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An economic and investment update

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Pension Payout Options

When you think of retirement, you probably envision the enjoyable ways you will spend your free time. But, you may also want to give some thought to receiving your funds while in retirement. If you participate in a **company pension plan**, you will have to decide how you want to receive your pension proceeds. Consider your payout options, so when the time comes, you can make the choice that is most appropriate for you.

Typically, most pension plans offer the following:

1) Income for the rest of your life (**single life option**)
2) Income for the lives of both you and your spouse (**joint and survivorship option**)
3) A **lump-sum distribution**.

Both single life and joint and survivorship options provide you with a fixed income (usually in monthly installments) in exchange for your pension balance. The third option (lump sum) allows you to take your entire pension balance and manage it yourself.

If you are concerned about outliving your assets, regardless of your marital status, take one of the two "income" options, which may ease your fear of running out of money. If you are single, the choice is easy because you can only select the single life option. On the other hand, if you are married, you can choose either income option.

The single life option pays a higher monthly income, but payments cease at *your* death. While the joint and survivorship option pays a lower monthly income, payments continue

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Guardianship and the Elderly

Suppose an elderly family member becomes incapacitated and has made no arrangements for such a situation. **Advance directives** are legal instructions that express a person's wishes regarding financial and health care decisions in the event that he or she becomes unable to do so. If incapacity occurs and there are no advance directives, is **guardianship** a viable option?

Guardianship for an adult differs from guardianship of a minor child. For minors, it involves parenting because children require adult supervision until they reach a certain age. Further, minors have not yet earned societal rights, such as the right to vote or drive, so they do not give up any rights with guardianship.

On the other hand, an adult who is accustomed to making his or her own decisions, typically loses the right to vote, hold a driver's license, marry, and draft a will (laws may vary by state) when placed under guardianship. The guardian, appointed by the court, becomes the *decision-maker* with the power to make some, if not all, financial and health care decisions for an incapacitated person.

Guardianship for an adult is considered to be a serious intervention and is not enforced until *after* a clear need becomes evident. Most states require a court hearing and examination by a physician and/or psychologist to determine incompetence. The person for whom guardianship has been petitioned (i.e., the **ward**) must be informed of his or her rights and notified that a court hearing has been scheduled. Proposed wards generally have the right to retain an attorney and to object to

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New Leadership: Stepping Out of Your Predecessor's Shadow

At one time or another, many small businesses experience a transition in leadership. Typically, a family member or other close associate takes over after years of apprenticeship. This transition is usually the culmination of a **succession plan** that outlines the original, or previous, owner's intent for the future leadership of the company.

However, even with a conscious and deliberate succession plan, a successor may find it difficult to assert his or her vision for the company's future to employees. Suddenly, the successor, who has an understanding of the products and services offered by the business, must delve into new territory—sole responsibility for the *operations* and *management* of the business.

If you have recently found yourself assuming control of a **closely held business**, or if you anticipate taking the reins in the future, here are some suggestions that may help you to "hit the ground running":

Gain Support of Other Owners. If you expect your predecessor or other owners to continue to exercise authority after you take control, get their support for your business plan from the start. Agreeing on goals *now* will help provide a solid basis for your *future* operating decisions.

Hire for the Future. Let the business's long-term interests guide your hiring decisions. Once you have determined your vision for the company, as well as your business strategy, hire employees that best fit your future plans.

Develop Your Own Management Style. Assemble a compatible team that supports your management style and can help you move toward your goals more effectively. Choose managers who will challenge *you* and voice their own opinions. They may prompt new ideas and innovative strategies that could benefit the company.

Act Now with Confidence. Even if you have a controlling interest in the company, you may feel like a junior partner when surrounded by veteran employees. However, try to be *proactive* instead of *reactive*. Once you know the action you need to take, move forward. The sooner you assume a leadership role, the sooner your confidence (and that of those around you) will grow.

Treat Past Contributors with Respect. Be careful about making drastic moves such as replacing the entire management team at once. Experienced members can be valuable resources as you chart your future course. But, you may come to realize that some managers no longer have the necessary qualities and skills to propel the company into a new direction. If this is the case, treat them with dignity and respect. Appreciate their energy and wisdom by relying on them as mentors. If you must replace some managers, consider generous severance packages to allow them to leave the company with recognition for their past contributions.

