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in this issue:

Preparing for the Unknown with Disability Income Protection

You have put a lot of time and effort into accumulating your assets, and you value them. But, how much do you spend to protect them? Most of us have automobile and homeowners insurance, and possibly, additional coverage for more valuable items. While your assets may indeed be valuable, their liquidity and *income-producing* value may be negligible.

Your true wealth, and perhaps your greatest asset, is your *ability to earn an income*. Your income pays for all of your living expenses, including housing, transportation, food, clothing, and recreation. It also pays for property insurance and premiums on **liability** and **life insurance** policies. A closer look at your monthly expenditures will likely reveal even more expenses.

Prepare for Uncertainty

What would happen if you sustained a disability due to a sudden injury or illness? How would you meet your financial needs and obligations if you were too sick or injured to work? While no one likes to consider this possibility, the risk of disability ***does*** exist and warrants full consideration as you plan for your financial future.

You may want to ask yourself the following additional questions should you sustain a disability: Would you have sufficient funds to support yourself and your loved ones during a six-month period of disability? How might such a situation affect your ability to borrow money? How quickly could you liquidate a portion of your assets to provide needed cash?

If you are married, perhaps your spouse could provide the necessary income to support your family, but the combined responsibilities of spouse, parent, caregiver, and breadwinner can be overwhelming. **Social Security** may not replace all of your lost wages should you experience a serious illness or accident. In addition, you must meet very specific criteria to qualify for Social Security disability benefits, and it may be months before payments begin.

Alternative sources of income may, at best, be limited. The bottom line is that you need a dependable source of income. If you lose your ability to earn an income, you jeopardize your future financial independence.

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Know Your Options

Some employers offer a **salary continuance plan** in the event that you sustain a disability. However, most group plans have an upper limit or "cap" on the benefit amount. Consequently, the percentage of pre-disability income covered under a group plan may be insufficient to meet your needs. In many plans, only base salary is covered, which leaves bonus and other incentive income unprotected. Also, with a group plan, you are not the owner of the policy, therefore your coverage would be vulnerable to termination should you change employers. Finally, if the benefits are provided under an employer-paid group plan, they are taxed as ordinary income, which further reduces the actual amount available to cover your living expenses.

One solution to these limitations may be to supplement your group disability insurance plan with a **disability income insurance** policy that you own and is tailored to meet your needs. A policy can help reduce the gap between your pre-disability level of income and the benefits provided under your group plan. Keep in mind that disability income policies typically have a waiting or elimination period before benefits become payable.

While no one likes to dwell on life's uncertainties, it may be wise to consider protecting your greatest asset—your ability to earn an income. Evaluate your present ability to meet financial obligations should you become disabled.

An individual disability income insurance policy can help protect your financial independence, in case of an injury or long-term illness, giving you the confidence to face whatever the future may bring. Be sure to consult with your insurance professional to determine the amount of coverage that will best suit your overall objectives.

Your Will: An Important Estate Planning Tool

The prospect of writing a **will** can often bring up uncomfortable feelings. Yet, drafting a will is one of the most important components of estate planning. Having a will in place ensures that your heirs will be provided for and your wishes for asset distribution will be met. Like many people, have you postponed writing a will? Or, if you have a will, is it time to review and update it?

A will is a formal, legal document instructing your survivors on the settlement of your estate. A qualified legal professional can help to make sure that your will is properly written and contributes to your overall estate planning goals. If your estate is not covered by a will (known as **intestate**), your state's intestacy rules will govern how your estate will be divided. Some people believe their estate is too small to require a will, but even if you believe this is the case, you may still want to consider writing a will. The reason is simple: If you die without a will, you automatically forfeit the opportunity to direct the settlement of your estate. In addition to facilitating bequests, a will is an opportunity for you to designate your own **executor**, **guardians** for minor children, and other **fiduciaries**.

If you would like your estate to pass to close friends or to a charity, a will is the primary means of fulfilling these wishes. Without a will, the courts have no way of knowing your preferences and seek out your relatives—sometimes distant—for distribution purposes. This also applies to estate distributions of unmarried couples. Further, a will gives you the opportunity to designate a ***secondary*** beneficiary in the event of the ***primary*** beneficiary's death.

Even those who have shifted the majority of their assets into **trusts** or who use **joint ownership** may want to draw up a will. While these methods are designed to bypass **probate** (the judicial process that establishes the validity of a will), assets not passing by these or similar methods require a will.

Written wills provide direction for distributions to your loved ones. The topic of a will may be difficult to broach, but the many advantages of drafting a will far outweigh the associated discomfort. Careful estate planning allows you to determine how your assets will be divided, who is to be named executor of your estate, and who will receive benefits according to your wishes. Be sure to consult a qualified legal professional for specific guidance.

