SCHAEFFER
FINANCIAL LLC

Financial Planning for Retirement

Goals and Objectives

Planning for Retirement

Appropriate Use of Debt

Investing and IRAs

Estate Planning

Life Insurance

Long Term Care Insurance

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Identify Your Goals

The success of your financial plan is measured by your progress toward your highest priority goals.

The first step is to list all your financial goals:

- big ticket items
- irregular expenses
- wish-list sorts of things

Once you have a list of what you're trying to accomplish, take another few minutes to acknowledge which goals are more important than the rest.

Next, list them chronologically in order to get a sense of how to structure your rate of savings.

You can then test your spending habits to see if your paycheck to paycheck behavior is helping to protect these goals or whether some changes need to be made.

To begin your spending plan,
list your current and future financial goals:

Right now, what is most important to me is:

My Goals:

Big Ticket Items:

1.

2.

3.

Irregular Expenses:

1.

2.

3.

Wish List:

1.

2.

3.

The Big Four

The four signs that you're on track for a financially secure retirement:

1. You live within your means.

2. Your assets are increasing year-to-year.

3. Your reliance on debt is decreasing year-to-year.

4. Your estimated retirement cash flow indicates that your basic living needs will be met without depleting assets too.

Are you living within your means? In other words, can you meet your needs without spending more than you earn.

Taking out a mortgage for the purchase of a home may put you in debt for as long as 30 years; but this type of debt comes with benefits. The interest you pay on the loan may be deducted from your taxable income, and the equity may be used for future loans. The purchase of a home is considered a "need."

Buying recreational items on credit is very different. By doing this, you're going into debt to buy non-essential things. These are "wants". Paying for everyday items by going into debt limits your choices because you're constantly caught paying for yesterday instead of moving toward tomorrow. Simply put, you're robbing yourself, and your future.

It can be challenging at first, but you can't retire until you've mastered the art of living within your means.

The Balance Sheet and the Cash Flow Statement

These are the two most important tools in preparing for retirement.

Balance Sheet

The balance sheet gives you a one-time snapshot of your assets and debts.

Asset: these are items you own and can be separated into three categories:

Cash and cash equivalents:
These are considered liquid assets and generally can be converted into cash with little or no loss of principal: checking or savings accounts, CDs, money market funds.

Invested assets:
These are considered market based assets and have no guaranteed value. Examples are stocks, bonds, mutual funds, real estate, collectibles, etc.

Use assets:
Often referred to as tangible or lifestyle assets, these include property that can't be used to meet financial obligations such as a residence, automobiles and household furnishings.

Debt: this category is any liability that you are currently assuming, such as a mortgage balance, auto loan balance, credit cards, etc.

Mortgage debt:
Is treated differently than all other debt.

Cash Flow Statement

While a balance sheet indicates what you currently own and owe at any specific point in time, the cash flow statement shows the inflow and outflow of money over a specific period time, usually monthly or yearly.

Inflow: includes all the dollars you have coming in (income). Salaries, wages, Social security benefits, pension payments, retirement income, rental income, interest and dividend income, loan proceeds, tax refunds, grants, trust income, alimony, child support, etc.

Outflow: includes all the dollars you have going out, and can be divided as fixed or variable. Fixed outflows are relatively predictable and reoccurring, while variable outflows are less predictable and controllable.

Fixed: housing, insurance, loan payments, child support

Variable: medical/dental expenses not covered by insurance, child care, food, personal care, contributions, utilities, housing maintenance, entertainment, vacations, taxes, etc.

Organize!

The cash flow you assume in your head is probably different from the reality that you'll be writing down. This is why organizing your finances is paramount to good planning.

Analyze!

It is important to analyze your cash flow at least once a year.

If Cash Flow is:

Negative: You are not earning enough cash to sustain your current lifestyle. Most likely you are subsidizing the shortfall with debt.

Exactly Zero: You can barely sustain your current lifestyle. If you do not have a savings buffer and if you become unable to work or your income streams suddenly stops then your lifestyle will be severely affected.

Positive: This is a requirement for a comfortable retirement. You are living within your means and working toward your goals.

Inflow/Outflow Ratio:

The Inflow/Outflow Ratio can provide some useful insight into your financial health.

