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Guidelines to Consider When Planning Your Estate

Estate planning is not just a matter of saving dollars and minimizing taxes. The process of planning your estate also raises some difficult emotional and personal issues. First, it forces you to face the fact of 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 people, the most difficult step in the estate planning process is deciding *who gets what and when*.

To whom you leave your money and property is a very personal decision. Most people naturally think of planning for 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 financial matters, let them know, in general terms, the size of your anticipated estate and talk over your plans with them. If they are old enough, you should 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?



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With inheritance comes responsibility. In most states, 18 or 21 years is the legal adult age. However, even a 21-year-old may not be mature

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Applying for Federal Aid for College

When thinking about funding sources for your children's college education, you may assume your family earns too much to qualify for Federal grants, loans, and work-study assistance. However, families with higher incomes are frequently eligible to receive some form of financial aid from the government.

The U.S. Department of Education uses a formula for calculating financial aid eligibility that considers a range of factors in addition to income and assets, including family size and other financial obligations. When assessing a family's ability to pay for college, the Federal government treats only a small percentage of parents' assets as potential contributions, while other types of assets, including home equity and savings in IRAs and 401(k) plans, do not factor into the qualification formula.

Filing FAFSA

Even if you expect to cover your child's college costs through sources other than Federal aid, it is usually worthwhile to complete the Free Application for Federal Student Aid (FAFSA). In addition to determining your family's eligibility for Federal assistance, the FAFSA is the primary qualifying form used by many college, state, local, and private financial assistance programs.

The first step in applying for financial aid is filling out the FAFSA, which is distributed and processed by Federal Student Aid, an office of the Department of Education. Hard copies of the FAFSA are often available at high school guidance offices, libraries, or post offices, or by calling the Federal Student Aid office. The simplest way to complete the FAFSA is by going to the office's

website, www.fafsa.ed.gov. Filling out the form online will alert you to mistakes or omissions; it can also expedite the processing time by one to two weeks.

Assuming you are a parent requesting aid for your dependent child's education, the documents you will need to complete the FAFSA



include your Federal income tax return and W-2 forms from the previous year, current bank statements, records of untaxed income such as Social Security or veterans benefits, current business and investment mortgage information, and investment records. If you are divorced and are the child's custodial parent, only information about your own household's income and assets, including any child support and alimony, are required by the FAFSA. While some colleges look at the financial resources of the non-custodial parent in determining the student's need, the Federal government does not.

The Student Aid Report

When filling out the FAFSA, you may request that your financial

information be sent to up to six colleges. If your child intends to start college in the fall, it is usually advisable to file the FAFSA as soon as possible after January 1st of that year, as deadlines for submitting FAFSA information are generally early in the year for some colleges and state awards programs.

Within a few days to a month after it is filed, you should receive by postal mail or e-mail a form known as the Student Aid Report (SAR). On the SAR, you will find the Expected Family Contribution (EFC), an estimate of the amount of your family contribution toward the student's college expenses for the year. The colleges you listed on the FAFSA will use this figure as a basis for determining the amount and type of any financial aid you will receive.

If financial need is determined, the schools that admit your child as a student will prepare a financial aid package covering all or part of the difference between your family's EFC and the cost of the college. Depending on your family's income and the resources of the institution, colleges may offer more or less aid than the difference between the EFC and the cost of attendance.

The type of Federal aid your child receives is largely based on family income. Lower-income students may be awarded grants that do not need to be repaid, such as the Pell Grant or the Federal Supplemental Educational Opportunity Grant (FSEOG), and assistance may be available in the form of a Federal work-study program.

Besides these awards, students may be eligible for subsidized Federal loans, such as the Perkins Loan or the Stafford Loan. These loans

Get on the Savings Track

Preparing a financial budget can be challenging. Committing to it over the long term may be even more difficult. That's why a "pay yourself first" approach can have a positive impact on your long-term budgeting, spending, and investing plan.

Here are a few tips to begin your budget planning and get on the savings track:

1) Watch what you spend. Begin the process by recording all your expenses, including living expenses, utilities, child care or elder care services, and necessities such as food, clothing, and medical care.

