$1,000 could be invested in a short-term security to cover unexpected expenses such as a medical emergency. There will be times when you will work on more than one goal at a time.



It also helps to keep those long-term goals in mind. Long-term goals are goals that you are not likely to achieve for many years, such as the savings you need for retirement and perhaps paying down your mortgage.

Although some of our goals may be seen as non-financial, they still have *financial consequences*. Be as specific as possible when you are spelling out these goals. The more clearly you know what you want to achieve the more likely you are to achieve them over time. Make sure the goals are realistic and plan to review them from time to time.

Now that you have given consideration to the timing, you must figure out what it will cost to achieve these goals within that period of time. This means doing research to attach numbers to each goal. For instance, you have figured that to buy your first house you will need \$25,000 for the down payment. How much will you have to put away each month to achieve this goal within the next ten years?

Seriously consider making your saving plan as automatic as possible. Have your bank or employer make automatic deductions into a short-term investment account to help you reach your goal.

2. Know Your Retirement Needs

How Much Money Will I Need For Retirement?

- How much do I need and where will I find the money to cover these needs?

Look at your current expenses, and then estimate how they might change at retirement time. Calculate what your required expenses, including inflation, could cost you. A useful rule of thumb says that retirees need at least 70% to 80% of the income they were receiving just before they retired. Keep in mind this amount may come from several sources.

For example, you will probably be eligible to receive Social Security benefits, but for most people, these will cover only a portion of their needs. Social Security pays the average retiree about 40% of their pre-retirement earnings. In addition, Social Security has raised the age at which people qualify for full retirement benefits. It is now 67 for people born in 1960 or later. You can receive a statement estimating your benefits from the Social Security Administration or by calling: 1-800-772-1213.

- What other sources of income can you expect at retirement time?

These sources will depend upon the plan you develop for this life cycle. Any supplemental income you wish to receive at that time may come from:

- 401k
- Private pensions
- Self-employment
- Deferred profit sharing plans
- Investment income earnings



As you can see, you have a number of options available when it comes to saving for retirement. The main thing is to do something about it!

The best way to *locate money* is to track how you are spending your money on a daily basis. Try keeping a daily record of your small cash purchases for at least a couple of weeks. Next, it is important to review big expenses that occur on a monthly basis.

Now, you are ready to separate the small and large expenses into two lists. One list is your “needs list” while the other list is your “wants list.” Your “needs list” includes your basic necessities, things you cannot live without. Your “wants list” includes things you desire but are not things you need.



Review each list and decide what items you can live without or that you can find a different approach. For example:

Needs List

Are there hidden savings in the things you buy, if you look at them in a different way? Food expenses can be a challenge and need to be checked daily. Sales, coupons, bulk purchases and preparing home-cooked meals rather than eating out are among a few suggestions to boost your savings.

Wants List

Are there a few items you could try to live without? Technical gadgets are generally considered a must in our daily activities. Perhaps, shopping for an unknown brand, or shopping at a less expensive store will provide immediate savings.

NOTE: *When you know WHERE your money is going, you will spend much less and SAVE a great deal more.*

It becomes a matter of deciding whether you would prefer doing without some things now versus doing without a lot in later years. The need to put away as much as you can afford into tax-deferred retirement accounts is urgent.

○ **How long will you need the money?**

The answer to this question is directly related to how long you live. According to actuaries, if you retire at 65, plan on living another 25 years. That is a long time for your retirement money to last.

Although you have set aside funds in a fixed pension or annuity, these funds will be affected by factors such as inflation. Since 1960, the Consumer Price Index (CPI) has risen an average of about 4% a year. That means as each year goes by, every dollar in your pocket buys fewer goods and services.





Financial Plan: *Overview*

A financial plan takes your current and future assets, debts, expenses, savings and goals into account. There are various sources that can assist you through the necessary steps. Some examples are *software programs* that are specifically designed for lifetime planning. You will get specific recommendations on the kinds of investments you should consider. It will make the process of “what if” easier. For example, questions such as, “what if I decide not to retire at 65 and do not change the way I am spending my money” or “what if I decide to start a small business with my retirement investments” can be addressed with the use of these programs.