To get the Inflow/Outflow Ratio, you take your Total Cash Inflow divided by Total Cash Outflow.

For Example:
Alex earns a salary of $60,000, he receives an additional $5,000 in rental income and $2,000 in interest/dividend income.

After tracking fixed and variable expenses, Alex determines that they total $68,000

$$\frac{\text{Inflow: \$67,000}}{\text{Outflow: \$68,000}} = 0.99$$

Less than 0.80: You are spending a lot more than you can afford. One of the first things you can do is to put a stop on all of your spending immediately. Spend only if you have to.

Between 0.81 to 0.99: You are slightly overspending. You should be able to cut some excess spending.

Between 1.0 to 2: You are spending less than you earn. Congratulations! Save your extra cash and invest in your retirement.

If your ratio is 2: This means that in 1 year, you are earning enough money for 2 years' spending.

If your ratio is 3: This means that in 1 year, you are earning enough money for 3 years' spending.

Track your expenses using a monthly budget

Financial peace of mind is not determined by how much you make, but is dependent on how much you spend.

Personal Monthly Budget

PROJECTED MONTHLY INCOME	Income 1	
	Extra income	
	Total monthly income	
ACTUAL MONTHLY INCOME	Income 1	
	Extra income	
	Total monthly income	

PROJECTED BALANCE (Projected income minus expenses)	
ACTUAL BALANCE (Actual income minus expenses)	
DIFFERENCE (Actual minus projected)	

HOUSING	Projected Cost	Actual Cost	Difference
Mortgage or rent			
Phone/Cable			
Electricity			
Gas			
Water and sewer			
Waste removal			
Maintenance or repairs			
Subtotals			

TRANSPORTATION	Projected Cost	Actual Cost	Difference
Vehicle payment			
Bus/taxi fare			
Insurance			
Fuel			
Maintenance			
Subtotals			

INSURANCE	Projected Cost	Actual Cost	Difference
Home			
Health			
Life			
Subtotals			

FOOD	Projected Cost	Actual Cost	Difference
Groceries			
Dining out			
Subtotals			

PETS	Projected Cost	Actual Cost	Difference
Food			
Medical			
Grooming			
Subtotals			

PERSONAL CARE	Projected Cost	Actual Cost	Difference
Medical			
Hair/nails			
Clothing			
Dry cleaning			
Health club			
Subtotals			

ENTERTAINMENT	Projected Cost	Actual Cost	Difference
Video/DVD			
CDs			
Movies			
Concerts			
Sporting events			
Live theater			
Other			
Other			
Subtotals			

LOANS	Projected Cost	Actual Cost	Difference
Personal			
Student			
Credit card			
Subtotals			

TAXES	Projected Cost	Actual Cost	Difference
Federal			
State			
Local			
Other			
Subtotals			

SAVINGS OR INVESTMENTS	Projected Cost	Actual Cost	Difference
Retirement account			
Investment account			
Subtotals			

GIFTS AND DONATIONS	Projected Cost	Actual Cost	Difference
Charity 1			
Charity 2			
Subtotals			

LEGAL	Projected Cost	Actual Cost	Difference
Attorney			
Alimony			
Child Support			
Subtotals			

TOTAL PROJECTED COST			
TOTAL ACTUAL COST			
TOTAL DIFFERENCE			

Planning is an Ongoing Process

Good financial planning is an ongoing, collaborative process that reflects your changing personal circumstances as well as fluctuations in the economy and capital markets.

Your financial plan should be designed to reflect your life, your dreams, and the personal legacy you want to leave.

Assessing your current financial situation, understanding your goals and aspirations, and determining your tolerance for risk are at the heart of financial planning.

Your financial plan won't be a one-size-fits-all document that sits on a shelf gathering dust. The key to a successful financial plan is its flexibility.

This means that you will need to revisit your plan at certain intervals to see that you are still on track. This allows you to make changes as needed. Reviewing and revising your plan is how it becomes something useful.

Many changes occur in a year. It is important to make the time in your life to sit down to review and update your balance sheet.

Your spending plan is just that - a plan, and as your life changes and things happen, your plan will need to change also.

An important step in creating a financial plan is adjusting it to your ever-changing reality.

