volume 27, number 1

financial monitor

Total Insurance Services

3175 Commercial Ave.
Northbrook, IL 60062
847-205-1777 Phone
847-205-1919 Fax
Check out our new and improved website at
http://www.totins.com/

in this issue:

The Dollars and "Sense" of Protection

If you're like most people, you've worked hard over the years to accumulate assets and achieve your family's current standard of living. As a result, you probably take important steps to protect your valuables and other tangible assets. Certainly, most people understand the value of automobile insurance, homeowners insurance, and additional insurance coverage for items or collections of significant value. While tangible assets such as cars, homes, and jewelry may be worth a considerable amount of money, their *income-producing* value is often negligible. In this respect, your *true* wealth, and perhaps your greatest asset, is your future earnings potential.

If you are your family's main provider, your family may depend on you to make mortgage payments, save for retirement, and fund your children's education, in addition to maintaining your current lifestyle. While you may be comfortable with the insurance coverage you have in place for your most important tangible assets, have you considered the amount of insurance coverage you have in place for something a little less tangible—namely *you*? With this in mind, let's take a closer look at how you can estimate the financial needs of your family in the event of your death.

Suppose you are 35 years old, earn $50,000 per year, and have $100,000 of **life insurance** coverage. In addition, you and your spouse have calculated that you'll need to work for 30 more years to meet your financial goals and objectives, which include paying off your mortgage, sending your children to college, and building adequate retirement savings. If you multiply your current earnings by 30, you get a very rough estimate of your future earnings—$1,500,000.

Don't let this figure startle you. It's not how much life insurance you need. However, it does give you an indication of the important impact you have on your family's ability to meet its financial goals. There are a number of factors that need to be considered to objectively determine the amount of life insurance coverage you need.

The first point to consider is whether your life insurance proceeds are sufficient to help pay the remaining mortgage on your home. In addition, many parents want life insurance proceeds to help cover their children's future college expenses. The amount needed can be roughly calculated by matching the ages of your children against projected college costs

continued on page four

Taxes and Your Estate—Reconcile Your Domicile

Increased mobility in today's society has changed the ways in which we live, work, and play. Compared to previous generations, it is now quite common for work and recreational activities to cross state lines, resulting in ownership of property and formal relationships in more than one state. However, the expanded opportunities created by mobility may come at a price: the increased likelihood that several states may be able to tax your estate when you die. If *you* were to die today, do you know if more than one state would attempt to levy taxes on your estate?

The term **domicile** generally refers to the place intended to be your *permanent* home, as distinguished from the term residence, which could be any place you live. Although you could have simultaneous residences in several states, in theory, you can have only *one* state of domicile at a time.

A problem may arise when theory and reality part company: when separate states reach different conclusions by applying different definitions of "domicile" to the same set of facts. This may result in the apparent inconsistency of more than one state claiming the deceased was a "domiciliary," and each taxing that person's estate accordingly.

Under the Uniform Interstate Compromise of Death Taxes Act, the states involved may be able to reach a compromise in a specific situation. However, if the states involved have not adopted the Act or cannot agree on a solution, the estate in question could be fully taxed in *multiple* jurisdictions.

Establishing Your Domicile

Fortunately, there are steps that can be taken to establish your state of domicile. If you have moved, your "true" domicile may hinge on the *number* and *significance* of the contacts you have in your former and present state. Consider the following significant factors:

- **Retention of "historical" home.** If you have moved, have you sold your long-time residence in a former state?
- **Business relationships.** In which state are your significant business contacts located?
- **Location of property.** Where is most of your significant real and tangible personal property located?
- **Social connections.** Where do you maintain political, civic, religious, and family connections?
- **Time spent.** Where do you spend the majority of your time?

While you may feel your *intent* is clear, it is most likely that your *actions* will be viewed as the evidence of your intentions. Consequently, simple acts such as changing your voter registration to the new locale, changing your automobile registrations and driver's license, formally resigning from organizations in your former state, and formally joining organizations in a new state may be viewed as evidence of your intent to change your domicile.

Under some circumstances, the lines may not be so obvious. For example, if you moved to another state but maintained significant business and social relationships in your former state, where is your domicile? In such situations where conflicting evidence exists, an appropriate strategy might be to first determine which state appears most advantageous in terms of estate taxes and to determine how domicile is defined there. You can then focus on the factors that will be the most significant in reconciling your domicile.

Estate taxes may be one factor in choosing a state of domicile. For specific guidance applicable to your unique circumstances, be sure to consult your tax and/or legal professionals.

Individuals involved in the estate planning process should work with an estate planning team, including their own personal tax and legal counsel.

Making Life's Transitions More Manageable

Some life transitions, such as a career change or marriage, are planned. Others, such as a job loss or divorce, can be sudden and unexpected. One common thread that accompanies all transitions, however, is the concern about whether you will have enough money to maintain your lifestyle. This concern may be exacerbated by not knowing exactly when the transitional period will be complete. While the goal of finding a new job (in the case of job loss) or landing a first job in a new field (in the case of a career change) is clearly defined, it is the *timing* of achieving the goal that can cause financial anxiety.

One way of dealing with this problem is to determine your financial staying power. This exercise allows you to project how far your financial resources will carry you. While there may always be a certain amount of financial worries, knowing how much time you have before additional resources will be needed can allow you to better concentrate on accomplishing your goal.

The process begins by examining how much it costs to maintain your *current lifestyle*. To do this, you need to review your check book or online account and credit card receipts to find out where your money has been going. Don't forget those cash expenditures and frequent ATM stops that you make on a daily or weekly basis.