What kinds of accounts should you use?

- **Tax-Advantaged Investing**

Now that you have set your investment goals for retirement, you can decide what kinds of accounts to establish. Several offer tax advantages for retirement investors. By using tax-advantaged accounts, your investments will grow *faster*.

- **IRAs**

There are many different forms of Individual Retirement Accounts such as the Traditional IRA, Roth IRA, SEPP, Annuities, and the 401K, 403B and 457 Retirement Plans.

- ***Traditional IRA***

An IRA is nothing more than an account, a deposit of money similar to savings and checking accounts. You set up an IRA by investing money through a custodian or trustee by an institution that has been approved by the Internal Revenue Service to receive such deposits. IRAs may be opened with a bank, credit union, a mutual fund company, a brokerage firm, or an insurance company.

However, an IRA is governed by *strict rules* defining who can open one, the maximum amount you can deposit each year, and the times at which you can withdraw without incurring a penalty (paying a fine with some of your money).

Contributions to an IRA require you or your spouse has earned income. Earned money can come through work for an employer or from self-employment. The current maximum deposit in an IRA each year is \$4,000.

No matter which traditional IRA account you open, it is *tax-deferred*. Withdrawals are taxed as ordinary income upon retirement, when you may be in a lower tax bracket.



Funds deposited into this type of IRA grow *faster* than the same funds deposited in a regular taxable savings account.

Note: You are *required* to withdraw a minimum amount each year once you turn age 70 ½.

- **Roth IRA**

Contributions in this plan are not tax deductible. Unlike the traditional IRA, with a Roth IRA you may make contributions after you reach age 70 ½ and there is no mandatory age at which you must start taking distributions.

Who is eligible to have an IRA?

- *Singles*
100% contributions with income less than \$95,000.
Phase out between \$95,000-\$100,000.
Not eligible above \$110,000.
- *Married filing jointly*
100% contribution with income less than \$150,000.
Phase out between \$150,000-\$160,000.
Not eligible over \$160,000.



- **Simplified Employee Pension Plan (SEPP)**

Simplified Employee Pensions represent an easy, low cost retirement plan. By establishing these programs, the employer provides retirement benefits for himself and his employees without paying the start-up and operating costs of conventional plans. SEPP allows an employer to establish and make contributions to IRAs.

The two critical differences between SEPP IRAs and other IRAs are that:

- SEPP contributions are generally made by *employers*, not employees.
- The amounts contributed to SEPPs can be much larger than the amounts contributed to IRAs.

Up to **25%** of each employee's pay, including the employer's, can be put into a SEPP IRA each year!

- **401K, 403B, & 457 Retirement Plans**

In 2005, an employee can contribute up to \$14,000 to the plans through payroll deductions. An employee age 50 or older is allowed an additional contribution of up to \$4,000 as a “catch up” provision. These employee contributions are taken from *pre-tax income*, so you do not pay income tax on that amount.

All contributions, even the matching contributions from the employer, become the property of the employee immediately. The plans defer taxes on the income and growth of that income until the monies are withdrawn. At withdrawal time the monies are treated as ordinary income.

- **Rollovers**

When you leave your employer, you will need to decide what to do with the money you have accumulated in your employer’s 401k, 403b, 457 or other retirement plans. For some investors this may represent a sizeable investment. Financial planners recommend that you should always roll all retirement plans to an IRA. The following are options available to you:

- Take the money out in cash;
- Leave your money with your old employer’s retirement plan;
- Transfer the money into your new employer’s retirement plan;
- Transfer the money into a new IRA (401k rollover).



- **Annuities**

Individuals who do not qualify for IRAs, could consider annuities sold by life insurance companies. Annuities accumulate earnings on a tax-deferred basis. Each year you may invest as much as you like since the IRAs limit does not apply.

By withdrawing funds from an annuity before you reach age 59 ½, you will incur a **penalty of 10%** of the amount withdrawn.



3. Protecting Your Valuable Assets

Health Insurance

Obtaining health insurance is one of the first recommendations made by most financial planners. If you need medical attention, a good insurance policy will usually pay most of your doctor, hospital, medical equipment, and medication bills.