Some items to think about
when updating your financial plan each year:

Since your last review, have you ...	Yes	No
Been married, divorced, separated or widowed?	❒	❒
Had or adopted a child?	❒	❒
Lost a child or grandchild?	❒	❒
Added dependents (aging parents, children returned home)?	❒	❒
Loaned money to your children?	❒	❒
Bought a home?	❒	❒
Acquired new property such as a rental or vacation home?	❒	❒
Increased / decreased your net worth significantly?	❒	❒
Received an inheritance or significant gift?	❒	❒
Made a substantial gift?	❒	❒
Thought about making a planned gift?	❒	❒
Started a business?	❒	❒
Bought life insurance?	❒	❒
Moved to a new state?	❒	❒
Gained or lost employment? Changed jobs?	❒	❒
Purchased or considered purchasing international property?	❒	❒
Retired?	❒	❒
Started a regular investment vehicle?	❒	❒

How Much Can You Spend?

Appropriate Spending in Retirement

The 4% Rule (adjusted annually for inflation) has become somewhat of an industry standard for a safe retirement withdrawal rate. But, like any other rule of thumb, certain problems are presented when situations differ from the ideal. Timing is everything. Due to unpredictable market fluctuation, two individuals with identical portfolios who retire just one year apart can experience dramatically different results.

So What is a Proper Withdrawal Amount?

No risk-free solution to a safe withdrawal rate exists. As you plan for retirement and develop your appropriate withdrawal rate, be mindful of some key factors that may guide you to spend more or less in any given year:

- Your health may decline as you get older. You may need to spend less in the beginning of retirement to cover increasing expenses, particularly if you don't have a significant other or long-term care insurance.
- You may outlive your average life expectancy.
- The market may take a severe downturn shortly after you retire.

No one can predict the future!

The best financial plans are flexible. When planning for your retirement, you must build in flexibility.

Identify goals

Know where you stand: Have a balance sheet

Anticipate expenditures: Track your cash flow

Review

Edit and update

Delayed Retirement

Individuals working full-time until at least the age of 66 could enjoy a retirement income 1/3 higher than if they had retired at 62 (Brookings Institute, 2008). This striking increase is driven by multiple factors:

- Boosting monthly Social Security benefits
- Allowing workers to build up larger 401(k) and TSP balances
- Reducing the period over which retirees must rely on their retirement assets

Protect Your Goals

- Am I behaving like someone trying to protect the goal of retiring comfortably?
- How long do I need to make my money last?
- How expensive am I?

Factors To Be Mindful Of

- Declining health
- Downturn in the market
- Outliving life expectancy
- Unforseen expenses

Intergenerational Planning

- Are you supporting anyone? Will you be?
- Get documents in order
- Plan beyond finances
- Long-term care insurance; who needs it? Who pays?
- Have a plan - share the plan - follow the plan

Estimated Income Requirements

	Total Current Cost	Total Cost IR	Total Difference
	Current Cost	**Cost IR**	**Difference**
Housing			
Mortgage or rent			
Second mortgage or rent			
Phone			
Electricity			
Gas			
Water and sewer			
Cable			
Waste removal			
Maintenance or repairs			
Supplies			
Subtotals			
Transportation			
Vehicle 1 payment			
Vehicle 2 payment			
Bus/taxi fare			
Insurance			
Licensing			
Fuel			
Maintenance			
Subtotals			
Insurance			
Home			
Health			
Life			
Subtotals			
Food			
Groceries			
Dining out			
Subtotals			
Children			
Medical			
Clothing			
School tuition			
School supplies			
Organization dues			
Lunch money			
Child care			
Toys/games			
Subtotals			
Pets			
Food			
Medical			
Grooming			
Toys			
Subtotals			
Personal Care			
Medical			
Hair/nails			
Clothing			
Dry cleaning			
Health club			
Organization dues or fees			
Subtotals			

Projected Retirement Income	
Income 1	
Income 2	
Extra income	
Total monthly income	

Actual Retirement Income	
Income 1	
Income 2	
Extra income	
Total monthly income	

Projected balance (Projected income minus expenses)	
Actual balance (Actual income minus expenses)	
Difference (Actual minus projected)	

