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An economic and investment update

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Retirement Saving Strategies for Women

Like so many women, are you constantly juggling family, professional, and personal responsibilities? No wonder retirement planning continues to be relegated to the bottom of your "to do" list. But, procrastination is not the answer, as it will only increase your risk of becoming one of a growing number of women who will spend their golden years struggling to make ends meet. With the right planning, you can avoid that situation.

Saving enough money for a comfortable retirement can be a challenge for most Americans, and it can be especially challenging for women who may, when compared with men, earn less, spend fewer years working, and live longer. Retirement saving concerns are often more acute for women who are divorced, widowed, or otherwise single, as well as for those who have spent all or a significant portion of their adult years caring for children and other family members.

According to the U.S. Department of Labor (DOL, 2009), less than half of all working women in the United States participate in a retirement plan (46% of 61 million working women ages 21 to 64), and a woman retiring at age 65 can expect to live another 19 years on average, 3 years longer than her male counterpart. In addition, women typically spend nearly 12 years out of the workforce while taking care of children or elderly parents, and the average woman in the U.S. who is employed full time earns less than her male counterpart with 80 cents for every dollar a man earned in 2009 (Bureau of Labor Statistics, 2011). Women are further disadvantaged when their jobs are part time or with smaller firms that do not offer substantial retirement benefits.

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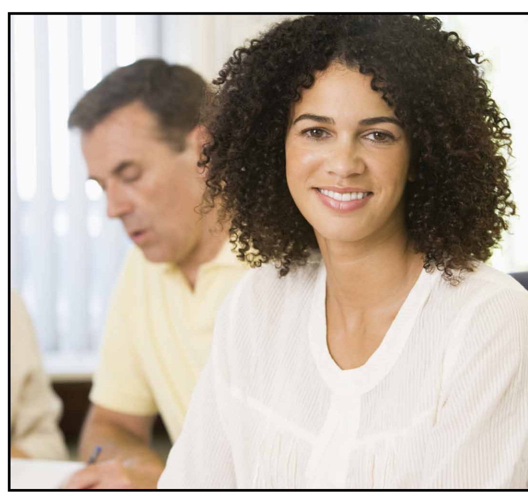
Advantages of Life Insurance Conversions

Suppose you purchased **term insurance** when you were young to help protect your growing family. At the time, term insurance may have offered the flexibility to help meet your family's immediate needs at an affordable price. Indeed, the initial low cost and relatively high death benefit of term insurance are among its most attractive features.



However, as your children grow and you accumulate assets, your financial goals may gradually shift toward supplementing retirement income, funding a child's college education, or both. Concerns about the financial independence of your surviving spouse and the resources that may be needed to pay estate taxes at your death also remain important to your long-term plans.

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Estate Planning for Intellectual Property

If you are an inventor, author, artist, or owner of a closely held business, you may have already taken steps to help ensure the protection of your **intellectual property rights**. Certain types of intellectual property, such as business ideas, visual art, published or unpublished literary and musical works, inventions, computer programs, and designs of clothing and architecture, may be protected by law through copyrights, patents, and trademarks. When planning your estate, carefully consider these valuable assets to help ensure that they are transferred to your heirs according to your wishes upon your death.

Unique Concerns

Intellectual property is a unique asset, as it is an expression of an individual's knowledge and ideas. While not simply a thought itself, intellectual property is an intangible asset that is the direct result of work or trade. Just as no two individuals think alike, each estate that owns intellectual property must be handled differently. This area of estate planning is continually evolving, particularly as intellectual capital continues to gain significance throughout commerce in general.

Initially, it is important to determine if the intellectual property can be passed down to heirs. Certain types of intellectual property may have inherent **renewal** or **termination rights** through copyrights, patents, and trademarks. This can create questions as to *when* intellectual property rights become transferable. To address these concerns, some intellectual property owners choose a second executor to handle intellectual property issues in their estates. For example, an author may appoint a family member to oversee the general administration of his or her estate, as well as a second person or entity experienced in intellectual property issues to handle posthumous publications.