Due to rising health care costs, there is a growing trend toward going without health insurance. According to the Employee Benefit Research Institute, a public policy research organization, the number of Americans under 65 who lacked public or private health insurance was 40.3 million in 1995. Many of these are employees of companies that do not provide benefits. Individuals not covered by an employer or eligible for a government insurance program must provide for themselves if they want coverage.

You need to evaluate which type of health plan would be best for your family and to compare the out-of-pocket costs of each plan.

- **Traditional Indemnity Policy**

The traditional indemnity policy is the medical coverage that most Americans are familiar with and it is still preferred by many. In this policy you are treated by the doctors you choose and then you are reimbursed for your expenses. Recent surveys show that deductibles have continued to increase, which in turn lowers the cost of the policy. Such coverage is protection against major illness, rather than for minor ailments.

A good indemnity policy should cover both hospitalization and for your physician services. Look at each policy carefully to learn what are its exclusions and limitations. In addition, some policies have upper limits on what they will pay over the lifetime of the insured. In a Health Insurance Association of America (HIAA) survey in the early 1990s, about 66% of covered employees had \$1 million or more of lifetime coverage.

- **Dental Coverage**

A valuable option attached to many health plans for a small extra fee is dental coverage. In general routine dental expenses that are covered are:

Oral examinations	Filings	Dentures
X-rays	Extractions	Oral Surgery
Cleaning	Bridgework	

The insurance typically pays 80% of the charges after a deductible is met. When this coverage is part of a medical plan, the deductible is normally separate from the deductible for the medical and hospital care

- **HMOs and Health Service Contractors**

Health Maintenance Organizations (**HMOs**) and health service contractors, such as Preferred Provider Organization (**PPOs**), Point Of Service plans (**POSs**), and Independent Practice Arrangements (**IPAs**), are relatively new institutions that have grown out of the attempts to battle rising medical costs.

- Health maintenance organization (HMO) is basically a prepaid group medical service. HMOs generally provide all the medical services you would need, including specialists care, though they often exclude dental work, psychiatric care and cosmetic surgery.
- In a preferred provider organization (PPO), health care is provided at a certain reduced price per service with a limited group of doctors and hospitals. For instance, the PPO might pay 100% of the doctor bills if you go to one of its approved doctors, but only 80% if you go to another doctor.
- In a point-of-service plan (POS), patients have a primary care doctor who provides care and controls referrals to specialists. If patients use their primary care doctors, they pay a standard co-payment. If they use doctors outside the plan, they pay a deductible and higher co-payments.
- An independent practice arrangement (IPA) is one in which independent doctors agree to treat members for a set fee. Patients obtain services in the doctor's offices. Many of these doctors also treat other private patients as well as IPA members.

- **MEDICARE**

Medicare is a federal program for which nearly every American age 65 and over is eligible. In general, if you are eligible for Social Security benefits, you may also receive Medicare benefits. Even if you are still working at age 65, you are eligible for Medicare.

- **Medicare Part A** helps to pay for:

Inpatient hospital care	Hospice care
Post-hospitalization facility care	Home health care

Medicare pays all charges for covered hospital services, except for a \$760 deductible for which the beneficiary is responsible.

- **Medicare Part B** covers physician and outpatient services.
This part of Medicare covers:

Physicians' services	Diagnostic tests
Outpatient care	Physical and speech therapy
X-rays	Medical equipment (home use)

Medicare also covers two other areas:

- **Home Health Care**

Under home health care, professionals such as registered nurses or physical therapists visit and perform such services as administering medicine or oxygen, changing dressings or help with rehabilitation. To qualify for home health care coverage you must meet several conditions:



- *Be confined to your home;*
- *A doctor must plan and certify your care;*
- *Care must include skilled nursing, physical therapy or speech therapy.*

Medicare will pay the full approved cost as long as they are medically reasonable and necessary. There is no deductible or co-payment. Medicare will continue to pay as long as you are suffering from an acute condition that requires the help of a home health aide.