	Current Cost	Cost IR	Difference
Entertainment			
Video/DVD			
CDs			
Movies			
Concerts			
Sporting events			
Live theater			
Subtotals			
Loans			
Personal			
Student			
Credit card			
Credit card			
Credit card			
Subtotals			
Taxes			
Federal			
State			
Local			
Subtotals			
Savings or Investments			
Retirement account			
Investment account			
College			
Subtotals			
Gifts and Donations			
Charity 1			
Charity 2			
Subtotals			
Legal			
Attorney			
Alimony			
Payments on lien or judgment			
Subtotals			

Retirement Checklist

LIFESTYLE			
Key Consideration	**Question**	**Answer**	**Notes**
Preferred style of living	Where do you plan to live after retirement?		
Preferred style of living	Do you plan to finish life at home or in assisted living?		

HEALTH			
Key Consideration	**Question**	**Answer**	**Notes**
Health insurance	What level of benefits will be required in a worst-case scenario?		
Medical	Have you compiled a list of your medical history, physicians, and current medication prescriptions?		
Long-term care	Does your family have a history of debilitating illness and/or long life expectancy?		

FINANCES			
Key Consideration	**Question**	**Answer**	**Notes**
Asset listing	Have you compiled a list of all the assets you or your spouse (if applicable) own? Do you update this list monthly?		
Asset protection	Based on a conservative investment strategy, will returns be enough to support your desired style of living?		
Tax minimization	At what tax rate will you be taxed during your later years?		
Life insurance	How do you plan to protect your beneficiaries?		
Estate planning	How do you want to pass your assets on to the next generation?		

LEGAL			
Key Consideration	**Question**	**Answer**	**Notes**
Friends and family	Have you compiled a list of contact information for your closest family and trusted friends?		
Wills	Do you have an updated will and living will prepared?		
Power of attorney (POA)	Who will handle your will or living will?		

Housing Considerations

After you have determined your cash flow, you can explore your housing options. Your primary concerns should be affordability and accessibility.

How Much Can I Spend on Housing?

The general rule is that housing should not exceed 33% - 40% of your total income while working. In retirement it should be less. Along with housing, transportation and food are generally the three largest expenditure categories in a budget. The quickest way for a spending plan to falter is to overspend in these "big three" areas. If overspending occurs, it becomes almost impossible to make up the difference in the smaller categories.

Some excellent online tools:

Cost of Living Calculator:
http://www.homefair.com/real-estate/cost-of-living.asp

Renting vs. Buying Calculator:
http://www.move.com/home-finance/financial-calculators/rent-vs-buy-calculator.asp

If You Can Buy a House With Cash, Should You?

The answer depends on a few more questions: what your cash flow will be in retirement, whether you will need extra cash on hand for other things, and what interest rates are at the time you take the loan.

The benefit of paying for the house in cash is no monthly payment. But having that cash in the bank gives you tremendous flexibility to withdraw from various retirement accounts in the most tax-advantageous way possible. Taking a smaller mortgage might be a good compromise for a young retiree. You'll have a smaller mortgage that can be paid off once you are a few years into retirement and the flexibility of extra money if an opportuity or problemoccurs.

One additional item to consider is whether you'll get any tax deductions from your mortgage payments if you take out the smaller loan. With a smaller mortgage, your payments may or may not be more than the standard deduction. To get any benefit from the federal income tax deductions, your interest payments on your mortgage along with your real estate tax payments must exceed your standard deduction. For 2008, the maximum standard deduction for most taxpayers was $10,900.

Home Health Care

Home health care assistance ranges from the care of one's most basic needs to specialized treatments. Costs can range from $50 to $150 per day. When choosing a home health care provider, look for:

1. Company licensing and insurance
2. Experience with your specific needs
3. Employee training and screening

A home health care provider is usually considered an employee by the IRS, so there is a duty to pay taxes on their wages. It is also worth noting that home health care may be a deductible expense.

Continuing Care Retirement Communities

This includes independent housing, assisted living, and nursing home facilities that allow the client to move as their health care needs change. When considering a retirement community, the determining factors should be cost, location, and comfort.

The average cost for a private room with basic care is $70,000 per year (2005, Consumer Reports). If current annual increases continue, rates will have risen to $175,000 per year by 2020. Health insurance and insurance supplements rarely pay for assisted living. Medicare pays for a limited time, based on limited eligibility. Medicaid will pay, but a means test must be met. Based on this, Medicaid pays for only 11% of all long-term care costs in the United States (2008, MetLife).

