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An economic and investment update

THE FINANCIAL INSIDER

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A Retirement Savings Worksheet: Crunching the Numbers

If you are nearing retirement or just beginning to plan for it, you may be surprised to learn that you may need 60% to 80% of your annual income in order to maintain your current lifestyle in retirement. Many variables can affect your retirement savings goals, including where you want to live and the activities you plan to pursue. So, how do you determine the amount you may need for retirement and how much you need to save each year in order to reach that goal? The worksheet on page 6 is based on calculations developed by the American Savings Education Council (ASEC) and can help you crunch the numbers.

Consider the hypothetical case of Mark. At age 50, Mark earns $50,000 per year. He estimates that during retirement he will need 70% of his income ($35,000 per year) to maintain his current standard of living. While he does not have a traditional employer-sponsored retirement plan, he does expect to earn $5,000 annually as a part-time writer. He also estimates that he will receive $14,500 annually from Social Security. Let's take a look at how this can work in your situation:

1. Required Income. How much money will you need per year in order to maintain your current lifestyle? Enter 70% of your current annual income as a minimum.

2. Social Security. Project an estimated amount you expect to receive from Social Security. You can calculate an estimate of your future benefits online at www.ssa.gov, the Social Security Administration's website. If you are married and earn less than your spouse, enter the greater of either your own benefit or 50% of your spouse's benefit.

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The Importance of Monitoring Business Credit Reports

Often, large public companies have teams of people dedicated to reporting organizational changes to the business community and credit rating agencies. Smaller private companies, however, must make more of an effort to ensure that the information in their credit reports accurately reflects the current state of the business. They need to make certain that reports are free of errors or omissions that could damage their reputation or hinder access to loans or other forms of credit.

Just as individuals are advised to regularly request and review their credit reports from the major agencies, businesses should also monitor their credit profiles. Like a personal credit rating, a business credit rating provides potential creditors or business partners with a summary of the company's transaction history. This history is used to determine the level of financial risk the firm represents to the bank or vendor, as well as the likelihood that the business will default on a loan or fail to pay its bills on time.

A good credit rating becomes especially important when a business is seeking to increase its line of credit, attract new investors, partner with another organization, or sell the company. A strong rating is also useful when the business

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When You Are Named Estate Executor

An estate executor (or executrix) plays a variety of roles, and is often required to act on sensitive issues. Many executors begin with tasks outside the formal job requirements, such as helping to plan the funeral and reimbursing or advancing funds to family members who pay for funeral expenses. If the deceased is to be interred, the deed to a burial plot must be located or a plot must be purchased. As an executor, it is also your duty to help ensure the safety of the decedent's home and property during and after the funeral. Your "formal" job as executor then begins and will include the following areas of responsibility:

- Establishing what the decedent owned, and collecting any money due on the estate.
- Paying outstanding bills and claims against the estate.
- Managing assets wisely until they can be distributed according to the will.
- Handling insurance, trusts, etc. not specifically covered in the will.
- Distributing property according to the wishes of the deceased, as expressed in the will.
- Paying all estate and inheritance taxes.
- Assuring the estate is formally settled to the satisfaction of the probate court.

What about Probate?

During probate, you cannot exercise your official, legal rights as executor until the court establishes that the deceased left a valid will, and subsequently issues **"letters testamentary"** that formally name you as the executor. The probate process can be lengthy, time-consuming, and expensive, but is usually fairly straightforward. As designated executor, you must file a petition for probate in the appropriate court, submitting the death certificate and the original will.

An executor has to work closely with family members and attorneys. An attorney's staff can generally handle routine tasks adequately. An inexperienced executor can obtain help from a legal professional and/or the legal counsel for the estate.

The decedent's property is the first order of business. This includes not only real estate, cars, and bank accounts, but also pensions, retirement accounts, insurance benefits from employers, and old insurance policies that never lapsed. The deceased may have had accounts in many banks or safe deposit boxes in other states. Some investigation may be necessary to locate certain banking or legal documents in obscure places.