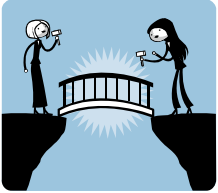
- **Hospice**

Hospices are designed to provide pain relief, system management, and support services to dying patients and their families. For a patient to be eligible, care must be provided in a Medicare certified hospice, and a doctor must certify that the patient is terminally ill.

Medicare will pay the full cost for covered expenses without any deductible or co-payment, except for a portion of the cost of outpatient drugs and inpatient respite care.

The services that are covered in a hospice are doctors' and nursing services, drugs, physical therapy, medical supplies and appliances, and counseling. Medicare does not pay for treatment other than pain relief and system management of your terminal illness.

- **Supplemental Medicare Insurance**



This is *private insurance* designed to provide coverage where Medicare does not. The private insurance is commonly called, “*Medigap Insurance.*” It covers such costs as hospital bills incurred after the number of allowed days for a hospital stay have been exhausted. This coverage also includes the cost of prescription drugs. Medigap policies range from high grade coverage that pays virtually all services not covered by Medicare to a low grade basic plan.

- **Medicare Managed Care**

Senior citizens can now receive their Medicare coverage through HMOs. The advantage of Medicare HMO is cost. Typically there is no deductible and co-payments are \$5 to \$15, rather than 20 percent. Some Medicare HMOs cover items that Medicare does not. The added coverage can eliminate the need for supplemental Medigap insurance. However, the Medicare HMOs restrict your choice of physicians and other health care providers.

- **Long-Term Care**

Medicare does not cover long term care in a nursing home. After a patient’s income and assets have been depleted by long term care expenses, the patient can qualify for Medicaid.

There are two ways to prepare for the financial effects of long term care:

1. You can “spend down” to the allowable limits for Medicaid by spending on yourself and /or transferring your assets to relatives;
2. You can purchase an insurance or long term care policy to protect your life savings.



- **MEDICAID**

Medicaid provides assistance for low-income individuals and families. It also provides to people who are considered to be “medically needy”. These are individuals who can afford their living expenses but not their medical care. Individuals may become eligible for Medicaid if in any month their medical bills are equal to or greater than their excess income or assets.

Medicaid examines your financial history as far back as 36 months to see if you have given away your assets. If you believe that you will need nursing home or extended care and eventually require Medicaid, you may have to consider giving away your assets early.

Health Savings Accounts (HSA)

A Health Savings Account (HSA) is an alternative to traditional health insurance. It is a savings product that offers a different way for consumers to pay for their health care. HSAs enables you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis.

You must be covered by a High Deductible Health Plan (HDHP) to be able to take advantage of HSAs. An HDHP generally costs less than what traditional health care coverage costs. Therefore, the money that you save on insurance can be put into the Health Savings Account.

There are some advantages to putting money in these accounts. The advantages are:

- **Security**

Your high deductible insurance and HSA protect you against high or unexpected medical bills.

- **Affordability**

You should be able to lower your health insurance premiums by switching to health insurance coverage with a high deductible.

- **Flexibility**

You can use the funds in your account to pay for current medical expenses, including expenses that your insurances may not cover, or save money in your account for future needs, such as:

- Health insurance or medical expenses if unemployed
- Medical expenses after retirement (before Medicare)
- Out-of-pocket expenses when covered by Medicare
- Long-term care expenses and insurance



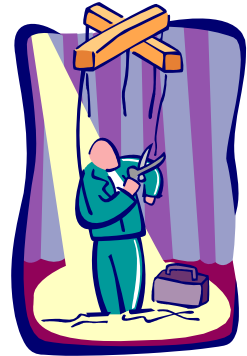
- **Savings**

You can save the money in your account for future medical expenses and grow your account through investment earnings.

- **Control**

You make all the decisions about:

- How much money to put into the account
- Whether to save the account for future expenses or pay current medical expenses.
- Which medical expenses to pay from the account
- Which company will hold the account
- Whether to invest any of the money in the account
- Which investments to make



- **Portability**

Accounts are completely portable, meaning you can keep your HSA even if you:

- Change jobs
- Change your medical coverage
- Become unemployed
- Move to another state
- Change your marital status

- **Ownership**

Funds remain in the account from year to year, just like an IRA. There are no “use it or lose it” rules for HSAs.