The valuation of intellectual property also poses a challenge to estate planning. The Internal Revenue Service (IRS) offers guidelines for some, but not all, types of intellectual property. For instance, the valuation of literary work is based on the copyright's future earnings potential reduced to its present value. Theoretically, this valuation methodology may also apply to other types of intellectual property. However, the question may remain as to how far into the future the potential for earnings exists. It may be possible to hire a professional appraiser to help determine the current value of intellectual property and how future trends may affect this value, but it is important to choose someone with expertise in the area of intellectual property.

Estate Taxation

Estate taxation affects anyone with substantial assets, regardless of the type of property that is included in his or her estate. However, intellectual property sometimes creates additional concerns. Just as an executor might be forced to sell a family vacation home solely to pay for estate taxes, a best-selling author may fear that, after his or her death, the future publication rights to an unpublished work will need to be sold for the same reason. If a large portion of an individual's assets is "intellectual" in nature, this can be a significant concern.

Proper estate planning is pivotal in helping to make sure the decedent's wishes are able to be carried out. A **life insurance** policy purchased and owned by an **irrevocable life insurance trust (ILIT)**, if correctly structured and administered, can provide cash at death to help satisfy estate tax obligations. This use of life insurance can provide flexibility in an estate with only a small amount of liquid assets.

Also, if the intellectual property is of significant size, gifting some or all of the property to a recognized charitable organization at death can help to lower estate taxes. The estate of the decedent would receive a charitable contribution deduction against estate taxes based on the fair market value of the gift at death.

One Step at a Time

Estate planning for intangible assets, such as intellectual property, involves an array of complicated considerations. A basic understanding of the issues involved merely underscores the need for appropriate planning to help ensure the ultimate distribution of your assets according to your wishes. If you own intellectual property, consult with your estate planning team, including financial, legal, and tax professionals. $

Retirement Saving Strategies for Women

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Because of shorter careers and possibly lower incomes, a significant number of women currently do not receive enough in Social Security benefits to meet even their basic needs. According to the Social Security Administration (SSA, 2011), the average annual Social Security income received by women 65 years and older was just $12,155 in 2009. Further, married women often do not realize that the retirement benefits accrued by their husbands may be reduced if they are widowed or divorced. These combined factors put many women at high risk for poverty as they age, especially if they do not prepare accordingly.

Clearly, most women will need to build their own retirement savings if they wish to maintain their standard of living in their later years. Here are some strategies you can use to get started:

- If your current employer does not offer a retirement plan, consider your options for securing better benefits. While companies with defined benefit plans that replace a percentage of income (based on your salary and years of service) are becoming increasingly rare, consider the long-term consequences of working at a firm that does not at least match contributions to a 401(k) or other defined contribution plan. If you are employed by a company with a traditional pension plan, find out what your benefit is likely to be and at what age you can collect the maximum benefit.

- Take advantage of the tax benefits of qualified retirement plans and traditional Individual Retirement Accounts (IRAs). Depending on your financial situation, you may find that making pre-tax contributions to a retirement account will not significantly reduce your net income. Contributions may decrease your current taxable income (and, consequently, your ultimate tax bill), and potential earnings are tax deferred. Taxes will be due when you begin taking distributions. If you withdraw money prior to age 59½, a 10% Federal tax penalty may be due, in addition to income taxes, unless a qualified exception applies.

- Consider the role a Roth IRA or annuity may play in your long-term plan. Contributions to Roth IRAs must be made with after-tax dollars, but potential earnings grow tax deferred. Qualified distributions made after age 59½ are tax free, provided the account has been owned for five years. Certain income limits apply. Annuities allow you to save money on a tax-deferred basis and offer you a variety of options for managing assets and receiving retirement income. All guarantees of income are dependent on the claims-paying ability of the issuer.

- Plan to work longer if necessary. A few extra years spent working may enable you to save more money for retirement, and you may want to consider working until you qualify for full Social Security benefits. In addition, your health care costs may be lower if you postpone retiring until you qualify for full Medicare benefits.

