Volume 35 • Number 4

Financial Planning Strategies

A Financial Planning Update

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/

Insurance Protection for Life's Key Stages

Whether you are just starting your career, in your peak earning years, or enjoying retirement, your insurance protection needs may change over time. **Life cycle planning** helps identify insurance needs that are common to particular stages of life. This can help individuals and families examine their insurance requirements in order to make future plans.

Starting Out

Between the ages of 25 and 35, many people are just starting out in life—getting married, establishing families, and building careers. During these years, the death of the primary breadwinner, or one partner in a dual-income couple, could seriously jeopardize a surviving spouse's or family's financial future. Young couples probably have not had time to accumulate significant assets. For those in this age group, **life insurance** can be used to help create an "instant estate." In the event of an unexpected death, a life insurance policy death benefit can provide funds to help cover a mortgage, pay for a child's college education, or maintain the family's standard of living.

The Peak Earning Years

Between the ages of 35 and 55, a family's assets may increase, therefore changing their life insurance needs. At this point, individuals owning **term policies** may want to convert to **permanent insurance**, which offers the potential for tax-deferred cash accumulation. The cash value can be accessed through a policy loan, free of taxes or penalties up to the amount paid into the policy. The loan interest rate generally is comparable to traditional lending rates. However, it is important to note that policy loans and/or withdrawals will reduce the cash surrender value and may reduce the policy's death benefit. Taking a policy loan could have adverse tax consequences if the policy terminates before the insured's death.

Another concern during this period is protecting your ability to earn income. According to the Council for Disability Awareness (2014), more than one in four people in their 20s will become disabled before retiring. Also, one in eight workers can expect to be disabled for five years or more before retirement. Since even one year of disability could easily wipe out many years of savings, you may want to consider **individual disability income insurance**. This type of insurance provides a benefit to replace a percentage of the insured's income, in the event of a qualifying disability.

(continued on page four)

A Trust Primer

Many of us may perceive **trusts** as a complex subject better left to our attorney. However, a trust is simply a contract initiated by a **grantor** who agrees to transfer assets to a **beneficiary**, who then receives the assets as stipulated in the trust contract. A **trustee**, who may also be the grantor, manages the trust assets and ensures the stipulated terms of the trust are faithfully executed.

A trust is designed to help individuals manage a variety of family and tax-related estate planning concerns. Here are a few ways in which trusts can be used:

Revocable Living Trust. A revocable living trust is an estate planning trust that deeds property to an heir but allows the grantor to retain control over the property during his or her lifetime. Upon the grantor's death, the property passes to the beneficiary, avoiding **probate**, which is the judicial process wherein a court appoints an executor to carry out the provisions of a will. While the revocable living trust does not provide tax savings for the grantor during his or her lifetime, the trust becomes "irrevocable" upon death, and the beneficiary is then entitled to tax advantages.

Irrevocable Living Trust. An irrevocable living trust is an estate planning trust wherein the grantor does not retain control of assets or property. Through the transfer of assets or property into the trust, the grantor may be eligible for certain tax savings. An irrevocable living trust may also be used to avoid probate.

Irrevocable Life Insurance Trust (ILIT). An irrevocable life insurance trust is designed to provide tax savings through the ownership of a life insurance policy. Assets in the trust are generally not considered part of the grantor's estate. ILITs may be funded or unfunded. With a *funded* ILIT, income-generating assets are transferred into the trust, and the generated income is then used to pay the premiums on the life insurance policy. With an *unfunded* ILIT, the grantor makes yearly gifts to the trust, and this money is then used to pay the premiums on the life insurance policy.

Credit Shelter Trust: A credit shelter trust, also called a **bypass trust**, is an estate planning tool used to protect assets from successive estate taxes. While current law permits an unlimited amount of assets and property to pass to a surviving spouse without being subject to Federal estate taxes, children and other beneficiaries must pay taxes for inheritances valued in excess of the applicable estate tax exclusion amount, which is $5.43 million per individual in 2015. If a married couple wishes to take advantage of a credit shelter trust, they generally arrange for certain assets to pass into the trust for the benefit of the surviving spouse, rather than passing all assets directly to the spouse. This trust, which would *not* be considered part of the surviving spouse's estate—and generally does not exceed the applicable exclusion amount—may pay the surviving spouse income for life and then, upon his or her death, may pass to a beneficiary, such as a child, free of estate taxes if under the exclusion limit. In addition, the gross estate of the surviving spouse upon his or her death could pass to the same beneficiary, and up to $5.43 million in 2015 would be free of estate taxes.