Notification is then given to all creditors, anyone named in the will, and if there is no will, anyone who would receive an inheritance. The purpose is to give potential beneficiaries a chance to protest if they feel the will is invalid. In most states, a surviving spouse is allowed to challenge a will if he or she is left less than a certain percentage of the estate. If there are no protestations, the probate court will issue "letters testamentary."

After the "letters" have been obtained, you can begin to administer the estate. You can transfer the decedent's bank accounts into estate accounts, while other assets may be transferred from the decedent's name to your name. You need copies of the death certificate and your "certificate of letters" to prove that you have, in fact, been named executor.

Another proceeding, called a **"will construction proceeding,"** may be required. This occurs when all parties agree that a will is valid, but there is an argument as to its meaning.

Often, some of the decedent's assets are not covered by the will. Joint property, for example, passes to the other owner, thus avoiding the probate process. However, the executor must still keep accurate records, because joint property can affect estate tax bills. In fact, it is unwise to transfer property of any kind until all debts are paid. Otherwise, you may be held responsible if the estate is not large enough to pay all of the creditors.

The Value of an Appraisal

You may be required to hire appraisers to judge the value of any art collection, real estate property, or small business interest. You may also want to appraise miscellaneous property, such as furniture or household goods. This will help in the decision to give the property to the heirs directly, or sell it and divide the proceeds among the heirs. Be sure to consult first with the heirs regarding their preference of distribution.

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When You Are Named Estate Executor

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The decedent's insurance company will usually pay benefits promptly upon your completion and submission of the company's claim form with a copy of the death certificate and the original policy. If death resulted from an accident, check the policy; the estate may receive two or three times the face value of the life insurance policy under "double indemnity" provisions.

You Are Responsible. . .

When named as executor, you are responsible for keeping the estate in order, protecting tangible assets, and safely managing the estate's funds until the final settlement. Letting funds sit idle without earning interest may be detrimental to the value of the estate. *You* are responsible for managing the estate's assets prudently. If you fail to do this, you may be liable to the **beneficiaries,** who could require you to compensate for any losses to the estate out of your own funds. Understanding your role as executor or executrix of an estate will help you successfully complete your tasks within a certain timeline. $

Customizing Life Insurance with Policy Riders

When most people think of life insurance, the first question that usually comes to mind is, "How much do I need?" However, there are other aspects of life insurance policies that provide important benefits and are worthy of consideration.

A **rider** is a provision that can be added to an insurance policy, generally at an additional cost, to alter or expand the policy's conditions or terms of coverage. Riders essentially allow policyowners to obtain extra protection in certain situations for themselves and their **beneficiaries**. Examples of life insurance riders include the option to purchase additional insurance without having to provide evidence of insurability; the accelerated death benefit, which allows the insured, under certain circumstances, to receive the policy proceeds before death; and the accidental death benefit, which provides an additional benefit if the insured dies as a result of an accident.

Another common rider is the **waiver of premium rider**. This provides protection in the event that the insured becomes totally disabled and can no longer afford to pay the insurance premiums. With this provision added to a policy, the insurance company pays the premiums according to the terms of the contract if the insured sustains a disability. If the insured owns a **whole life policy**, the policy's **cash value** generally continues to accumulate. This growth in policy values can be a ready source of income to help pay expenses if the insured can no longer work and can be accessed through loans or surrenders. However, access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance that the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Like an applicant's insurability, eligibility for the waiver of premium rider may be determined by certain risk factors, such as general health and medical history. Typically, policies contain a specific waiting period before the waiver of premium rider will take effect. Some policies apply waiver of premium coverage differently for a disability that occurs prior to age 60, compared to one that occurs between the ages of 60 and 65. Under many policies, the waiver of premium provision terminates at age 65. While a waiver of premium rider on term and whole life policies will usually cover the entire premium, in other policies, it may only cover the cost of insurance, not the cost for the cash value or investment options.

