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Money Management

How Much Life Insurance Do You Really Need?

Sometimes people buy **life insurance** before performing a financial needs analysis. They might choose an amount that seems comfortable, without actually taking into account all the potential expenses their families might face in the event of an untimely death. If they did make an objective assessment of the possible economic consequences, they would be doing what is called a financial needs analysis.

In fact, you could analyze your *own* financial needs by following a few simple steps. First, total the value of all the things that you and/or your spouse own. These are your **assets**. (Enter amounts in one column for yourself and in another column for your spouse.) When totaling your assets, you might typically include what you currently have in savings and retirement funds (such as IRAs, 401(k) plans, or TSAs, etc.), as well as real estate and existing life insurance. Next, list and evaluate all expenses that you or your family may face, in case one spouse dies. These are your potential liabilities.

Continued on page 3

Update Your Retirement Savings in 2008

If you are saving for retirement, you may want to know that the Pension Protection Act of 2006 made permanent many provisions of 2001 tax reform that allow retirement plan participants to set aside funds at an accelerated rate. Consider the following retirement savings limits in 2008.

Annual contributions to IRAs—traditional IRAs, Roth IRAs, or a combination of both—are capped at $5,000 in 2008. Keep in mind, if you decide to take distributions from either a Roth or traditional IRA prior to retirement and age 59½, the funds will be taxed as ordinary income, and you may be subject to a 10% federal income tax penalty. Additionally, you must hold a Roth IRA account for 5 years in order to avoid penalties on withdrawals.

Continued on page 3

Maintain a Healthy Credit Report

Your credit report is an accumulation of information about your bills and loans, your repayment history, your available credit, and your outstanding debts. These reports are typically used by lenders when deciding whether or not to accept a loan or credit application. A healthy credit report can help you secure the funding you need to purchase a new home or car, fund a child's education, or start your own business. The following actions can help you maintain a healthy credit report.

Establish and Maintain History: A rich history about your ability to pay off debt over time will paint a more complete picture for a lender inquiring about your financial habits. Therefore, consider maintaining your oldest credit card. Credit companies often suggest that you also maintain four to six accounts to showcase your commitment to managing multiple debt sources.

Close Extra Accounts: Many open accounts on a credit report may be a red flag to a lender, indicating that you could easily get into financial danger with the large amount of readily available credit. Consider closing any accounts that you do not use. This strategy may also minimize your exposure to identity theft.

Note: Cutting up the card itself or just not using it does not mean the account is closed. To properly close an account, you must call or write to the company with your request.

Make the Minimum Payments: Delinquencies on payments remain on your credit report for seven years, even if you've since settled the account balance and paid the debt. Therefore, you should always try to make at least the minimum payments by the due date requested by the creditor or lender.

If you are in a financial bind and decide to ignore an account for a period of time, be aware that accounts sent to collection agencies or charged off by creditors, meaning they have written the debt off as a loss, will also remain on your credit report for seven years. Consider contacting your creditor if you find yourself in this situation, rather than just ignoring this serious problem.

Pay Down Your Debt and Keep Debt in Line with Income: Determine your debt-to-income ratio by adding the balances of all your loans and credit cards, and comparing that with the amount of income you receive annually. If your total debt exceeds more than 20% of your annual income, lenders may be hesitant to consider allowing you more credit. If you have a large amount of debt, develop a strategy to pay it off gradually and within your budget considering your other expenses. One strategy may be to consolidate your payments under a home equity loan, which offers tax-deductible interest payments. In the meantime, consider curbing excess spending and avoid further debt.

Control the Number of Inquiries about Your Credit: A large number of inquiries on your report may signal to a lender that you are in need of a lot of credit or preparing to take on a large debt. Neither situation bodes well for your ability to take on additional debt. Be aware that each time you apply for a new credit card, even if it is only to receive a free gift, an inquiry will appear on your report. Inquiries remain on your report for two years.

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, www.annualcreditreport.com. Monitor your credit report frequently and take actions that build and maintain good credit. *MM*

How Much Life Insurance Do You Really Need?

Continued from page 1

In order to determine how much cash is needed following the death of a spouse, take a look at these potential cash needs and assign a dollar amount to each:

1. Immediate Money Fund. This includes the total cost of possible medical and hospital expenses, outstanding bills, burial costs, and attorney/executor fees.

2. Debt Liquidation. Your debt, if any, may be in the form of credit card bills, school and auto loans, unpaid notes, outstanding bills, etc.