Mentor Your Staff. If you were mentored by your predecessor or company managers, continue the tradition. In addition to creating a qualified peer group, mentoring can also help you develop new talent in whom you have confidence and who may become candidates for your management team.

Accept Your Mistakes. Running a company means making multiple decisions, which may lead to making a few mistakes. Remember, it is better to take action to remedy a situation, than to procrastinate out of fear. The trick is to *learn* from your mistakes and move on.

Stepping out of your predecessor's shadow may be a challenging experience. While he or she may have shown great confidence in you, you may still have a lot to learn. Following these tips will help you earn respect as you take on the responsibilities of new leadership. $

Pension Payout Options

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until the death of both you *and* your spouse. If you have other substantial retirement assets or your spouse has his or her own pension, taking the larger income offered by the single life option may be your best bet. By contrast, if your pension is all you and your spouse have, the spousal security offered by the joint and survivorship option may be more appropriate.

As you carefully review these two income options, keep in mind that there may actually be a "third" income option, which is really a combination of the single life option and **life insurance**. By taking the higher income with the single life option and using some of that income to pay the premiums on a life insurance policy, you may be able to "net" more income than with the joint and survivorship option. Meanwhile, your spouse will be protected with a potentially significant life insurance death benefit. After your death, the death benefit proceeds will be received income tax free by your spouse and can be used to help fund his or her retirement.

The success of this strategy, often called "pension maximization," depends on your age, health, the type of insurance policy, and schedule of premium payments. The issuance of a life insurance policy is subject to underwriting approval, and the issuance of a policy at a reasonable premium is not guaranteed. Therefore, it is important to apply and verify that you qualify for an appropriate amount of life insurance before making a pension payout selection. If the premium consumes too much of your monthly benefit amount, this strategy may not be an appropriate choice for you. In addition, guarantees of a life insurance policy are based upon the claims-paying ability of the insurer.

It is important to realize that selecting either income option requires you to give up your pension balance in exchange for income. Therefore, you cannot choose a payout option at one point, and then later decide that you would like to receive your remaining pension balance in a lump sum. Let's look at the final payout option, the lump-sum distribution, below.

Taking Control

If you want full control over your pension assets during retirement, or if you are concerned that your pension income may not keep pace with the cost of living, then a lump-sum distribution could be the better option. You can take a lump-sum distribution in one of two ways. You can either roll it over into your own **Individual Retirement Account (IRA)** or receive the pension proceeds (minus income taxes).

Unless you plan on using your pension assets for something other than retirement, it is probably not a good idea to receive your lump sum minus income taxes. The IRA rollover may be a more suitable choice because you will continue to receive the benefits of tax-deferred accumulation and only be taxed on withdrawals from the IRA.

While planning for possibly several decades in retirement, you will need to make a decision about your pension payout. Consider your options carefully to determine which method will best meet your *future* financial needs and lifestyle. Be sure to examine your situation with the assistance of a financial professional before deciding on a strategy. $

Help Protect Your Earning Power with Disability Income Insurance

The possibility of sustaining a long-term disability from an accident or illness is something most of us would rather not think about. But, there is a way to help protect yourself and your family should you lose your ability to earn an income. **Disability income insurance** can play a key role in your overall financial plan and provide a benefit to help replace a portion of your income in the event you become too sick or injured to work.

Evaluating Your Needs

While most people understand the necessity and value of **life insurance**, many may overlook the valuable role disability income insurance can play in maintaining financial independence. How would you meet your everyday expenses if an accident or illness prevented you from working? For most people, Social Security Disability benefits cannot be solely relied upon to replace lost wages. You must meet very specific criteria to qualify for disability benefits, and it is often necessary to wait several months for payments to begin. Also, Social Security benefits may not be sufficient to maintain your current standard of living.

As an alternative, you could self-insure. However, even if you save 10% of your salary

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The Forms of Property Co-Ownership

Owning property with another individual or partner may create a complicated relationship. Due to the complexity of the situation, the way in which you take title or ownership must be determined *in advance*. Consulting with your legal professional can help you establish the form of ownership in such a way that will benefit you and your future heirs. The four forms of co-ownership, one of which will likely be better suited to *your* circumstances, are as follows:

Tenancy in common. This is a form of co-ownership often used between unrelated individuals. Tenants in common may own unequal shares of property. For example, one person could own a one-fourth interest and another could own a three-fourths interest as tenants in common. If the shares of the co-owners are not specifically designated, they are presumed to be equal or proportionate.