- Arrange to pay off your mortgage and other debt as quickly as possible. Owning a house outright in retirement not only ensures that you will have a place to live, but it can also serve as a valuable source of equity, should you need it. To give yourself an incentive to pay off your credit cards, resolve to turn your monthly credit card payments into retirement account contributions, when the debt is paid.

- If you are married, assess the capacity of your husband's retirement benefits to meet your future needs. Given the possibilities of divorce and widowhood, it is essential that you plan for a time when you may have to manage independently. If you are staying at home while your spouse is working, set up an IRA in your own name. Also, determine your rights regarding your spouse's pension in the case of death or divorce, and research the effects of divorce and remarriage on your Social Security benefits.

- If your family budget is tight, evaluate the benefits of putting extra funds into your own IRA or 401(k) versus putting money into a savings account for your children's college education. Your children may qualify for financial aid or low-interest loans to help pay for college, but there are no grants or scholarships for retirement. Also, some funds may be withdrawn from a retirement account before the age of 59½ penalty free, if used for qualified education expenses.

- If you own a business, consider implementing a retirement plan for yourself and your employees. A retirement plan may help you accumulate funds to live more comfortably in your retirement years, and it may

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Social Networking: A Business Strategy for Success

If you think social networking websites are mainly for teenagers looking to trade gossip and music tips, you might be surprised to learn that growing numbers of small businesses are using these websites to generate leads, promote their products and services, recruit employees and business partners, and improve their visibility in the wider community. When compared with other forms of paid advertising, marketing a business through social networking sites is relatively cost-efficient, easily accessible, and can enable business owners to target their messages more effectively.

Even if you have never been actively involved in promoting your business online, a web search could reveal that other people are talking about you. Your business may, for example, have been mentioned on a website like Yelp!, which invites members of the public to post reviews of their experiences with local businesses and services, including but not limited to restaurants, retailers, salons, and automotive repair shops. While submitting your own "review" of your business is prohibited on Yelp!, you can log on as a business owner once a review has been posted, claim your business page, monitor how many reviews have been posted, or promote positive customer testimonials on your own website or marketing materials. Browsing review sites may also allow you to see how customers rate your competitors.

There are many different types of social networking sites where you can post a profile, search for potential contacts, and glean fresh information about the marketplace. Many business owners choose to join industry-specific sites or more general professional networking sites like LinkedIn, which is designed to help professionals make new connections when looking for jobs or business opportunities, and to reactivate existing networks by helping them reconnect with former colleagues and classmates. The site also encourages users to pose business-related questions to industry experts. In addition to enabling users to share online, professional networking sites can keep you abreast of industry meetings, trade shows, seminars, and other upcoming events.

By becoming a member of professional and social networking sites, you can search profiles or discussion boards for other members who could prove useful to your business, including potential customers, employees, or suppliers. Rather than making a direct pitch, you may initiate contact with prospects informally by participating in discussions on topics of mutual interest, offering answers to questions they have posted, or inviting them to view your profile or meet with you at an industry-related event.

Depending on your field of business, you may also want to create a social networking site for your customers or devote a section of your company website to customer networking. Some sites encourage visitors to post questions and share experiences in discussion forums, participate in educational "webinars," and access professional advice or other services. Such custom social networking sites can be extremely effective in building customer relationships, attracting new customers, and generating repeat sales. Reading the postings on your own site can provide you with valuable information about the needs and interests of your customer base, making it easier to meet their specific needs.

However you decide to approach social networking, remember that these sites seek to attract a community of members with similar interests. Therefore, you could lose potential sales and damage your reputation if you focus solely on aggressively marketing your business. Instead of launching into a sales pitch, work toward winning the trust of your contacts by offering honest advice and opinions on relevant issues. By interacting with others in a casual manner, social networking can be a great way to build your business and make some new friends along the way. $

Asset Protection at a Glance

Most people focus on increasing their financial resources but may not give enough attention to *protecting* those assets once they have accumulated. However, 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, even individuals of moderate means, who have home equity, personal 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 pay a settlement, due to the steep costs involved in fighting a lawsuit. Also, regardless of whether you win or lose, you generally must pay for your own defense. However, with proper planning, there are some 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 recognized in some states and can help shield property owned by a couple from the creditors of a spouse in certain circumstances.