Be prepared to pay for your own care.
You must plan ahead.

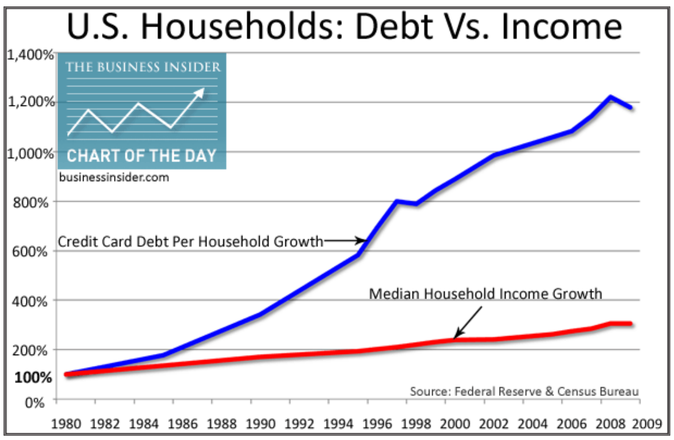
Appropriate Use of Debt

One sign that you are ready to retire: you are done relying on debt. Misuse of debt is the biggest problem facing pre-retirees today.

Credit Card Debt

Credit card debt should be paid in full each month. By carrying a credit card balance your money is working for the credit card company, not you.

The following chart compares the rate at which the average household income has risen over the past two decades against the growth of average credit card debt.



Pay in full!
No late fees!
No interest!

It's Impossible to Get Ahead:

5 Year, $5,000 Balance, 12% APR, 2% minimum monthly payment

Total	Payment	Interest	Balance	Balance
Yr 1:	$1,136	$568	$568	$4,432
Yr 2:	$1,007	$504	$504	$3,928
Yr 3:	$893	$446	$446	$3,483
Yr 4:	$791	$396	$396	$3,086
Yr 5:	$701	$351	$351	$2,736

Paying it back

The best way to tackle credit card debt is to get organized. Write down your balances, interest rates and due dates. Know when minimum payments are due and pay them on time.

Find a plan that works for you and stick to it.

- **Pay off the highest APR first:** makes most financial sense
- **Pay off the lowest balance first:** for motivation
- **Consolidate:** pay more than minimum, don't cheat

Consumer credit counseling - www.nfcc.org - if your debt will take longer than 3 years to pay off, you may need help.

Managing Family Debt

Children

Using debt appropriately is a life-long skill. Understanding the concept of good financial planning is a complex process—the earlier one gets started, the better. Once they learn how money works, children often display an instinctive conservatism. An allowance can be an effective teaching tool. When your kids are young, giving them small amounts of money helps them prepare for the day when the numbers will get bigger.

The lessons shouldn't stop when they become teens. Teaching high school age kids about banking and credit will make them more savvy when they leave the nest. Don't be afraid to teach investing early. High schoolers can and should be taught about the market. Having conversations and sharing information about investments will encourage children to develop good money habits.

Adult Children

Help your children avoid the credit card trap. It can be tempting to pay off credit cards for them, but in the long run opting to pay for something very essential like their medical insurance is a wiser choice.

- 84% of undergrads have credit cards
- 50% have 4 or more cards
- Average student loan debt per undergrad is $25,250 upon graduation

Senior Citizens

Keep a close eye on aging parents. You may want to step in and offer to take over their day-to-day bill paying before you need to, or before it's too late. By the time the need is apparent, the damage may already done.

- 65+ average $5,000 in credit card debt
- Group with fastest growing credit card debt
- 149% debt increase between '95-'04
- 39% of debt due to medical expenses

Loans

Education

On average, students receiving a Bachelor's degree from a 4 years university will graduate with around $25,250 in student loan debt; Master's students around $40,200; and Doctoral students almost $60,000. 15% of parents of graduating seniors take out loans to pay for their children's education.

We recommend the two-year payback rule. Taking out loans for education can be an investment, but only if you invest wisely. While it may be impossible to make a completely accurate prediction, evaluate your current financial situation, your financial situation while in school, and your options upon graduation to determine if you will be able to pay back the money you have borrowed within two years of graduation.