When considering a waiver of premium rider, the definition of "disability" in your policy is crucial. It will determine *when* your obligation to pay premiums ends. While some policies consider disability to mean that the insured is no longer able to work in his or her profession due to an illness or injury, other policies may contain a clause that states the insured must be unable to perform *any* type of work.

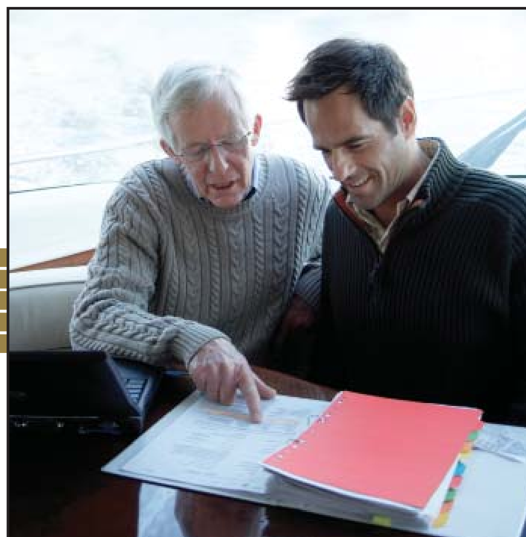
Policy riders are often overlooked when purchasing insurance because the initial focus is on how much coverage is necessary to provide adequate protection. However, part of the process involves taking full advantage of the opportunities to customize your life insurance policy to meet your needs. $

Family Matters: Lending Funds to Your Children

Have you ever considered lending money to help your child with a down payment on a new home, to bankroll a business venture, or for some other major expense? Many adult children seek financial assistance from their parents if they encounter difficulty securing a bank loan due to lack of a credit history or collateral. Often, parents want to help their children succeed in life and are willing to give them a financial boost. In general, parent-to-child business loans tend to go smoothly. However, if a loan is not paid back as agreed upon by both parties, it could affect family relations. So, here are four points to consider before lending funds to your child:

1. **Document the Loan.** If you expect the money to be repaid, consider treating the loan as seriously as a bank would by requiring the proper documentation. You must be able to convince the Internal Revenue Service (IRS) that you made a *bona fide* loan in order to deduct it as a bad debt. For tax purposes, request the following:

   - A note and *written* loan agreement
   - Collateral or other form of security
   - A repayment schedule and repayment records
   - A plan indicating that the loan will be repaid as scheduled
   - Proof that a business was solvent when the loan was made, if applicable.



   Proper documentation may also help you avoid other complications. For instance, if your child were to divorce, a written loan agreement identifying who is responsible for repayment, and on what terms, could prevent a former spouse from refusing responsibility for the debt or claiming that the money was a gift. It could also keep an ex-spouse from obtaining—through the division of marital assets—a controlling interest in a company you funded.

2. **Know the rules.** The IRS allows you to deduct bad debts only *after* you have tried to collect them by legal means, if necessary. So if you want to write off the loan, you must be prepared to take legal action to collect it.

   If legal action is appropriate in your situation and you are still unable to collect the loan, you may write it off as a short-term capital loss by subtracting the outstanding loan balance from your total short- and long-term capital gain for the year. If the loss exceeds your total capital gain, you may deduct it in $3,000 increments each year until it is entirely written off.

3. **Treat the bad debt as a gift.** Instead of a lawsuit, you may have the option of treating the bad debt as a gift. In 2012, the IRS allows each taxpayer to give up to $13,000 per person per year free of gift and estate taxes. Thus, both parents together could offset an uncollectable debt with a combined gift of up to $26,000 per year with no tax consequences. (Any amount exceeding this limit may be subject to gift and estate taxes.)