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**. Although you cannot typically set up a trust for yourself, unless you cede all control and benefits, it may be possible to establish a trust to benefit designated family members.

The Bottom Line

When planning your estate, it is important to not only build wealth but protect your accumulated assets from the threat of lawsuits and potential claims of creditors. Asset protection planning can be complicated; therefore, it is important to engage the assistance of qualified legal and tax professionals. $

To Be Continued: Business Succession Planning

Succession planning has a long history in America. Back in 1787, the framers of the U.S. Constitution anticipated the need to establish a contingency plan in the event of a sitting president's death, disability, or resignation, and thus, the office of the vice president was born. This time-tested succession plan helps preserve leadership, provide stability, and ensure continued governance.

Your company deserves the same security. All business owners need to address continuation because death is inevitable, disability is possible, and retirement is desirable. On the occasion of any of these events, a **business succession plan** provides your co-owners, management team, employees, and family members a blueprint for continuing your company's operations.

With a business succession plan, you can help secure the future of your business, minimize estate taxes, and maximize the wealth passed on to the next generation. To be successful, you need to examine your immediate, intermediate, and long-term goals for both your family and your business.

Developing an Exit Strategy

One of the first planning steps is deciding on a successor. If you wish to keep ownership and control of your business within your family, you will need to assess your family members' interests and qualifications in regard to your company's needs to determine who will participate and in what capacity. Business owners often must decide how to fairly compensate those who will work for the company, as well as nonparticipating family members.

If you expect unrelated parties to carry on the business, you will need to meet with the key people for in-depth discussions about the company and its future. Communication is essential. Everyone involved from family to management should have a clear understanding of the transition process and the time frame involved.

With a time line in place, it is possible to fine-tune your plan based on the level of involvement you wish to have in the company and the future you envision for your business. Because it may have taken years or decades for you to build your company to its current level of success, your successor will most likely need time to get up to speed. To teach the next generation, many owners foster mentoring relationships that immerse successors in the day-to-day operations.

Valuating Your Business

When you have a sense of direction for your business, it is time to develop the appropriate tax and financial strategies for both the short and long term. One important planning step will be valuating your business—essentially estimating the value of your company. There are many valuation methods, and depending on your situation, one method may be more appropriate than another.

The common goal for business owners who are selling their businesses is to reach a valuation that fairly compensates the owner for his or her interest, while making the price attractive to the potential buyer. Profit may be less of a concern for owners who are passing a business to children.

For income, estate, and gift tax purposes, the Internal Revenue Service (IRS) is interested in having the business fairly priced. This is especially important if a related party is at the other end of the transaction. When considering valuations, the IRS generally looks at the nature and history of the business, the economic outlook for the business's industry, how assets and earnings are being valued, the existence of intangible assets, and the selling price of comparable businesses, using industry formulas, if possible.

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Education Funding: Start Saving Early

For many parents, a child's college education is the second most expensive purchase (after that of a home) they will ever make. According to The College Board (2010), the average cost of tuition, fees, room, and board at a four-year private college is approximately $38,000 for the 2010–2011 school year, which translates into around $150,000 for a four-year bachelor's degree program.

There are many sources of assistance for college funding, including tax credits, financial aid, and scholarships. However, a disciplined savings plan may be the best way to help ensure that funds are available for your child's education. Let time be your ally by starting your savings program now. $

Advantages of Life Insurance Conversions

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Although term insurance premiums are relatively low when a person is young, premiums can substantially increase with age. In some cases, the premiums may remain level, but either the death benefit will decrease yearly or there will be a significant premium increase over time. Therefore, you may want to consider **converting** your term policy to a permanent one.