Tenants in common are said to hold "undivided" interests with the other co-owners. This means each co-owner owns a proportionate interest in the entire property. So, if two people are equal tenants in common to a parcel of land, it is inaccurate to identify one as owning the west half and the other as owning the east half. Rather, both co-owners own a one-half interest in the entire parcel.

Joint ownership. This specific type of co-ownership has unique legal characteristics. Unlike a tenancy in common, where co-owners may possess unequal interests, the legal interest of each joint owner is equal to the interest of every other joint owner. If there are three joint owners, each owns an equal, undivided, one-third interest in the entire property. However, this proportionality does not necessarily apply to the tax consequences of joint ownership.

The most important legal component of a joint ownership is the **right of survivorship,** which means that when a joint owner dies, the surviving joint owners automatically succeed in ownership of the deceased joint owner's interest in the property. For example, if there are two joint owners and one of them passes away, the surviving joint owner automatically owns the entire property. If there are three joint owners and one of them passes away, each of the two surviving joint owners automatically becomes one-half owner of the entire property. The survivorship rights of a joint owner take precedence over the claims of the deceased joint owner's creditors. This form of ownership may be common among married couples.

Tenancy by the entirety. This form of co-ownership is recognized by many states as a variation of joint ownership that applies only to spouses. A tenancy by the entirety generally has the same legal characteristics of a joint ownership with a few additional features. Normally, the protection against the claims of creditors that applies to joint tenancies at the death of a joint tenant is also available against the lifetime creditors of the tenant by the entirety.

Community property applies to married couples who own property in any of the following nine states, which are sometimes referred to as community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Regardless of whose name is on any ownership papers, such as a deed, any property accumulated during the marriage is "owned" by both parties. This includes cash, real estate, and any other acquired assets.

Remember, splitting property, for any reason, can be a difficult task. Therefore, the decision to purchase property with another party requires careful consideration. Consult your legal and tax professionals for the most suitable course of action to take. $

Top 10 Tips for Fiscal Fitness

As days turn into weeks and weeks turn into months, it may feel like there is little time to catch up on all of your financial responsibilities. Sometimes it may be easier to simply toss ATM receipts, credit card bills, and bank statements into the "junk drawer" to deal with later. But, later never seems to come. Is it time for you to put fiscal fitness at the top of your to-do list?

Your ability to manage your money can play a pivotal role in your financial future, and to a large extent, your capacity to live life on your own terms. Consider the following 10 tips to improve your financial well-being:

1) **Pay yourself first.** Transfer a set amount from your earnings to your savings each month. An investment of $1,000 per month earning 8% annual interest could grow to over $180,000 before taxes in 10 years.*

2) **Reduce your debt.** Avoid high credit card finance charges by paying off the balances each month, or if you must carry a balance, use credit cards that offer low interest rates beyond the introductory period.

3) **Maintain good credit.** You can obtain one free annual credit report from each of the three major credit bureaus: TransUnion, Equifax, and Experian. Good credit is required for obtaining loans and low interest rates. Monitoring your credit can also help you guard against identity theft.

4) **Diversify your savings.** Develop a plan for your short- and long-term needs. Consider your liquidity needs, risk tolerance, and time horizon.

5) **Take advantage of tax benefits.** If you qualify, contribute to an Individual Retirement Account (IRA), a 401(k) plan, or another similar retirement plan. These plans offer tax benefits that can help build your retirement savings.

6) **Update your estate plan.** Have your will and any trusts reviewed by a lawyer. Prepare advance directives, such as a durable power of attorney, living will, and health care proxy.

7) **Review your insurance needs.** Periodically review your risk management program. Your life, health, and disability income insurance needs will likely change as you progress through various life stages. This is particularly important, in the event of sustaining a disabling illness or injury that would prevent you from working, or an untimely death.

