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in this issue:

Understanding Life Insurance Beneficiary Designations

In the language of life insurance, a **beneficiary** is the recipient of the proceeds of a policy when the named insured dies. The owner of a life insurance policy has a great deal of flexibility in naming beneficiaries and can generally name anyone he or she chooses. However, it is important to understand the different types of designations and methods of distribution before choosing your beneficiaries.

Types of Beneficiaries

Beneficiaries are typically categorized as either **primary** or **contingent**. A *primary* beneficiary is entitled to the benefits of the policy upon the death of the insured, but such rights expire if he or she dies before the insured. A *contingent* (or secondary) beneficiary is entitled to the policy benefits if the primary beneficiary has predeceased the insured. One fairly common arrangement stipulates that, if a primary beneficiary dies before the insured, then the amount would be payable to the contingent beneficiary. You may want to have several contingent beneficiaries.

A beneficiary can be designated as a **specific** beneficiary (a person identified by name and relationship) or a **class** beneficiary (a group of individuals such as "children of the insured"). While the naming of specific beneficiaries is usually clear, unintended complications can arise when designating *classes* of beneficiaries.

For example, if you plan to name your children as beneficiaries, you must clarify if you intend to include adopted children or children by a former spouse. If your children are minors, it must be determined if the insurance company will pay the benefits to a minor beneficiary. Typically, insurers pay benefits to a legal guardian rather than to a minor.

Let's look at the following scenario whereby the policyowner's intentions appear straightforward, but could become complicated. Bonnie, age 70, has planned for the benefits of her life insurance policy to be paid to her children (David, Michelle, and Joanna) or her grandchildren. Now, suppose David and Joanna die before their mother. David leaves four children and Joanna has no children. How will the proceeds of the policy be distributed when Bonnie dies?

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Methods of Distribution

Per stirpes and **per capita** are terms that describe methods of distributing property to family members and heirs. Per stirpes means "branches of the family," and per capita means "by heads." In the example above, under a ***per stirpes*** distribution, Michelle (one branch) would receive one-half of the proceeds and David's surviving children (the other branch) would divide the remaining half among themselves. Under a ***per capita*** distribution, David's four children, along with Michelle, would ***each*** receive one-fifth of the proceeds. Remember, if any of David's children are still minors when Bonnie dies and legal guardians have not been appointed, there may be complications.

Revocable vs. Irrevocable

Consequences may also vary according to whether beneficiary designations are revocable or irrevocable.

If a beneficiary designation is **revocable**, the policyowner reserves the right to change the beneficiary. A person designated as a revocable beneficiary has only an "expectation" of benefits, since the owner of the policy can exercise any of the policy rights without the consent of the revocable beneficiary.

On the other hand, an **irrevocable** beneficiary designation cannot be changed without the consent of that beneficiary. While this arrangement is sometimes desirable for estate planning purposes, the legal status of an irrevocable beneficiary is uncertain. Some may regard an irrevocable beneficiary as a "co-owner" of the policy; therefore, the beneficiary's consent is needed to exercise any policy rights. Others may contend that an irrevocable beneficiary's consent is needed only for exercising a change of beneficiary.

The latter position can create the somewhat puzzling situation of compromising the beneficiary's rights if the policyowner exercises other rights, such as surrendering the policy or permitting it to lapse. Due to the serious implications of an irrevocable designation, it is often preferable to use revocable beneficiary designations.

A further complication can arise when one's estate is named as a beneficiary of a life insurance policy. The policy benefits may be tied up in the probate process or reduced by the claims of creditors.

The distribution desired by the policyowner must be clearly set forth in the beneficiary designation. A change in family circumstances after a policy is initially written, such as a divorce, could leave unintended beneficiaries, so it is important to review your insurance policies regularly. If you are unsure about your beneficiary designations, check your policies, and take the steps necessary to make appropriate changes.

Prepay Your Mortgage: Save Interest

Is reducing the length of your mortgage loan by accelerating your mortgage payments the right decision for you? Prepayment can save you money, particularly if you plan to reside in your home throughout the life of your loan.

Suppose you have a $200,000 mortgage at 7% for 30 years, your ordinary monthly payment (excluding real estate tax) is about $1,331, payable for a total of 360 months. The mortgage will ultimately cost you an estimated $479,022, which includes $279,022 in interest.

If you pay $50 extra per month (about $1.64 a day) toward that mortgage, you will cut your total interest payment to approximately $242,597, and you will own your home without a mortgage three years and three months sooner. In other words, the extra money you pay out at the rate of $50 a month will save you an estimated $36,430 in interest.

Clearly, the more money you prepay, the greater your savings. For homeowners who have **adjustable rate mortgages (ARMs)**, the practice of prepaying is especially wise when interest rates are low. Prepaying reduces your debt load if rates go up later, since interest payments

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Are Good Grades the Only Key to College Admissions?

If you were asked how best to prepare your child for college, you might say that a well-rounded high school curriculum would be a good start. Today, however, *getting into* college and *graduating* are two distinct challenges.

Each college and university has admission guidelines to be followed. Naturally, the first items most likely to be assessed are your child's high school academic record and SAT scores. However, academics are not the only items that catch the eye of an admissions director.