Charitable Remainder Trust (CRT): A charitable remainder trust is an arrangement in which assets are donated to a charity but the grantor continues to use the property and/or receives income from it. A CRT may allow the grantor to avoid capital gains taxes on highly appreciated assets; receive an income stream based on the full, **fair market value (FMV)** of those assets; receive an immediate charitable deduction; and ultimately, benefit the charity of his or her choice.

Dynasty Trust: This trust is often used by individuals to pass wealth to their grandchildren *free* of **generation-skipping transfer taxes**.

A trust can be an effective way to accomplish your long-term estate planning goals, but often involve complicated tax laws. Consult with your tax and legal professionals about your particular situation and how a trust may enable you to share your wealth with family, friends, or charities. $

Tips to "Shape Up" Your Fiscal "Fitness"

Many people realize that the best way to stay in shape is to develop an appropriate fitness regimen and then stick with it. If you start a fitness program and drop out, you never give yourself a chance to become physically fit. In the long run, regular workouts pay off. It is the same with fiscal conditioning. To achieve fiscal fitness and the financial independence that goes along with it, be sure to adhere to a regular program of sound financial practices. Here are some tips to help you "shape up" your finances:

- **Set short-, medium-, and long-term financial goals.** With physical fitness, small accomplishments can lead to big successes. The same holds true for fiscal fitness. Set one-, three-, and ten-year financial goals and evaluate your progress regularly. Make adjustments, as appropriate, to achieve long-term financial independence.
- **Look for a savings "edge."** Just as personal trainers are available to guide you at the gym and accelerate your progress, financial professionals are available to guide you toward vehicles that help facilitate savings. Contribute to an IRA, 401(k) plan, or other retirement plan for which you qualify that offers an edge: tax-deferred savings.
- **"Pump up" your savings.** Before spending your paycheck, put savings first. Earmark a *set amount* out of each paycheck for the future. Like regular repetitions at the gym, this habit can build financial muscle to help support you for the long term.
- **Trim high interest rates and finance charges.** Just as you trim excess fat from your diet, shop around for credit cards and loans with low rates. Pay off your credit card balances monthly to avoid high finance charges. If you need to carry a balance, try to only use cards with low interest rates.
- **Schedule periodic insurance and legal checkups.** Many people visit the doctor yearly for regular physical exams. Similarly, consider meeting with a qualified insurance professional periodically to review and update your insurance needs. Also, schedule a regular review with your attorney to evaluate and update your will and trusts to accommodate any tax law changes.
- **Monitor your progress regularly.** To get in top physical shape, it's important to chart your progress. It can be very inspiring to look back at your progress and see how far you've come. It is also important to monitor your financial progress regularly and to meet, at least yearly, with a qualified financial professional. This can help ensure you are moving in the direction of your long-term goals.

By committing yourself to fiscal fitness, you are taking the first step toward achieving financial independence. Before long, you may be able to achieve the future of your dreams. Remember, the sooner you begin, the better. $

Insurance Protection for Life's Key Stages

(continued from page one)

To address disability concerns, some life insurance policies offer a rider called a **waiver of premium**, usually available at an additional cost. With this additional coverage, if the insured becomes disabled, the insurer picks up the cost of the premiums with no repayment required, and the insured's life insurance coverage is not affected.

Nearing Retirement

As retirement approaches, you may want to prepare strategies to minimize potentential estate taxes. Life insurance offers a practical and affordable means of creating liquidity at death to help pay estate taxes. One approach is to establish an **irrevocable life insurance trust (ILIT)**. When properly executed, the trust is used to purchase a life insurance policy in an amount at least equal to the projected estate taxes. The policy premiums are paid with gifts from the insured to the trust. At the insured's death, the trust provides tax-free funds to help cover the estate tax liability. To be involved in the estate planning process, you would need to work with an estate planning team, including tax and legal professionals.

The Retirement Years

Upon retirement, new concerns may arise. Personal assets that have taken years to accumulate could be quickly depleted should an individual require long-term care in a skilled nursing home facility. Most people are unaware of the actual costs associated with long-term care. According to the American Association of Retired Persons (AARP), the national average for private nursing home care is $90,500 per year. Other long term health care statistics: $248 per day for a private room in a nursing home; $222 per day for a semi-private room or more than $81,000 a year.

Although Medicare generally begins at age 65, it does not cover extended long-term care services. Medicaid is the government program designed to help those in financial need. However, individuals must "spend down" their personal assets and meet the Federal poverty guidelines before qualifying for nursing home care under Medicaid.

Long term care insurance (LTCI), if *previously* purchased, may help cover extended care expenses, including at-home, assisted living facility or nursing home care. Long-term care insurance may also help preserve assets, while easing the financial and caregiving burden on family members.

Back to the Future

An appropriate insurance protection plan can help you and your family throughout life's key stages. By understanding the concerns that are common at each life stage, you may be in a better position to anticipate future needs. $