3. Emergency Fund. Unexpected bills not readily payable from current income could include major home and car repairs, or even medical emergencies.

4. Mortgage/Rent Payment Fund. How much would you need to pay off your mortgage or provide for at least ten years' house or apartment rent should one spouse die?

5. Child/Home Care Fund. Expenses may be created as a result of the death of a spouse who had been performing child and/or home care duties; be sure to estimate the cost of hired help needed to substitute your spouse's duties.

6. Education Fund. Be sure to include the cost of funding a four-year undergraduate education or comparable vocational training for your children.

The total of all of the above costs minus your liquid assets and life insurance would give you your new cash needs. The numbers will be different for you and for your spouse, because assets and existing life insurance, as well as child/home care amounts, are likely to be different.

The steps noted above are a simple way for a family to figure out how much life insurance is really needed. Circumstances vary from person to person and from family to family. Analyzing your financial needs in detail is an important step toward determining the right coverage for you and your family. MM

Update Your Retirement Savings in 2008

Continued from page 1

If you have a 401(k), 403(b), or 457 savings plan through your employer, tax law allows contributions of up to $15,500 during 2008. If your employer sponsors a Savings Incentive Match Plan for Employees (SIMPLE), you may contribute up to $10,500 in 2008. Going forward, the contribution amounts for these retirement savings plans will be indexed annually for inflation. (You may, however, be limited by your employer in the amount you can contribute, based on a percentage of your compensation.)

Meanwhile, taxpayers who are age 50 and older are also allowed to make "catch-up" contributions to their retirement plans. Traditional and Roth IRA holders can save an extra $1,000 in 2008. Those with 401(k), 403(b), or 457 plans can save an additional $5,000, and those with SIMPLEs can contribute an extra $2,500.

Stay on Course

With the ever-changing nature of tax laws, a great deal can happen on the legislative front with respect to retirement plan savings. As a result, you should check regularly to determine if you're taking advantage of all your savings opportunities. MM

Plan Carefully When Choosing Your Executor

One of the more important decisions you must make when writing your **will** is the selection of an **executor**. Ideally, an executor should combine the tact of a diplomat with the administrative skills of a professional executive. The person should also be close enough to you and your family to do as you would wish, yet be able to act without being swayed by emotions if conflict breaks out among family members.

Almost any person you trust can be your executor. For most people, the best choice is a spouse, close friend, or associate, who may also be a **beneficiary**. Large estates may require two executors—a personal representative to interpret your wishes and a professional representative or institution, such as your attorney or a bank, to make business or financial management decisions, pay taxes, and keep records.

What exactly does an executor do? An executor's job is to "wrap up" your financial affairs. The individual must identify and determine the value of the assets that are part of your estate. (**Trusts**, **life insurance policies**, **pension plans**, and some types of **jointly owned property** may fall outside the executor's authority.) Certain assets necessitate hiring an **appraiser**, whose fee generally comes out of your estate's assets, as do expenses for lawyers, accountants, and other professionals. An executor is also responsible for paying all your remaining debts, filing tax returns, and distributing whatever remains to your heirs.

Throughout this process, careful records must be kept. Most **probate courts** will demand a full and detailed accounting of all money received, spent, or held by your estate.

If you die *without* a will (**intestate**), the court will appoint an administrator to perform the executor's duties. When no relative or beneficiary is able to take the job, the appointee is likely to be a civil servant or even a creditor.

Administrators and executors usually receive fees of 3% to 5% of an estate. However, when family members serve, they typically waive the fee. Administrators must post a **bond** to safeguard the financial interests of your heirs, although in some cases the heirs may consent to waive the bond. The cost of the bond premium also comes out of the assets that would otherwise go to your heirs.

When choosing an executor, objectivity is essential in order to make the proper decision. Be sure whomever you select is willing to accept the responsibility. In addition, it is also wise to choose an *alternate* executor to serve in the event your initial executor is unable to do so. If you have not yet selected your executor, consider choosing one *now* to eliminate any potential complications in the event of an untimely death. *MM*

A Parting Thought...

Housing costs have soared over the years. And, while owning your own home may still be the American dream, many people may be considering whether it would be less expensive to rent. There are four key elements to making that decision: 1) the cost of the home, 2) the amount of down payment required, 3) the interest rate on the mortgage, and 4) your income tax bracket. Sure, you'll need to do a little "number crunching" to accurately weigh the pluses and minuses of owning a home. However, the time you initially spend will undoubtedly help you avoid frustration and disappointment in the long run. Your professional advisor can provide assistance and more information.