Advantages of Converting

There are different types of permanent life insurance, including whole life, universal life, and variable life policies to which you may be able to convert. Here are some key points to consider:

- Under a whole life policy, the death benefit is guaranteed as long as the policy remains in force. Premiums will never increase, and the policy cannot be canceled due to any changes in your health that you may experience over the years. As long as premiums are paid on time, benefits can never decrease.
- Over time, whole life policies accumulate cash values. As the value accumulates, you may be able to take loans or partial surrenders from the policy. These "loans" are generally tax free, up to the cost basis of the policy, and they can be used in a variety of ways, such as supplementing retirement income, helping children with college expenses, contributing to the purchase of a second home, etc. However, access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance that the policy will lapse, and may result in a tax liability if the policy is terminated before the death of the insured.
- Some permanent policies offer nonguaranteed dividends. Dividends can occur when the insuring company's surplus exceeds its contractual obligations, operating expenses, and contingencies for general business purposes. Dividends can be reinvested in the policy to accumulate cash value, taken as cash, or used to pay policy premiums. However, it is important to remember that dividends are not guaranteed.
- Guaranteed purchase options, an additional feature of some permanent policies, allow you to buy additional coverage without undergoing a medical exam. Typically, these options have additional charges.
- If you decide to cancel the policy, you are guaranteed to receive the cash surrender value that accumulated over the life of the policy.

The conversion privilege, which may be available in a term policy, offers those who cannot initially afford permanent life insurance an opportunity to convert at a later date. Some term policies may also offer a conversion credit that makes converting to permanent life insurance more economical. One advantage of converting from term insurance to permanent insurance is no medical or financial requalification, as there would be with the purchase of a new permanent policy. Note that there is typically a stated time frame within which the conversion privilege must be exercised.

More Than Immediate Security

Converting your term insurance to a permanent life insurance policy may allow you to continue to provide coverage for your family at a more affordable cost. While converting may not be appropriate for everyone, you may want to consider all of your insurance options. Consult your tax and insurance professionals for advice regarding your individual situation. $

To Be Continued: Business Succession Planning

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Consider Your Transfer Options

Owners have a variety of options to transfer ownership, and an appropriate strategy for you depends on your specific situation, considering factors such as your personal financial and tax situation, your business's current form of ownership (**sole proprietorship, partnership, corporation,** etc.), and the future owners (family, employees, third party, etc.).

There are succession tools and techniques that can help make passing the torch both financially rewarding and tax efficient. Some of the possibilities include selling the business outright, making gifts of business interest over time, establishing a **family limited partnership (FLP),** creating a **trust,** or transferring ownership to employees.

One planning tool for arranging the disposition of an owner's business interest is a **buy-sell agreement**. This is a contract between two or more parties, whereupon a triggering event such as death, disability, or retirement, one party has an obligation to *buy* an interest in the company while the other party has an obligation to *sell*. It obligates the owner's estate to sell his or her shares for a predetermined price to partners or shareholders (a **cross-purchase agreement**), to the business itself (an **entity agreement**), or to both (a **hybrid agreement**).

Although a buy-sell agreement can help ensure that your business will remain with your family or business partners, it is essential that sufficient funds are available to fulfill the commitments of the agreement. There are a variety of options for funding buy-sells, from **employee stock ownership plans (ESOPs)** to **life insurance,** and again, the best choice will depend on the parties involved.

According to the Small Business Administration (SBA, 2011), 7 out of 10 new employer firms last at least 2 years, and about half survive 5 years, a third at least 10 years, and a quarter stay in business 15 years or more.

Although successful continuation may be a challenge for small businesses, a solid succession plan can help ensure smooth operations during the time of transition, and facilitate the transfer of ownership. In times of crisis, it can be the foundation for continued success. Be sure to consult with professionals who can help secure your company's future with a business succession plan. $

Retirement Saving Strategies for Women

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also be fully deductible, thereby reducing your business's current tax liability. If you already have a retirement plan for your business, review it with your advisor periodically to ensure that it is still the best plan for your business and that you are taking advantage of all potential tax benefits.

- If you are an executive and your company offers you the chance to participate in a nonqualified deferred compensation plan, you may want to consider the opportunity. Again, it will decrease your current income tax liability while providing you with an additional pool of money to draw upon in your retirement.

Make saving for your own financial future a priority, even when there are bills to pay, along with the wants and needs of your children and other family members. While taking care of others is important, remember to take care of yourself by preparing for your retirement. $