4. **Use common sense.** Lending money to a child may have certain tax consequences for you, so it is important to consider the odds of a successful follow-through on your child's part. Think twice before lending money for a risky venture unless you are willing to part with it as a gift with possible tax consequences, if needed.

Helping a child to succeed in life can be an exciting and rewarding experience for a parent. But, be aware of potential tax traps and legal pitfalls *before* opening your checkbook, and remember to seek professional advice beforehand. $

Understanding the Basics of Economic Forecasting

When weather forecasts are inaccurate, we can usually change our plans with little consequence in the greater scheme of things. When economic forecasts are inaccurate, however, the consequences may be more significant. While making financial decisions does involve some guesswork, an educated guess—even with elements of uncertainty—may be better than making a decision with no forecast at all.

Unfortunately, economic forecasting, like weather forecasting, is far from an exact science. Even professional economists may strongly disagree on the direction of the economy at any given point in time, based on their interpretations of conflicting economic indicators. Although many factors are pivotal in assessing the economy, let's focus on two key points that may help you better understand where our economy currently stands, and where it may be headed in the near future.

Consumer Spending

Economic forecasters are always searching for storm clouds that might signal an economic downturn. Since consumer spending has historically accounted for about two-thirds of the economy, according to The Bureau of Economic Analysis (BEA, 2012), many observers have looked to "pocketbook" issues in search of primary clues as to the direction of the economy.

Consumer cutbacks on spending are not usually the primary cause of a recession. Rather, they may buy more on credit, which leads to greater monthly payments. But at some point, consumers can spend only what their incomes will allow. When consumer debt rises, it becomes particularly important because of the impact of total consumer spending on our economy. It may also be helpful to understand the Federal decisions that lay the foundation for our overall economic climate.

The Role of the Federal Reserve Bank (the Fed)

Even the casual observer of business news knows that "Fed watching" is a serious activity in the financial and business sectors. You may be wondering, "What makes the Fed so important?"

While consumers can affect the economy by spending according to their own situations and financial pressures, Federal policy decisions, such as fiscal and monetary measures, also have an effect on the economy. Fiscal policy, enacted by Congress in the form of tax and/or spending legislation, is the result of the political process and the prevailing political climate. In contrast, monetary policy is the responsibility of the Fed, whose role is to evaluate all factors influencing the economy (individual, market, and government) and take action in attempts to keep the economy on an even keel.

The Fed can manipulate the flow of money in order to obtain a desired effect over time. However, the Fed's most effective short-term policy decisions that can manipulate the economy involve short-term interest rates. Consequently, the Fed can realistically have only one target: **inflation**. If the Fed perceives that prevailing forces will increase inflation, it can attempt to slow the economy by raising short-term interest rates. This is based on the assumption that an increase in the cost of borrowing is likely to dampen both personal and business spending. Conversely, if the Fed perceives that the economy has slowed too much, it can attempt to stimulate growth by lowering short-term interest rates. The theory being that lower costs for borrowing may stimulate more spending.

The Fed walks a fine line in trying to maintain this balancing act. If it doesn't tighten the reins soon enough by raising interest rates, it runs the risk of uncontrolled inflation. If it fails to loosen soon enough by lowering interest rates, the economy could plunge into a recession. An argument could be made that the primary goal of the Fed is to keep inflation low enough so that it does not affect business decisions.

Personal Debt

By observing your own spending and debt burden, and that of your friends, relatives, and business associates, you may gain some insight into the short-term future of the economy. While by no means the whole story, this small segment comprises a significant chapter since it is the one factor that consumers exercise the greatest control over. When combined with a little judicious Fed watching (e.g., several interest rate moves in the same direction may be an indication that the Fed is on a mission), you may have a fairly good basis for general economic forecasting and appropriate financial decisions. $

A Retirement Savings Worksheet: Crunching the Numbers

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3. **Employer-Sponsored Retirement Plan.** Enter the amount you expect to receive from your employer-sponsored retirement plan, such as a 401(k) or pension plan, if applicable.