8) **Plan for future long term care.** Take a look at your possible long term care (LTC) needs. Are you prepared if the time comes when you may require assistance with daily activities like eating, bathing, dressing, toileting, or mobility? LTC insurance is one option to help you cover the costs for that care and may offer more choices for care, help preserve your assets, and lessen the caregiving burden on family members.

9) **Build a college fund.** College tuition rates are increasing, and scholarships or financial aid may not cover all the costs for your children's education. Consider starting a college savings plan as soon as you can.

10) **Set short- and long-term financial goals.** Establish 1-, 3-, 5- and 10-year goals that you can realistically meet. Evaluate your progress yearly and make adjustments, as appropriate, to achieve your overall financial objectives.

Regardless of your current financial situation, these guidelines may help you to manage your money, as well as attain fiscal fitness through various life stages. $

** This hypothetical example is for illustrative purposes only. It is not intended to reflect an actual security's performance. Investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.*

Insuring a Stay-at-Home Parent

The job of homemaker can be rewarding, and the care a stay-at-home parent provides is invaluable to his or her family. However, when it comes to calculating life insurance needs, many families obtain only coverage for the primary breadwinner. They may not want to consider that the death of a stay-at-home parent would not only be difficult emotionally for the family, but could also create financial challenges for the surviving spouse and children.

Since homemakers generally do not earn a paycheck, estimating the economic benefit of their contributions to the family may be complicated. Clearly, the cost of the services provided by a stay-at-home parent can be substantial, but what those costs involve depends on the family's circumstances. For example, if the children are younger, child care costs need to be budgeted. If the surviving spouse works long hours, the family may also want to factor in the cost of a housekeeper or landscaper.

The first step in calculating an appropriate amount of life insurance coverage for a stay-at-home parent is to assess how much it would cost to pay others to perform the tasks currently performed by the homemaker.

Here are some examples of tasks typically performed by a stay-at-home parent:

1) Family Care
2) Shopping
3) Recordkeeping and Household Management
4) Food Preparation
5) Housekeeping and Maintenance
6) Yard and Car Care
7) Laundry and Clothing Care

In addition to having to pay for help in these areas, a family that has lost a parent may find that other expenses may increase due to pressure and time constraints. For example, the family may dine out or buy expensive convenience foods more frequently. Also, a working parent may have less time to devote to shopping for bargains on groceries, clothing, school supplies, and other items.

Replacing the contributions of a homemaker and caregiver can be very expensive, especially when factoring in the number of years it takes to raise a family. Therefore, it makes sense to obtain life insurance for the parent who works at home, not just the family's main income earner. If something were to happen to a stay-at-home parent, life insurance could help the family through the difficult period of adjustment.

Proceeds from a life insurance policy may be used to help cover final expenses or allow the surviving spouse to take a leave of absence from work in order to spend time with the children. A lump sum could also be used to help clear debt. In some cases, the policy proceeds may be used to help pay for child care or housekeeping services after the surviving spouse returns to work. Or, it may be possible to save a portion of the life insurance proceeds to help pay for future college expenses.

Although losing a parent can be devastating, financial hardship as a result of that loss does not have to be inevitable. Life insurance coverage can help ensure that the surviving spouse is not forced to work long hours or take a second job in order to pay the bills. Instead, the surviving spouse may focus on caring for the children.

It is important to assess your family's specific needs. Consult with a qualified insurance professional to review your options for life insurance coverage and prepare for the future accordingly. $

Guardianship and the Elderly

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the petition for guardianship, even if incapacity prevents them from attending the hearing.

It is important to understand that confusion and eccentricity do not necessarily indicate mental incompetency. For example, an elderly parent may appear to be spending money frivolously, but that alone may not indicate an *inability* to manage his or her affairs. Or, consider what would happen if the court appointed a guardian for someone in a coma who later recovers consciousness. Therefore, guardianship for an adult is used only as a last resort in the absence of advance directives.

Advance Directives

Advance directives can help a person plan for a variety of possible situations. A **durable power of attorney** grants authority to another person to make legal and financial decisions on a person's behalf in the event of mental incapacity. The powers granted can be broad or limited in scope. A durable power of attorney can provide assistance with personal finances, insurance policies, government benefits, estate plans, retirement plans, and business interests.