Studentsq should consider supplementing loans by working full or part-time. Also, put forth the effort to find scholarships and fellowships. And finally, look into alternative forms of education like night classes, on-line classes, and community college credits that will later transfer to major universities.

Auto

When does it make sense to get a car loan?

It is always better to be prepared to pay cash but sometimes a loan makes sense.

The popular "0% interest" isn't necessarily that great. Usually, hidden fees will more than make up for the savings in interest.

When considering a loan, make sure to look for low interest with a short payback – no more than two years. Look at credit union rates and discounts instead of dealership based lending.

Borrowing from your Thrift Savings Plan (TSP)

You can borrow from your TSP account if:

1. You have at least $1,000 of your own contributions and associated earnings in your account. Agency contributions (and earnings on that money) cannot be borrowed.
2. You are currently employed as a federal civilian employee or member of the uniformed services. (Separated and retired TSP participants are not eligible.)
3. You are in pay status – not retired. (Loan payments are deducted from your pay.)
4. You have not repaid a TSP loan (of the same type) in full within the past 60 days.
5. You have not had a taxable distribution on a loan within the past 12 months, unless the taxable distribution resulted from your separation service.

Borrowing from your TSP may result in sacrificing potential growth; tax deferred growth and compounding of earnings and contributions. Further, you should take into consideration lost opportunity costs, a 10% early withdrawal penalty if the account owner is younger than 59 1/2 at time of loan default, and mandatory repayment before retirement or leaving federal service.

Should I borrow from my TSP plan?

How much do you want to borrow from your TSP plan?	$	5,000
What rate of return do you expect to earn from your 401(k) investments?		8 %
What interest rate will you pay on your loan?		4 %
How long will you take to pay back the loan?		4 years
How many years will it be until you retire?		35 years

If loan is repaid on time you will lose:	**$**	18,739
If loan is not repaid, you face additional taxes and a 10 percent penalty. Your loss rises to:	**$**	87,962

Financial Planner's Advice: Don't borrow unless the money is for the first home down payment and you are younger than 35.

Mortgage

Always shop around for the best deal. Shopping, comparing, and negotiating may save you thousands of dollars. Obtain all important cost information. Know how much of a down payment you can afford, and find out all the costs involved in the loan. Knowing just the amount of the monthly payment or the interest rate is not enough.

The following information is important to get from each lender or broker:

Rates

Ask each lender and broker for a list of its current mortgage interest rates and whether the rates being quoted are the lowest for that day or week.

- Ask whether the rate is fixed or adjustable.
- On an adjustable-rate loan, ask how your rate and payment will vary.
- Ask about the loan's annual percentage rate (APR). The APR takes into account not only the interest rate but also points, broker fees, and certain other credit charges

Points

Points are fees paid to the lender or broker for the loan and are often linked to the interest rate.

- Ask for points to be quoted to you as a dollar amount.

Fees

A home loan often involves many fees, such as loan origination or underwriting fees, broker fees, and transaction, settlement, and closing costs. Every lender or broker, by law, should be able to give you an estimate of its fees. Many of these fees are negotiable

Down payments and private mortgage insurance

Some lenders require 20 percent of the home's purchase price as a down payment.
If a 20 percent down payment is not made, lenders usually require the home buyer to purchase private mortgage insurance (PMI) to protect the lender in case the home buyer fails to pay.

- If PMI is required for your loan, ask:
- What the total cost of the insurance will be?
- How much your monthly payment will be when including the PMI premium?
- How long you will be required to carry PMI?

Should You Pay Off Your Mortgage Before Retirement?

Pros

- Will reduce the need for cash flow in retirement.
- Peace of Mind
- Sense of Accomplishment

Cons

- Time Value of Money
- Potential Better Rate of Return Elsewhere
- Flexibility

Reverse Mortgages

A reverse mortgage is a loan that lets you convert a portion of the equity in your home into cash. The equity that has built up over years of home mortgage payments can be paid to you. But unlike a traditional home equity loan or second mortgage, no repayment is required until the borrower(s) no longer use the home as their principal residence. You do not need to repay the loan as long as you or one of the borrowers continues to live in the house and keeps the taxes and insurance current. When you sell your home, you or your estate will repay the cash you received from the reverse mortgage plus interest and other fees, to the lender. The remaining equity in your home, if any, belongs to you or to your heirs.