4. **Earned Income.** Enter your estimated annual part-time income in retirement.

5. **Retirement Shortfall.** *Subtract* lines 2, 3, and 4 from line 1. This is an estimate of the amount of money you will need each year to supplement the above sources of income.

   Once you have determined an estimate of how much you will need in retirement, as well as your shortfall, now you can figure out the amount needed to close the gap. Assuming a 3% constant real rate of return after inflation, a life expectancy of age 87, and Social Security benefits beginning at age 65, the following calculations can help you estimate the total amount you will need for retirement. *Note: These calculations do not represent the performance of any particular savings vehicle, and they are for illustrative purposes only.*

   Also, keep in mind that **full retirement age** (the age at which you are eligible to receive full Social Security benefits) is changing. For a long time, full retirement age was 65. Due to longer life expectancies, that age is increasing gradually (based on your year of birth) until it reaches age 67. This change began in the year 2000 and affects people born in 1938 and later.

   For comparison purposes, let's return to Mark. He plans to retire in 15 years, at age 65, and has managed to save $45,000. Based on his income requirements and his financial resources, Mark will need to save an additional $254,200 by retirement, or $9,474.40 per year.

6. To estimate how much you need to save, *multiply* line 5 (the amount of your retirement shortfall) by the appropriate factor:*

Anticipated retirement age:	Multiply by:
55	21.0
60	18.9
65	16.4
70	13.6

7. Enter the current total of your savings, including any funds in retirement plans such as a **401(k)** or **Individual Retirement Account (IRA)**.

8. *Multiply* line 7 by the appropriate factor:*

Retiring in:	Multiply by:
10 years	1.3
15 years	1.6
20 years	1.8
25 years	2.1
30 years	2.4
35 years	2.8
40 years	3.3

9. *Subtract* line 8 from line 6 to find the estimated amount of savings needed at retirement.

10. To estimate the amount you need to save each year, multiply line 9 by the appropriate factor:*

Retiring in:	Multiply by:
10 years	.085
15 years	.052
20 years	.036
25 years	.027
30 years	.020
35 years	.016
40 years	.013

This worksheet is intended to be used as a starting point to estimate what you will need to save for retirement. For specific guidance, be sure to consult a qualified financial professional.

Your retirement may be decades away or right around the corner, but either way, even taking some small steps can bring you closer to your financial future. Determining the amount you need to save each year in order to reach your goal is an important component of retirement planning. $

* Factors provided by the ASEC.

Entrepreneurship and the New Retiree

For an increasing number of people, retirement does not signal the end of a career, but the beginning of a new phase—entrepreneurship. Many Baby Boomers see retirement as an opportunity to start a new chapter in life, and plan to use their hard-earned knowledge and skills to create their own independent businesses.

With increased longevity, retirement often comprises 25%–30% of a person's life. According to the 2011 *Retirement Confidence Survey* conducted by the Employee Benefit Research Institute (EBRI), around seven in ten workers plan to work in retirement. Certainly, financial reasons, such as paying bills and keeping health insurance or other benefits, are primary considerations in the decision, but retirees who work most often say they do so because they want to stay active and involved (92%) or enjoy working (86%).

Regardless of motivation, retired workers have many advantages when starting their own business ventures. By retirement, mortgages have often been paid and children have graduated from college. With fewer financial obligations—and perhaps a cushion from a lifetime of saving—retirees may have the opportunity and time to develop a strong business plan and concept. They also have the benefit of tapping into a seasoned network of business contacts and skills acquired throughout their working years to enhance product development, marketing, and sales.

Many Boomers may find the opportunity of their dreams during their golden years. For example, prior to retirement, Bruce and Allison had thriving careers in accounting and travel services, respectively. After retiring, the couple quickly discovered that they were not content to stay at home and thought that combining their skills would serve them well in their own business endeavor. Drawing upon Bruce's bookkeeping expertise and Allison's years in customer service, the couple opened a Bed and Breakfast, which has allowed them to use their many talents in a new and challenging way.