A **living will** allows a person to state his or her preferences prior to incompetency regarding the giving or withholding of life-sustaining medical treatment. In most states, a person must have a "terminal condition," be in a "persistent vegetative state," or be "permanently unconscious" before life-support can be withdrawn. The definition of these terms and the medical conditions covered may vary from one state to another.

A **health care proxy** allows a person to appoint an agent to make health care decisions on his or her behalf in the event of incapacity. These medical decisions are not limited to those involving artificial life-support.

Time Is of the Essence

Advance directives by durable power of attorney, living will, or health care proxy are generally inexpensive and easy to implement. They are essential estate planning tools for all individuals, regardless of age. In the absence of such documents, court intervention to appoint a guardian may be necessary. This could involve a great deal of time, expense, and stress at precisely the moment when timeliness and ease of action are of the greatest importance. $

How Longevity May Affect Your Retirement

One interesting factor changing the shape of retirement planning is the steady increase of life expectancies for Americans. Given this population trend, many people may spend one-third of their lives in retirement. Relying on retirement savings plans and Social Security may become increasingly difficult because these programs were not initially designed to provide *perpetual* income. Therefore, your retirement assets and personal savings will have to work longer and harder to help fulfill your financial objectives, whether or not you retire early. $

Life Expectancy of All Americans*: 1940–2009

Year	Male	Female	Both Sexes
2009	75.7	80.6	78.2
2004	75.2	80.4	77.8
2000	74.1	79.5	76.9
1990	71.8	78.8	75.4
1980	70.0	77.4	73.7
1970	67.1	74.7	70.8
1960	66.6	73.1	69.7
1950	65.6	71.1	68.2
1940	60.8	65.2	62.9

*Life expectancy at birth for all races.
Source: National Center for Health Statistics, 2011.

Help Protect Your Earning Power with Disability Income Insurance

(continued from page 3)

each year, one year of disability could deplete many years of savings. Or, perhaps your employer provides a **salary continuance plan**. In general, employer-sponsored plans are limited in scope and duration, and coverage is not portable upon termination of employment (except in certain executive disability policies). Workers compensation may be an option in some cases, but only covers injuries that occurred on the job. Eligibility and benefits vary by state.

The bottom line is that losing your ability to earn an income may make it difficult to make ends meet. Disability income insurance can provide a source of income should you become disabled.

Types of Coverage

Depending on the terms of your policy, disability income insurance provides a benefit to replace a percentage of your income, in the event of a qualifying disability. The cost of coverage is based on such factors as your occupational risk level, age, medical history, and the scope of coverage you wish to purchase. Individual disability income insurance requires an application process and is subject to underwriting approval.

If your employer has a salary continuance plan, ask about the dollar amount of coverage, waiting period, and duration of payments, so that you can coordinate your personal coverage with your employer-provided benefits.

When examining the provisions outlined in a potential disability income insurance policy, remember to review the following:

- **Definition of total disability:** Does the policy provide coverage in the event that you cannot perform the duties of your *own occupation* or the duties of *any occupation*? A policy that refers to your "own occupation" generally pays benefits if you cannot return to work in your field or if you return to work in a lower-paying job or a job in another occupation. A policy that refers to "any occupation" generally pays benefits only if you are unable to perform any job: your own job, a lower-paying job, or a job in a new occupation.

- **Length of benefits period:** Depending on your choice of coverage, the policy may pay benefits until you reach age 65, the age at which many individuals choose to enter retirement.

- **Waiting period:** Waiting periods (also called elimination periods) prior to receiving benefits are typically between 90 and 180 days, depending on your policy. While a shorter waiting period requires a higher premium, a longer waiting period may mean more out-of-pocket costs before benefits begin. The waiting period is determined when a policy is issued.

- **A noncancelable clause:** With a noncancelable clause, the insurance company cannot cancel or change your policy or increase the premiums before you reach age 65, provided the premiums continue to be paid.

- **Residual disability benefits:** With this rider, the policy pays benefits if you return to work while you are disabled and earn less (usually at least 20%) than your predisability income as a direct result of your disability.

- **Future insurability:** This rider allows for the purchase of additional coverage in the future without regard to medical insurability.

It is important to note that there may be an additional premium for adding any **riders**.

Disability income insurance can help to protect your most essential asset—your ability to earn an income. Be sure to consult with a qualified professional to determine what type of policy would be most appropriate for your situation. $