Participation in extracurricular activities and civic involvement can sometimes be the deciding factor in whether or not a college chooses to accept your child. Therefore, it is important for your child to include a résumé of achievements, interests, and volunteer efforts with his or her application.

Here are some additional credits that may enhance your child's college application:

- **Awards** demonstrate formal recognition of an applicant's ability to excel in a particular area.
- **Sports participation** demonstrates an applicant's competitive spirit and winning attitude, along with the ability to be a team player.
- **Extracurricular activities** highlight an applicant's enthusiasm, leadership qualities, and specific interests.
- **Volunteering** or **religious involvement** can often indicate that an applicant is active in the community and possesses moral character and integrity.
- **Political activity** can demonstrate an applicant's strong leadership skills and public awareness.
- **Work experience** can indicate motivation, responsibility and a strong work ethic.
- **Hobbies** and **special interests** can provide a better understanding of who the applicant is, in addition to highlighting other areas of knowledge.

Many children today are exposed to an array of social pressures that may be unfamiliar to most adults. So, parents and other role models may need to work harder to set positive examples and instill good values in them.

Besides academically making the grade, a candidate for college needs to demonstrate a good attitude. Parents can help children recognize the value of learning and how education is often linked to future success. Making sound choices is equally important. Children need ongoing encouragement to continually strive to reach new heights.

Although you hope your child will use sound judgment while navigating the maze of activities associated with college life, remember that maturing is a process, and there may be mistakes made along the way. The key is to encourage your child to learn from those mistakes, rather than keep repeating them.

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are highest and principal payments are lowest at the loan's inception.

Things to Consider

Is there a downside to prepayment? It depends. Eventually, you will eliminate the income tax deduction you receive from deductible interest paid. Depending on your tax bracket, the amount of money saved should be reduced accordingly. In addition, if you know you will only be living in your current home temporarily, prepaying may not be as beneficial in the long run. It is important to thoroughly analyze your options before you proceed.

Another area of concern can be prepayment penalties. While once common, they may be limited or nonexistent on relatively new mortgages. Further, the competitive nature of lending has led banks, in some instances, to waive penalties and prepayment charges. In order to make prepayments, you can usually add the prepayment to your normal monthly mortgage check and mail one check to the bank.

Before proceeding with any type of plan, consult with your financial professional to ensure that your decisions are consistent with your overall financial goals and objectives.

Regular Reviews: Building Your Financial Foundation

There are many financial strategies that can help you reach your short- and long-term goals. As you review your financial situation, track your progress, and modify your strategies, your financial professional can be a valuable resource.

Almost everyone has a financial strategy that should be regularly reviewed. Even if you don't have a formal, written plan, you probably adhere to some type of budget, save for special goals, or look over your retirement savings from time to time. When paying bills and reconciling your accounts, you frequently look at various parts of your finances. However, at least once every year, be sure to gather all your financial records and take a close look at your entire financial picture.

Here's a brief description of an annual financial review:

1) Analyze your cash flow. Does your income equal or exceed your fixed and variable expenses? The amount of income that exceeds what you spend is called **positive cash flow**. If your expenses exceed your income, you have **negative cash flow**. If your cash flow is negative, it may be time to re-organize your budget and minimize any unnecessary expenses so you can focus on saving for your future.

2) Plan and prioritize your goals. For each of your financial goals, consider the projected cost, the amount of time available to meet your goal (time horizon), and your funding method (a scheduled savings plan, liquidating assets, or taking a loan). Once you've identified your goals, plan according to your priorities. Most importantly, establish an emergency fund of at least three to six months' worth of income to handle life's unexpected turns. Then, develop a savings plan for larger, long-term goals, such as your child's educational expenses. Finally, prioritize more flexible goals, such as purchasing a new car, renovating your home, and planning a vacation.

3) Review your retirement needs. Will you have enough money when you retire? Pensions and Social Security may not provide the income needed to maintain your current lifestyle. Consequently, review your retirement needs and start a disciplined savings program for your retirement.

4) Minimize income taxes. You may be able to reduce your tax liability by taking advantage of tax breaks, such as contributing pre-tax dollars to an employer-sponsored retirement plan. Be sure to claim any deductions available for mortgage interest, traditional IRA contributions, or charitable donations. Talk to your tax advisor about strategies that are appropriate for your unique situation.

5) Beat inflation. Besides creating higher costs for goods and services, inflation depreciates currency values. In other words, as prices increase, the purchasing power of your income—dollar for dollar—decreases. If, for example, the current inflation rate is 4%, you would need a 4% annual wage increase to maintain your buying power. A decline in your buying power could lower your standard of living and affect your lifestyle. Therefore, it's important to consider inflation as you save, invest, and make purchasing decisions.

6) Manage unexpected risks. Life involves risk, which may lead to financial loss. For example, you could sustain a disability and be unable to earn an income, or an unexpected death could cause financial hardship for your family. Consider making insurance, including disability income insurance and life insurance, the cornerstone of your overall financial strategy because it offers protection against potential risks and liabilities.

As you review your financial situation each year, you may need to modify your plan according to changing goals and circumstances. If you faithfully track your progress in these six areas, you may be in a better position to maintain your lifestyle now and in the future.