- **Tax Savings**

An HSA provides you *triple* tax savings:

1. Tax deductions when you contribute to your account;
2. Tax-free earnings through investment; and
3. Tax-free withdrawals for qualified medical expenses.



Contributions to your HSA can be made by you, your employer, or both. However, the total contributions are limited annually. If you make contributions, you can deduct them when completing your federal income tax return.

Contributions to the account must stop once you are enrolled in Medicare. However, you can keep the money in your account and use it to pay for medical expenses tax-free.

Life Insurance

The purpose of life insurance is to protect your survivors from financial disaster upon your death. Adequate insurance should help your family to continue its standard of living, to maintain the home, and to provide your dependents education you had planned. However...

Not everyone needs life insurance!



To decide whether *YOU* need life insurance, ask yourself who would suffer financially if you died? If you are supporting several dependents, you may need coverage. Calculating how much life insurance you need involves the following:

- **First:** Figure out the current amount of the family's expenses. This includes immediate and future expenses.
- **Second:** Examine your assets and all the sources of income that can be used to cover these expenses.
- **Third:** Once you know your expenses and assets, subtract the assets from the expenses and this should give the amount of insurance you will need.

Education Fund



You will want to set aside funds for your children's education. Even though it is difficult to predict future college costs, you can compare average annual cost figures which usually include tuition, room and board, books, personal expenses and some transportation costs.

There are a number of investment accounts you can use to save for their education which differ in features and benefits. The following are four types of accounts:

- **529 College Savings Plans**

These tax advantaged plans are designed to pay for higher education expenses. Qualified distributions are federal income tax free.

- **Uniform Gifts to Minors/Uniform Transfers to Minors Accounts (UGMA/UTMA)**

This custodial account can be used for any expense for the benefit of the minor, not just for school, and the minor ultimately controls the account. A portion of the withdrawals are taxed at the minor's rate.

- **The Coverdell Education Savings Account**

This account was formerly known as the Education IRA. It offers tax benefits but has a maximum contribution limit of \$2,000 per year.

- **Brokerage Account**

Brokerage accounts offers no special tax benefits but allows flexibility in investments

4. Investments: *Asset Allocation*

Develop a Financial Plan

- ***How much money should you have in different kinds of investments?***

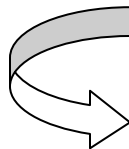
The benefits of reviewing basic investment principles have become increasingly important in the last few years. After you consider your investment objectives, age, and the investment time period, make sure you weigh your risk-return ratio. Consider your attitude toward risk so that you can improve your chances of successful investments.

Investors with long-term investment periods can accept a greater percentage of risk compared to an investor who will soon need access to his retirement funds.

Prior to making any investment decisions, you need to realize that for every investment there will be continuous tradeoffs you will have to make. These tradeoffs will involve variables such as:

- ***Liquidity***

Liquidity involves the ease or availability of your investment being converted into CASH. When your money is in an account or fund that is highly liquid, you have immediate access. However, the tradeoff is:



The HIGHER the *liquidity* of the investment, the LOWER the total *return*.

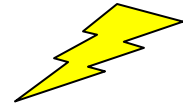
Try to determine how much liquidity you will need in terms of the types of emergencies you anticipate, and your current insurance coverage. You may not need much liquidity if you have adequate insurance protection. Therefore, you can afford less liquidity and a greater return on your investment. Take the time to weigh these factors and it will prove to maximize your overall total return.

- **Safety**

Safety involves the possibility that a total loss or a large drop in value may occur. These losses are likely to occur when your focus is on achieving the highest available yield. Thus, increase your level of safety and protect your investment by:

- Accepting a lower rate of return, and
- Diversifying among types of investments

Note: For a higher return, you usually have to sacrifice some liquidity or safety, or both.



- **Total Return**

Involves return on your investment, such as:

- **Interest** -- Bank accounts, certificates of deposit, money market accounts and bonds
- **Dividends** – Stock mutual funds and common and preferred stock
- **Price appreciation** -- Stock or bond mutual shares, stocks, real estate, and works of art

Note: The total return takes into account both the income the investment earns (*interest or dividends*) and any changes in value (*appreciation or depreciation*).