Once you have an idea of your average monthly expenses, you can compare them to the financial resources you have committed to the transition. This may include cash on hand; any reliable cash inflows, such as a spouse's salary; investment income or rental income; alimony or child support; a severance package or unemployment compensation, if applicable; and any investment assets you can liquidate in the event of a shortfall.

After recording your current expenses, you may project a *modified spending plan*. You can modify your current spending by noting areas where you can cut your budget without seriously compromising your lifestyle. Such modifications might include doing some things on a less frequent basis or seeking less expensive alternatives for some of your current habits.

Now that you have recorded the expenses of your modified spending plan, you are ready to further hone your plan into a *"bare bones" budget*. This third level of spending reduces your cash outflows to only those that are necessary, such as housing, food, transportation, etc.

At this point in the process, you have the information you need to decide how you will allocate your resources. You may choose to customize your plan, allowing you to continue funding your current lifestyle for a number of months, switch to a modified spending plan if you find that you need more time, and implement your bare bones budget if an unexpected obstacle prevents you from achieving your transition objective within the planned time frame.

Life changes can be challenging, but you can ease the financial pressures by planning at the outset how you will allocate your resources during the time of transition. By determining how much it will cost you to get from point A to point B, you can decide whether your transition plan is financially feasible or if modifications are necessary.

E-Learning: An Option for the Busy Professional

Many people struggle to balance their personal and professional lives, as they juggle parenting and domestic responsibilities with a full-time, high-pressure career and even caring for aging parents. Finding the extra time to enhance your education or pursue a higher degree, until recently, may have seemed virtually impossible.

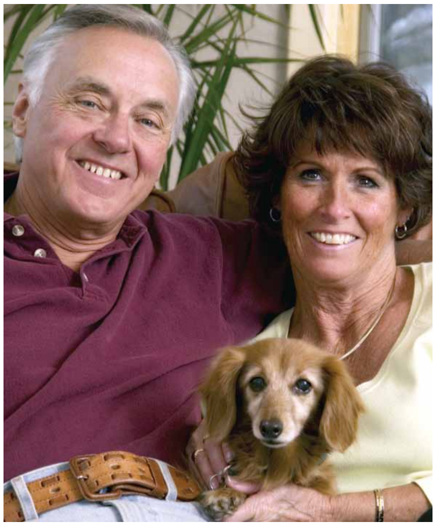
Electronic learning, or e-learning, has changed all that. E-learning refers to the use of computer-based electronic technology as an educational tool. Internet, email, websites, CD-ROMs, and online discussion groups are utilized to deliver, facilitate, and enhance learning. Some online courses are "synchronous," meaning all students are online at the same time for live discussions or exams. Other e-learning courses allow students to work independently during the week, but require weekly deadlines for assignments and exams. Still others allow students to work at their own pace, finishing the course as quickly or as slowly as they like.

continued on page four

the dollars and "sense" of protection

continued from page one

adjusted for inflation. Next, consider your spouse's income and whether it would be sufficient to cover the monthly expenses of your family's current lifestyle. Providing a supplemental income fund can help your family maintain its standard of living. Finally, life insurance can help provide liquidity at death to pay estate taxes and maximize asset transfers to future generations.



As you develop an insurance strategy, remember to assess your existing policies. Calculate the additional coverage you may need based on your family's financial obligations and any other resources, such as retirement benefits and savings.

Before you crunch the numbers, it is important to realize that determining life insurance needs is not as simple as it may appear. There are many factors and calculations that must be taken into consideration to objectively assess your needs. Therefore, it is important to consult with a qualified insurance professional to help ensure that you have an appropriate amount of coverage.

e-learning: an option for the busy professional

continued from page three

Rather than the traditional classroom experience, e-learning offers the busy professional a far more flexible way to achieve educational goals and remain competitive in the workplace. Ideal candidates for e-learning include those who are self-directed and self-motivated with the ability to multi-task. In addition, because a growing number of online courses are including participation in blogs, wikis, or game-like simulations, e-learners must have good computer skills and access to computers with high-speed Internet connections. Those who are unsure about their ability to use such technology can seek online schools with readily accessible help desks and other technological guidance.

According to a report by the U.S. Department of Labor's Bureau of Labor Statistics (BLS, 2010), based on data from the Current Population Survey, advance degrees contribute to higher earnings and lower unemployment rates. The average weekly earnings in 2009 for workers with a college degree ($1,025) were found to be significantly higher than for those with only a high school diploma ($626). And those with a master's ($1,257) or doctoral ($1,532) degree earned even more. Similarly, the unemployment rate for high school graduates was almost double the rate for college graduates, at 9.7% and 5.2%, respectively.

A revolution has occurred in the workplace that requires Americans to have more education and greater skills. As technology continues to advance, professionals need as much education and training as possible in order to remain competitive in the job market. The number of institutions offering courses and degrees taught via e-learning technologies is constantly growing. E-learning can offer you a way to pursue your educational goals, while still balancing your personal and professional responsibilities.

The information contained in this newsletter is not intended as tax, legal, or financial advice, and it may not be relied on for the purpose of avoiding any Federal tax penalties. You are encouraged to seek such advice from your professional advisors. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security.

Financial Monitor is written and published by Liberty Publishing to help keep you up-to-date on the issues which may affect your financial well-being. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. For specific advice on how to apply this information to your particular circumstances, you should contact your insurance, legal, tax, or financial professional.