How to Manage Your Benefits When Changing Jobs

Starting a new job can be exciting. But, as you look forward to your new opportunity, consider carefully how you will manage your employer-provided benefits while transitioning from one workplace to another.

When you leave a job, your employee benefits generally end, unless you elect to continue them. While you may receive benefits from your new employer, they will most likely differ from your previous employer's benefits package. So, if there are any benefits you want to take with you, for example, accumulated savings in a 401(k) plan or similar retirement account, you will need to decide how to manage those funds before you exit.

Insurance Conversions

Your new employer may not offer **health insurance**, or there could be a waiting period before health coverage begins, which sometimes can be from 30 to 90 days. To avoid becoming uninsured, even for a short period of transition, explore the possibilities of continuation or conversion under your former employer's health insurance.

Under a Federal law known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), you are permitted to continue as a member of your previous company's health plan for up to 18 months after termination of employment. Under COBRA, you are responsible for paying the entire premium, including the employer's contribution to the insurance, making COBRA premiums generally expensive. However, premiums may be less than you would pay for an individual policy. To continue coverage under COBRA, you must advise your employer that you are electing COBRA coverage.

COBRA continuation rights may not apply if you work for an employer with fewer than 20 employees. But, you may be able to convert your group health insurance policy

to an individual policy without having to undergo a separate application for individual coverage. There may also be "interim" or "short term" policy options that could provide coverage for a couple of months for people between jobs. Or, you may need to secure individual health insurance coverage with a new provider that is not tied to your place of employment.

You may also have the option of converting other types of employer-sponsored insurance into individual policies. Depending on the group plan, you may be permitted to convert **life insurance**, **disability income insurance**, **or long term care insurance**. Be sure to talk with your benefits administrator about all your options.

Retirement Plan Rollovers

If you have a retirement savings account in your current employer's 401(k) plan or comparable account, you will have the choice of reinvesting, transferring, or cashing in the funds.

To keep your retirement savings on track, you may want to consider rolling over the funds into another qualified retirement savings account, such as a rollover IRA. There are two ways to roll over funds. With an indirect rollover, your former employer makes the distribution payable to you, less 20%, which is withheld for Federal taxes. You must then reinvest the distribution into an IRA or other qualified plan within 60 days. In order to achieve a tax-free rollover, you must reinvest the full distribution amount, which includes the 80% you receive in cash, as well as 20% from your own funds to cover the amount that is withheld. Your withheld funds are refunded after you file your tax return, provided your rollover occurred within the 60-day time limit. Failure to reinvest the 20% withheld may result in income tax and a tax penalty if you are under the age of 59½.

To avoid the 20% withholding requirement, you may request a direct rollover to an IRA set up in your name or another qualified plan. Keep in mind that not all qualified plans accept this type of transfer. Because this method is considered a distribution option, spousal consent and other similar participant and beneficiary rules of protection may apply.

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Another option is to roll over your funds from your previous employer's retirement plan into your new company's plan. In some cases, it may make sense to leave the funds where they are. Ask both employers about restrictions on these options, as well as any tax implications.

You have the option to take the funds in your 401(k) account as a cash distribution. For most people, however, this is not the best choice. After cashing in, you owe taxes on the funds, and you may also be required to pay a 10% tax penalty if you are under age 59½. Further, you forfeit the long-term benefits associated with tax-deferred earnings, making it more difficult to build the financial resources for your retirement income.

Your decisions regarding benefits when changing jobs can have a great impact on your financial future. Before making such important decisions, be sure to discuss your circumstances with the benefit administrators at both companies and seek advice from your professional advisors.

The Retirement Checklist for Early Planners

The time to begin planning for your financial future is *now*. So, when it comes to preparing for retirement, the earlier you can start, the better. Here are some steps to help you work toward achieving your overall objectives:

1. Review your current financial situation by assessing your income and assets versus your expenses and liabilities.

2. At first, determine a realistic amount to contribute regularly to your employer-sponsored qualified retirement plan, e.g., a **401(k) plan**. Over time, try to maximize allowable contributions to your savings plan and take advantage of the company match, if offered.

3. In 2011, you can contribute up to $5,000 into 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.

4. Work toward reducing your debt. Pay off large bills as soon as possible. Curb your spending to avoid taking on any new debt that could carry over into retirement.

5. Consult with a qualified professional about your **life, health**, and **disability income insurance** policies to determine the amount of coverage for your current and future needs.

6. Find out how much you can expect to receive in retirement from pension plans, veterans' benefits, or Social Security. To get an estimate on your *future* Social Security benefits, visit www.socialsecurity.gov.

7. Analyze which expenses are likely to decrease after you retire (clothing, commuting, etc.) and which are likely to increase (medical, travel, etc.), and plan accordingly.

If you adhere to your checklist, you may see your savings increase as you get closer to reaching your retirement income goals. Remember, it is never too early to start planning for your "golden years."