Diversify

Diversification, or the allocation of your assets among different investment funds can offer several advantages:

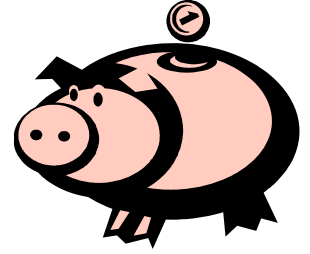
Combination of different investments, such as fixed income and equity investments generally provides for a balance of risk and return potential.

You can make smoother transitions in your mix of investments to meet your changing objectives. Example: An investor could start high concentration in equity investments and gradually shift to fixed income investments as circumstances change.

Diversification can help ease investment concerns. Since economic changes affect the investment market, spreading your money among different assets will reduce the negative effects on your account value.



Types of Investments



The typical small investor might consider starting with *low risk investments* that require fairly small sums of money and gradually move to investments requiring both *high risk* and large sums of money. Begin, by selecting the type of investment that interests you.

Several investment alternatives and some features are:

- **Certificate of Deposit**

A certificate of deposit (CD) is a promissory note that you receive from the bank. In return, the bank promises to pay you a fixed rate of interest and to return your principal and interest at the end of the term.

- **Money Market Funds**

These funds are similar to those sponsored by the bank, but differ in that they are not protected by federal insurance and usually offer lower fees and higher interest rates. These investments offer instant liquidity, preservation of principal, and a higher yield than those offered by banks. Most experts regard them as a safe investment with low risk.

- **Stocks**



When you purchase common stock, you are buying part ownership in the business. As the business increases in value, dividends are paid on their common stock. Dividends allow you to receive in cash a portion of the company's profits as these profits are earned. These investments offer high risk and potential for good returns.

- **Bonds**

When you buy bonds, you are actually lending your money to the issuer, who pays you a set interest rate, usually twice a year. Bonds are also called fixed-income securities. Bonds fall into four categories:

- Corporate Bonds
- U.S. Treasury Issues
- Municipal Bonds
- Government Agency Securities

Bonds provide a high degree of safety, as long as they are highly rated and held to maturity. However, they are subject to erosion by inflation.

- **Mutual Funds**

Mutual funds are essentially investment pools. When you invest in a mutual fund, your money is pooled with that of other investors and used to buy securities, such as stocks and bonds.

The mutual fund's managers invest the money in a wide variety of securities. Investment profits depend on many factors, such as strategy, timing, and luck.

Generally these funds are suitable as long-term investments, though their value will fluctuate. These investments offer low liquidity and diversification.

- **Rental Real Estate**

Individuals, who can afford to invest in a second home seeking extra income from rental, sometimes find it a lucrative but time consuming investment. Real estate is considered an *illiquid* investment, since you cannot be sure that you will be able to sell it at a reasonable price, when you want to sell. Thus, it is considered the *least* liquid of investments.



An alternative to rental real estate is to join other investors to purchase investments, such as group mortgages and shopping centers. Some of these investments offer *high returns* but can be *high risk*.

These investments are illiquid, the entire range of risk level and time consuming.

- **Annuities**

Annuities are sold by insurance companies and are considered a savings account. The insurance company usually guarantees you a certain interest rate for one to five years and invests funds in CDs, bonds, and Treasury bonds and bills.

You may select to invest in a variable annuity. If you choose to invest your annuity funds in stocks or bonds, the insurance company does not guarantee a return rate.

5. Wills and Trusts

Wills and trusts enable you to pass your assets on to your heirs and to control the ways in which these assets are used. About two of every three people die without a will. Failure to create a will exposes your assets and the welfare of the heirs to serious risk.

Although a **TRUST** is even less widely used than a will, it can *protect* your assets, *reduce* your tax obligations and *increase* control over these assets!

If you die without a will, your assets will be distributed according to state law. Even if your current assets seem modest, these assets may have increased in value such as, a home.



Additionally, wills are **essential** for those who have minor dependents. In the absence of a will, the court will designate the guardian. However if you specify a guardian in your will, you can also indicate your wishes relating to expenditures for the dependent.

