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the TWENTY *twenty* letter

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Planning Your Financial Future:

IT'S NEVER TOO EARLY TO BEGIN

Regardless of the path your life takes, money will play an important role at every turn. Certain events, especially graduating from college, entering the work world, getting married, having children, and retiring, require targeted financial strategies. Good habits developed *now* can go a long way toward helping you achieve your financial goals.

From Campus to the Workforce

If you are just starting your career, set some goals for making the most of your disposable income. Consider the following three rules: 1) budget your money; 2) keep an emergency fund to cover three to six months of living expenses; and 3) avoid unnecessary debt.

Of course, paying off any college loans is important. Also, try to avoid spending too much on housing. A good, general rule of thumb is to limit rent or mortgage-related expenses (principal, interest, insurance, property taxes, and/or condo fees) to 28%–30% of your gross monthly income. When other short-term debt, such as car payments, student loans, and credit card bills, are included, the debt limit guideline may rise to 36% of your gross pay.

For younger workers, retirement is often last on the list of financial concerns. However, if your employer offers a retirement plan with tax benefits, such as a **401(k)**, you may want to make the most of the opportunity. Pre-tax payroll deductions make contributing relatively

painless. Try to contribute the maximum amount allowed—especially if your employer *matches* some, or all, of your contribution. If you don't have a retirement plan at work, consider opening an **Individual Retirement Account (IRA)** or establishing a **Keogh plan** (if you're self-employed) that can provide for *tax-deductible* contributions and *tax-deferred* earnings.

Settling Down

If settling down means marriage, you now have two financial situations to reconcile. Keep in mind that marriage establishes a *legal* relationship, and your spouse may have his or her own debt. Ideally, attempt to begin your new life together with a clear balance sheet.

Estate Planning:

A QUICK LOOK AT THE BASICS

If you have a growing family and are just starting your journey on the road to financial success, you probably think estate planning is something you'll only have to contend with later. But estate planning is an important part of protecting your family's financial future, and the sooner you start, the better. Let's take a quick look at some estate planning steps to take now.

1. Draft a Will. A formal legal document directing the settlement of your estate provides for the distribution of your assets according to your wishes. Without a will, the laws of your state will determine estate distribution. Only through a will can you designate your own **executor**, **guardians** for minor children, and other **fiduciaries**. Because states have different standards and often require specific language for the document to be deemed valid, be sure to consult your qualified legal advisor.

2. Title Assets Properly. One of the simplest and least expensive estate planning techniques for married couples is to title assets as "**joint tenants with rights of survivorship**." At the death of one joint owner, such titled property automatically passes to the survivor without the need for **probate**. Depending on circumstances and individual state laws, there are other forms of titling that may be appropriate.

3. Review Your Life Insurance. Life insurance has long been recognized as a relatively affordable method for ensuring that a surviving spouse will have funds to meet financial obligations in the event of death. Regular reviews with an insurance professional can help ensure you have adequate protection and your plan is up-to-date.

4. Plan for the Unexpected. First, assess your **disability income insurance** coverage. Disability income insurance can help replace a portion

of your income should you sustain a disability. Second, consider a **durable power of attorney** for financial matters and a **living will** and **health care proxy** for medical matters. These **advance directives** enable a designated individual (usually your spouse, a relative, or close friend) to make important decisions on your behalf should you be mentally or physically unable to do so as a result of an accident or illness.

5. Keep Your Family Informed. Many families maintain a "need to know" policy between parents and children, especially while children are growing up. However, at some point, all family members should know about financial, medical, and estate arrangements that can affect the entire family.

Regardless of your stage in life, estate planning can help you prepare for the future. Be sure to consult with your professional advisors. **20/20**

Add Flexibility to Your

PENSION PLAN

Until recently, one of the primary decisions you would need to make if you were approaching retirement would be what kind of annuity payout you should take from your company's pension plan: **single life**, which will last for your lifetime, or a **joint and survivor option**, which will last for your life plus that of a designated beneficiary, usually your spouse.

However, you may have had two questions concerning the inherent fairness and flexibility of these two basic payout options: What if you

die sooner than expected? What if you need emergency funds? If you die early, you'd lose some of the retirement monies you had earned. And, in the event of an emergency, you couldn't quickly utilize your retirement funds due to the fixed distribution schedule. So, how could you get your "money's worth" out of your company's pension (even with survivor benefits), and how could you gain access to additional funds in an emergency?

The answer? A **lump-sum distribution**. This one-time payment, based

on your life expectancy and an assumed interest rate, means you will immediately receive everything you "earned," providing you with total control of your money.

You can roll the lump sum over into an **Individual Retirement Account (IRA)** that will allow you to defer taxes until you take distributions. You can take the required minimum distributions from your IRA and, in an emergency, tap deeper into the account. But there's one potential problem with this scenario: It introduces the possibility that you may

Asset Protection

AT A GLANCE

Many people focus their efforts on increasing their financial resources. Yet, they may give relatively little attention to *protecting* those assets once they are accumulated. But, without adequate legal protection, the financial security you have worked long and hard to build could easily be threatened by an unexpected lawsuit.

In today's society, it is not only the wealthy who need to be concerned. Even individuals of moderate means, who have home equity, savings, or retirement accounts, could be at risk. Business owners and professionals, such as doctors, dentists, lawyers, and accountants, may be especially vulnerable to claims from customers, patients, clients, suppliers, employees, and lenders.

Lawsuits can be expensive and time-consuming. Even if you think you are in the right, you may be forced to settle because it may be more costly to fight a lawsuit than to pay a settlement. Also, regardless of whether you win or lose, you must generally pay for the costs of your own defense. However, with proper planning, there are some relatively simple and inexpensive options to help protect your assets from the threat of litigation.

