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Money Management

Life Insurance and Estate Taxation

Life insurance, which can help provide for your heirs, can also be an important estate planning tool. It can provide security to loved ones when they need it most and help ensure financial obligations will be met. One issue that many people do not realize, however, is that life insurance can add significant wealth to their overall estates, possibly causing assets to exceed the **applicable exclusion amount** of $3.5 million in 2009, the amount that can be sheltered from estate taxes. Fortunately, with proper guidance, it is possible to keep your life insurance policy proceeds out of your estate and also provide immediate funding for short-term financial needs.

You may already know that life insurance policy benefits are contingent upon **incidents of ownership**. In general, an incident of ownership is the right to exercise control over the policy or to receive an economic benefit from the policy. Policy proceeds cannot be shielded from estate taxation if you have held any incidents of ownership in the policy during the three-year period preceding your death.

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Are Two Incomes Better Than One?

The concept of the "traditional" American family, with one spouse who works and one who cares for the home, has changed over time in response to life's many challenges and opportunities. The dual income family, with husband and wife each managing separate careers and contributing to the financial success of the household, has become commonplace.

Today's families have a variety of financial commitments and expectations, and two incomes are often required to meet overall expenses. Both spouses may wonder how they will save for their children's education, plan for their own retirement, and, perhaps, help their aging parents deal with some of their financial burdens.

The Cost of Working

The rewards of dual income families include the opportunity for both husband and wife to pursue a career and to accumulate wealth for the future. While they may have more disposable income to cover necessities, and

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Navigating the IRA Maze

If the variety of **Individual Retirement Accounts (IRAs)** causes you to wonder which type of IRA, or which combination of IRAs, would best meet your needs and goals, you're certainly not alone. Let's take a moment to explore the IRA options.

Traditional IRAs. Contributions to traditional IRAs may be tax deductible and are limited to $5,000 in 2009 ($6,000 for those age 50 and older). However, the deductibility of contributions is generally dependent upon one, or all, of the following factors: whether or not you (the IRA owner) are participating in an employer-sponsored retirement plan, your tax-filing status, and your **adjusted gross income (AGI)**—taxable gross income less any deductions. If you withdraw money before age 59½, you will pay a 10% Federal income tax penalty (plus any income tax due), unless an exception applies. Qualifying exceptions include first-time home purchases, disability expenditures, medical expenses exceeding 7.5% of your AGI, and qualified higher education expenses. At age 70½, contributions cease, and required minimum distributions (RMDs) must begin by April 1st of the year following attainment of age 70½.

Note: The Worker, Retiree, and Employer Recovery Act of 2008 suspends the rules governing 2009 RMDs from certain qualified retirement accounts.

Roth IRAs. Similar to the traditional IRA, contributions to a Roth IRA are limited to $5,000 per year in 2009 ($6,000 for those age 50 and older). (Note: The limit applies to the total of all IRAs held in a given tax year.) However, contributions to a Roth IRA are *not* tax deductible. Contributions phase out for single filers with AGIs between $105,000 and $120,000 and for joint filers with AGIs between $166,000 and $176,000 in 2009. Contributions may be made for life (i.e., need not stop at age 70½), and no withdrawals are required until one year following the death of the participant. In addition, qualified distributions, including earnings, are tax free if you've held your account for at least five years and are older than age 59½. Withdrawals made prior to age 59½ may be subject to a 10% Federal income tax penalty, unless certain qualified exceptions apply.

SIMPLE IRAs. Many small businesses have found the popular **401(k) plan** costly to administer. A more affordable alternative may be the Savings Incentive Match Plan for Employees (SIMPLE). Under a SIMPLE, an eligible employee can defer up to the lesser of 100% compensation or $11,500 in 2009. This amount increases to $14,000 for those age 50 and older. A SIMPLE IRA must provide immediate **vesting**, and an employer can either ***match*** employee annual contributions on a percentage basis, up to 3% of compensation, or provide a **nonelective contribution** for all employees of 2% of compensation. There are no annual tax filing requirements and no **anti-discrimination tests**. In addition, both owners and employees can save more than they could with the Traditional or Roth IRA.

SEP IRAs. The Simplified Employee Pension (SEP) is also easy to administer. Only employers contribute to a SEP. Congress created the SEP primarily for small businesses to provide a retirement plan without burdensome administrative costs or government paperwork. Contributions to a SEP are limited to 25% of compensation (earned income for self-employed) of up to $245,000 or a maximum of $49,000 in 2009. As a result, a SEP IRA may allow higher levels of contributions than any other IRA plan. It is important to note that the limit for owners' contributions for **sole proprietorships** and **partnerships** is calculated differently. For more information, contact your tax and legal professionals.