If you want to use your years of experience and wisdom to create your own company, here are some questions to consider:

1. **Are you personally motivated?** Building a business requires intense dedication. You will need to develop your own ideas, set your own schedule, and manage a variety of responsibilities.

2. **Are you a "people" person?** Running your own business will likely involve interaction with various professionals and personalities. If you can harness the interpersonal skills you gained from four decades in the working world, you will be better prepared to handle difficult clients or professionals.

3. **Do you have the ability to think quickly?** Owning your own company may mean that you will have to provide answers and make decisions quickly, and sometimes under pressure.

4. **Do you have passion and stamina?** It is often said that you must love what you do. Realize at the start of the enterprise that a good deal of time and effort will be required.

5. **Are you organized?** Organizational and planning skills can lead to continued business success. Finances, invoices, and schedules are just a few of the tasks at which you must be or become proficient.

6. **Is your energy level high?** A business requires a lot of work, and it can be physically and emotionally stressful. Those who are energetic often do well because they are propelled by their desire to succeed and have the energy to follow through.

7. **Will your family be supportive?** A new business can consume a lot of your time, mental energy, and sometimes, capital. Make sure to tell your family what they can realistically expect from your business venture, and gain their support and trust.

There are many advantages to entrepreneurship, and many retirees are embracing the challenge. The chance to be your own boss and reap the rewards of your own hard work can make business ownership an exciting and educational adventure. Because a lack of experience can often account for many small business failures, decades of your work experience may put you ahead of the game—before it even begins. $

The Importance of Monitoring Business Credit Reports

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is making growth-related investments, such as purchasing new equipment, establishing a relationship with a supplier, building its inventory, or hosting a promotional event. A credit score influences not only whether a bank approves a loan or a partnership is formed, but also whether the interest rate and terms of the agreement are favorable to the business.

The information contained in a credit report may be drawn from all organizations with which the company has had financial involvement, including suppliers and creditors. The report will reflect whether the company pays its bills on time or is frequently late in meeting its obligations. The report will show the firm's financial structure, including a history of all secured and unsecured loans, working capital, cash flow, sales volume, and overall debt-to-asset ratio. Any liens, collections, or legal judgments against the company will also be included in the report. In addition to fiscal information, a credit reporting agency's profile of a company may also include information about the size of the company, employee numbers, major shareholders, business structure, location, history, and reputation.

As you develop strategies to maintain or improve your company's credit rating, start by ensuring that the firm and all its employees follow responsible payment procedures. To the greatest extent possible, strive to minimize or effectively manage debt, while increasing assets. Report all information relevant to the business profile, such as ownership or address changes, to the major credit agencies, and check the reports regularly for any errors or omissions. If mistakes or other problems are found, be sure to contact the credit agency to request a correction.

It is important to be aware that all information provided to the credit rating agencies immediately becomes publicly available—even to your competitors. In some cases, you may wish to withhold more sensitive data from the credit rating agencies, revealing the information only on a need-to-know basis to prospective lenders or business associates.

As the company expands, entrepreneurs who have not already done so should seek to separate their personal credit from their business credit. You may, for example, wish to move from a sole proprietorship or partnership structure to a limited liability company (LLC) structure. Besides enabling owners to separate their business and personal liability, an LLC can also provide certain tax benefits. For more information, consult your tax and legal advisors.

However, business owners cannot ignore the health of their personal credit histories, as lenders will often consider the credit scores of all major shareholders during the loan application process. Thus, strive to maintain a strong personal credit profile, reviewing it regularly and requesting corrections, when necessary. According to the Fair Credit Reporting Act (FCRA), you can request a free copy of your credit report from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year. For your convenience, you can access all three agencies through a single website at www.annualcreditreport.com. $

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