Life Insurance

In many states, **life insurance death benefits** and **cash values** are exempt (in whole or in part) from the claims of creditors of the insured. However, the exemption for life insurance cash values may depend on the ability to prove that there has been no attempt to defraud a creditor.

Qualified Retirement Plans

Consider maximizing your contribution to your qualified retirement plan. In order to be tax qualified by the Internal Revenue Service (IRS), qualified plan assets may not be assignable. According to U.S. Supreme Court interpretation, this means that account balances in a qualified plan are protected from bankruptcy. The Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) of 2005 strengthened this legal principle by explicitly extending bankruptcy protection to retirement savings held in Individual Retirement Accounts (IRAs). Non-rollover assets of up to \$1 million held in tax-deferred retirement accounts, including IRAs, are protected under BAPCPA in the event of personal bankruptcy. There is no exemption limit on amounts rolled over to IRAs from qualified plans, including 401(k)s. Funds held in SEP IRAs and SIMPLE IRAs also gained unlimited protection from creditors under the legislation and are not included in the \$1 million IRA limit.

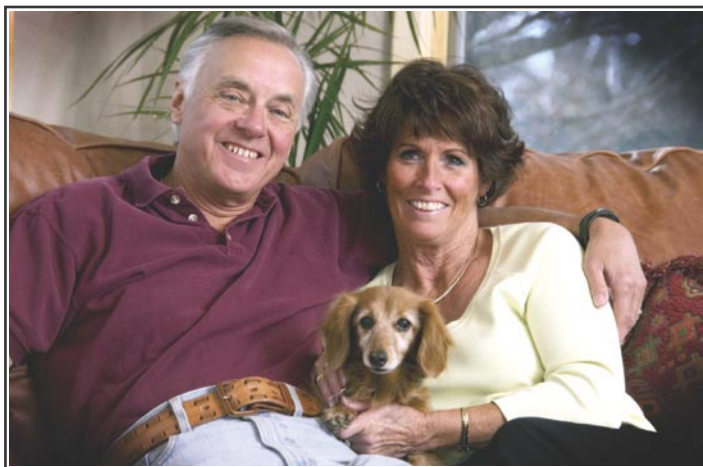
Primary Residence

Most states provide some kind of asset protection for a primary residence. The key may lie in *how* the residence is titled. One form of titling, called "**tenants by the entirety**," is often necessary to

protect home equity from the claims of creditors.

Trust Funds

In some cases, a "**spendthrift**" clause in a trust will prevent creditors from accessing trust fund assets. However, this protection almost never applies to so-called "**self-settled**" trusts. In other words, you cannot typically set up a trust for your own advantage, unless you cede all control and benefits. However, it may be possible to establish such a trust to benefit designated family members.



The Bottom Line

When planning your estate, it is important to consider more than building wealth. You also need to protect your assets from the threat of lawsuits and the potential claims of creditors. While some relatively simple and inexpensive strategies may exist to achieve this end, it is important to bear in mind that asset protection planning is complex and may require the assistance of qualified legal and tax professionals. **20/20**

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PLANNING YOUR FINANCIAL FUTURE:
IT'S NEVER TOO EARLY TO BEGIN

Whether single or married, financial goals take on greater importance as you assume adult responsibilities. You and your spouse may choose to name each other as **beneficiaries** of **retirement accounts, annuities,** or **life insurance** policies. Also consider the protection offered by disability income insurance. In the event you or your spouse is unable to work due to an accident or illness, disability income insurance can provide a certain level of replacement income.

Children Raise the Stakes

Although children present new and immediate demands on your time and financial resources, having dependents may motivate you to plan for the future. Two essentials include adequate **life insurance** and a **will** that names **guardians** for minor children.

You may also want to establish an education funding plan to help finance college. Many adults feel torn between saving for their children's college education and saving for their own retirement. Starting early may allow you to do both.

Nearing Retirement

For many people, a comfortable retirement may require 75% to 80% of their pre-retirement income. The "three-legged stool" of retirement income consists of Social Security, pensions, and personal savings. If you anticipate little or no income from Social Security or a traditional company pension, you will need to prepare early to make up the difference with savings and an employer-sponsored retirement plan.

A comprehensive estate plan, to minimize potential estate tax liabilities and to help ensure that your assets are transferred to your heirs according to your wishes, is also important.

It is never too early to begin building the foundation for your financial freedom. The sooner you get started, the better. Regardless of your stage in life, your financial professional can assist you in finding appropriate strategies to meet your needs.

No matter where life takes you, money will play an important role. Good habits developed *now* can go a long way toward helping you achieve your financial goals. For specific guidance, contact your financial professional. **20/20**

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ADD FLEXIBILITY TO YOUR PENSION PLAN

outlive your assets. You do not have a guaranteed *income stream for life*.

The Best of Both Worlds

If your pension plan offers the lump-sum option, however, there is a solution to creating a steady income stream. You can take the lump-sum distribution and set up an IRA rollover, but you can also place a *portion* of the lump sum into a **fixed annuity**. By putting some of your money into an IRA, the taxes on this portion would be deferred until you start taking distributions. Furthermore, by purchasing the fixed annuity, you continue to defer taxes on these funds as well, while securing retirement income with a guaranteed lifetime income payout option.

You could purchase the fixed annuity either by directing your employer to transfer funds directly from your pension account to the insurance company providing the contract or rolling all the money into the IRA first and later transferring cash to the insurer. (*Note: Annuity payments are guaranteed by the issuing company and are based on that company's continued ability to pay claims.*)

Successful retirement planning takes foresight and discipline. If you're willing to take an active role in managing your retirement funds, you may have a better chance of achieving your retirement goals. **20/20**

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