Your decisions about how much to leave to whom are likely to change periodically. You may have to revise your will every few years as you experience changes in your life structure. If the changes are minor, you can write an amendment to the will.

The next consideration is to designate someone who will be responsible to pay your bills and taxes and distribute the remainder to your beneficiaries. The person you designated as guardian could serve as the executor as well.

Certain limits need to be recognized in terms of how you dispose of your assets. Limits include:

- You cannot disinherit a spouse
- You can include only assets that you own

Since wills can become quite involved, it is recommended to have a lawyer experienced in *Estate Planning* draw up your will.

Due to costs and delays involved in the probate of wills, many people try to avoid this by arranging to own nothing in their own name. If they own nothing in their own name, there is no need for probate. One way to avoid probate is **joint ownership** of your assets with **rights of survivorship**. In this arrangement, the assets are owned jointly by two or more individuals. Upon death of one of the individuals, the ownership of the assets passes to the survivor(s) without probate. Joint ownership can be established between parents and children, grandparents and grandchildren, or close friends.



Many people have concluded that their heirs and their assets can be better protected by establishing a trust in addition to a will. A trust is a legal entity that can own, buy, sell, or transfer assets. If you place the money in a trust and specify its purpose, the money can be managed effectively, protected against misuse, and preserved to fulfill your original intent.

The **revocable trust** or **“living trust”** can be revoked at anytime and has the advantage that it can avoid probate. When you transfer your assets into a trust, you relinquish your legal ownership of them. Despite this legal transfer of ownership, you retain control of the assets and have the right to use them for any purchase you choose. Unlike the revocable trust, the **irrevocable trust** requires you to essentially give away

your assets, but the conditions you include in your trust may give you control over their use. These trusts are used to obtain estate tax benefits.

In summary, **trusts** can be used for the purposes of:

- Avoidance of probate
- Avoidance of gift and estate tax



It is extremely important that you have a record or inventory of your assets which is known as a **Letter of Instruction**. The letter can serve to specify your:



- Wishes for distribution of your personal possessions not in your will;
- Preferences for funeral arrangements and organ donations;
- Personal wishes to your survivors.

This letter of instruction has no legal force however, you should regard it as document that not only protects your assets but also decreases stress on your survivors.

Within recent years, the necessity of having a **living will** has gained increasing attention. This is a permit to withdraw life support when a patient is terminal. The living will makes your wishes known by specifying that you do not wish to continue on life support when your condition is terminal.

To write a living will you do not need a lawyer, but you may want to consult a lawyer or your doctor with specific concerns. A copy of this document should be given to your lawyer, doctor, or close friend.

While the living will addresses near-death medical care, the **durable medical power of attorney** is useful in situations which are not quite as serious. If you are in a position where you are no longer able to make or communicate decisions about your health care, the durable power will delegate these decisions to someone you trust.

The **advanced medical directive** considered durable if it provides that the living will and/or the power of attorney will not terminate if you become disabled. These documents should be kept in your medical file at home or with your physician.

6. Your Life Planning Begins Today

It is much easier to begin your life planning than you may think. The question becomes:

“Why don’t more people begin to plan their life? Is it human nature or is it a lack of knowledge that stops us?” It may be both. However, it seems that many people do not tackle the things that they *should do*.

We all want to be financially secure, but we seem to ignore that we can use the knowledge we have acquired and simply, *begin!* **Keep this in mind, you have already started your life planning by being here today!** The workshop information you have received will affect your way of thinking and should assist your course of action.

Before you do anything else, remember to:

- Pray for God's guidance as you set your goals and do what it takes to achieve them;
- Figure out how much money you will need in retirement;
- Select tax-advantaged investments;
- Obtain the coverage to protect your assets;
- Determine the coverage to protect your survivors;
- Diversify your assets among different investment funds;
- Create a will and/or trust to protect and control your assets;
- Make your wishes known with a living will



**“The mind of man plans his way,
But the LORD directs his steps.”**

~Proverbs 16:9

At Family Life Resources,
we pray that God may bless you and
guide you
as you plan for your financial future!