2) Treat savings like an expense. You may be more likely to put money aside if you consider your savings

an expense that *must* be paid on a regular basis. This is what is meant by "pay yourself first."

3) Allocate income in terms of percentages. Many expenses can



be gradually reduced without making drastic changes to your daily

lifestyle. Determine what percentage of your income goes to each expense, and then categorize these expenses as either *fixed* or *flexible*. You have discretion over the latter but not the former. Generally, flexible expenses erode earnings.

4) Prioritize your expenses.

Take your list of expenses and rank them in order of priority. Gradually, reduce unnecessary expenditures. As you eliminate expenditures, write a check for a similar amount and deposit it into a special savings account.

Remember, putting yourself first means making your financial future and well-being your top priority. A disciplined savings plan can ultimately pay you dividends that may help prepare you for the future.

A Checklist for Retirement Planning

Preparing for retirement ought to begin early—the sooner, the better. If it's a task you have been putting off, *now* is the time to start. The following steps can help you meet your retirement needs:

- Start by reviewing your present financial situation. Assess your income and assets versus your expenses and liabilities.
- Maximize contributions to your employer-sponsored qualified retirement plan, e.g., a **401(k) plan**. In 2009, you can contribute \$5,000 to a traditional **Individual Retirement Account (IRA)** or **Roth IRA**. Those age 50 and older can contribute an additional \$1,000. Depending on your participation in other qualified plans, contributions

to a traditional IRA may be tax deductible. Earnings for both traditional and Roth IRAs have the potential to grow on a tax-deferred basis.

- Determine the amount you must set aside through regular and/or automatic contributions to your savings plan. This will help close the gap between your retirement income goals and your potential retirement income.
- Work toward minimizing debt. Pay off large bills as soon as possible to avoid having to do so when you retire.
- Consider whether your **life**, **health**, and **disability income insurance** policies will meet your current and future needs.

- Find out how much you can expect to receive from pension plans, veterans' benefits, and Social Security. Visit the Social Security Administration's website at www.socialsecurity.gov or call 800-772-1213 to request your *Earnings and Benefit Estimate* statement.
- Analyze which of your day-to-day expenses are likely to decrease after you retire (clothing, commuting, etc.), and which are likely to increase (travel, leisure, etc.), and plan accordingly.

If you are disciplined and stick to your plan, you may begin to see your savings grow. The earlier you begin your retirement planning, the better you may be once your retirement day finally dawns.

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must be repaid by the student, but the government pays the interest while the student is in school and during grace and deferment periods.

In addition, your family may be offered an unsubsidized Stafford Loan, which must be repaid by the student, or a PLUS Loan, which is

in the name of the parents. Interest accrues on these unsubsidized loans from the time the funds are disbursed, though payments may be deferred until after graduation.

When loans offered by Federal programs prove insufficient to cover the actual costs of your

student's education, you can apply for a private education loan. These loans tend to have higher interest rates than government loans, but they are often less expensive than other debt sources. To learn more, visit www.studentaid.ed.gov or www.fafsa.ed.gov.

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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. As has often been said, two things in life are certain: death and taxes. Estate planning is the art of ensuring that one doesn't cause the other. You may already know that some estates—those with a total value of \$3,500,000 or less in 2009—escape Federal estate tax altogether. People often underestimate the size of their estates and end up with an unanticipated estate tax bill.

If you are a business owner or professional, for instance, there is a good chance that the value of your estate already tops the exclusion amount, or will soon. 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 \$3,500,000 threshold. (Under current tax law, estate taxes are scheduled for repeal in 2010. Unless Congress takes legislative action, estate taxes will be reinstated in 2011.)

Add it up, 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** (\$3.5 million in 2009). 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 is average). Now 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 must establish estate plans that will maximize asset transfers to your heirs and minimize estate taxation.

While there may be some very helpful tax provisions in the Internal Revenue Code (IRC), you must still take the time to plan your estate *carefully* and wisely, to minimize taxes. The better you plan *now*, the better you may be able to provide for your family's future.

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