Annual IRA contributions for tax year 2009 can be made up until the filing deadline in April 2010. In a world clamoring for tax simplification, you may find that retirement planning is complex. Therefore, an IRA can be attractive for its versatility and ease of implementation. Congress has provided many options for individuals and small businesses to establish retirement plans, so you may discover it's now easier to find the "right" IRA to best meet your needs and goals. *MM*

Broaden Your Family's Life Insurance Protection

In today's fast-paced world, many families find themselves caught up in a whirlwind of activity, juggling work, family obligations, and recreational pursuits. With so much going on, it's easy to take the basics for granted—the home you live in, the food on your table, the clothes in your closet, and the vacations you enjoy with family and friends.

However, life does not always turn out as planned. The untimely death of a spouse could dramatically alter this picture, both now and in the future. For many families, two incomes are necessary to maintain a comfortable standard of living. Even if only one spouse brings in cash income, the non-earning spouse may provide critical "*non-cash*" services, such as the many tasks involved in maintaining a home. If your family's income suddenly stopped or was reduced, the impact on your lifestyle could be devastating.

Having **life insurance** coverage on your spouse can play a valuable role in helping to protect your lifestyle. The proper coverage can help replace your spouse's income or provide supplemental income so your home can be maintained and continue to function as normally as possible. If both you and your spouse

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Life Insurance and Estate Taxation

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Incidents of ownership in life insurance include any powers to *surrender* the policy, to *pledge* the policy as collateral, or to *assign* the policy and any reversionary interest equal to 5% or more of the value of the policy before death. Incidents of ownership also apply to any power to act as a fiduciary of a trust that holds insurance on your life if you established the trust, transferred the policy or consideration for the policy to the trust, or could have exercised any fiduciary power over the trust for your own benefit. On the other hand, your estate will not include your life insurance proceeds merely because you initiated its purchase or paid its premiums within three years prior to your death.

For new life insurance policies, proceeds are not included in the estate of the insured when another person (often an adult child or an **irrevocable trust** created by the insured) is the initial applicant and owner of the policy.

If you want to keep life insurance proceeds on existing policies out of your estate, you will need to transfer any incidents of ownership in the policy to another person at least three years before your death. In addition, you must make sure that your estate is not the beneficiary of the policy *and* that the policy beneficiary is not required to use policy proceeds to pay estate claims and expenses.

The above guidelines can help you develop a plan of action for keeping your life insurance proceeds out of your estate. However, before you take any action that might affect your policies, consider all of the alternatives and seek professional counsel on how to best achieve your specific objectives. *MM*

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Are Two Incomes Better Than One?

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even some luxuries, other expenses may take a big bite out of that second paycheck. Job-related expenses, such as additional transportation costs, including multiple car payments, car insurance, and parking fees; workplace attire; and meals away from home, may increase significantly. In addition, couples with busy work schedules may need to hire domestic help in order to maintain the household.

Moreover, childcare is often necessary when both spouses work outside the home. Quality childcare is one of the largest expenses of the dual income family, ranking close behind housing, food, and taxes. When all of these additional expenses are factored into the family budget, it is easy to see how a second paycheck may not provide as much income as anticipated to help fund education and retirement goals.

Maintaining Balance

Another important consideration for dual income families is the possibility of losing income due to disability or death, which can seriously strain the family's finances. One way to address these possibilities is to insure *both* wage earners with **life** and **disability income insurance**.

Besides financial concerns, there is a growing emphasis on quality of life issues as families seek balance between their professional and personal lives. Work modifications, such as telecommuting or job-sharing, have emerged as possible ways to achieve this balance, often allowing for more flexibility in caring for others, such as children and aging parents. While the dual income family trend continues, it is important to assess the true value of that second paycheck to determine if two incomes are better than one. *M*M

Broaden Your Family's Life Insurance Protection

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work, consider how much your spouse's lost income would ultimately cost. Or, if your spouse is a non-cash earner, think about how much it would cost to fulfill all the tasks he or she provides at no charge.

The unexpected death of your spouse could easily unravel the comfortable lifestyle you shared together. Funds that may have been set aside for a child's wedding—or your retirement—may need to be reallocated to cover basic expenses. However, such situations may be addressed ahead of time with the appropriate insurance coverage.

While it may be human nature to take things for granted, life can sometimes deal you an unexpected blow. Life insurance coverage on your spouse can help provide you with the comfort of knowing that you would be better equipped to maintain your lifestyle, even in the event of your spouse's death. *M*M

A Parting Thought...

If you have run up a large bill on a credit card that charges a high annual percentage rate, it may make sense to transfer the balance to another card that offers a lower rate. But before you agree to move existing debt to a card that promises a very low APR on balance transfers, read the fine print.

Even if you are offered a great initial rate on a transfer, it may only last for a short time. If you have a debt you are unlikely to pay off within the introductory period, you may be better off opting for a card that offers a slightly higher rate that does not expire. Watch out, too, for annual, late, and over-the-limit fees, as well as high rates on new purchases.

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