The amount you can borrow depends on your age, the current interest rate, and the appraised value of your home or FHA's mortgage limits for your area, whichever is less.

When does a Reverse Mortgage make sense?
The honest answer is: rarely.

The following example is a true story from the Washington Post (Sept. 2009):

A married couple in their 70's could not afford their mortgage. Their home was valued at $125,000, and the mortgage stood at $75,000. A $92,000 Reverse Mortgage was decided on, which would pay off the existing mortgage, as well as transaction costs and provide them $6,000 cash. However, the 2009 FHA Reverse Mortgage reduction would limit the amount available to them to $83,250; probably not enough to cover the old mortgage and pay procedural costs. Further, they would have completely converted the equity in their home.

Is a Reverse Mortgage really the best answer to their problems?

Home Equity Line of Credit

A home equity loan is a loan that uses your home as collateral. The part of your home that you actually own is the guarantee for your loan. Since your home guarantees your loan, if you default on the payments, you could lose your home. While most home equity lines of credit have a variable interest rate, a fixed interest rate can sometimes be negotiated. A home equity line of credit is 'revolving', meaning you can borrow money, pay off the borrowed money and then re-borrow that money

A lower interest rate and tax deductions are the two major advantages home equity loans have over other types of debt. Since a home equity loan is secured by your home, it poses less risk to a lender than does a non-secured personal loan or credit cards. This lower risk is passed on to you in the form of a lower interest rate. The interest you pay on the first $100,000 you borrow is tax deductible.

Getting Serious About Debt Reduction

A debt elimination calendar can help you reduce or eliminate debt. List the payment for the debt you want to pay off first and continue across the columns. Next, list the due date. After you have repaid the first creditor, add that amount to the next creditor, continue this process until all loans are repaid.

Credit Control List

Period from [date] to [date]

Account #	Account Name	Date Opened	Credit Line	Credit Available	Credit Used	Up To Date	30 days	60 days	90+ days
		TOTALS							

Investing and IRA's

An ideal investment should have four characteristics:

1. Complete Safety
2. Liquidity
3. High Yield
4. Growth (Greater than inflation)

Unfortunately, no single investment vehicle exists that satisfies all of these characteristics. Your task is to combine those investment characteristics best suited to your needs.

Below are a few factors to consider when choosing among different investments:

Security of Principal: For many investors, security of principal and income is the most important factor. The four most commonly recognized risks are:

Financial Risk: The issuers of the investments may experience financial difficulties and not be able to live up to their promises or expectations.

Market Risk: The result of price fluctuations for a whole securities market, for an individual group, or for an individual security.

Interest Rate Risk: The price changes of existing investments because of changes in the general level of interest rates in the capital markets.

Purchasing Power Risk: Involves the uncertainty of future purchasing power of the income and principal from an investment

Rate of Return (yield): The purpose of investing is to earn a return on your capital. This return can take a variety of forms including interest, dividends or capital gains. Investors normally want to maximize their total investment returns. Increasing investment risks will be directly related -- the higher the yield, the greater the risk.

Diversification: The basic purpose of diversification is to reduce or minimize an investor's risk or loss. It is primarily a defensive type of investment policy.

To achieve investment success, it is important to key your investment strategy to your individual financial needs and objectives, be knowledgeable of tax effects, and allow time to work in your favor.

The Time Value of Money

Start saving and investing early. When you put money in savings or investments, the amount you save or invest is the principal. The principal earns interest, which is added to the original principal. This process is called compounding. The following chart detail the dramatic growth that results from early contributions to a Traditional IRA.

Here is a dramatic example of why it pays to start saving and investing early.

Imagine the following scenario:

Alletta starts investing $1,000 a year at the age of 22 in a tax-deferred individual retirement account (IRA). Tax-deferred means the earnings and the principal aren't taxed until the money is withdrawn, usually years later.

Alletta quits putting money in the IRA after nine years, at age 31, but leaves her money so it will grow through compounding until she reaches retirement age.

Her twin brother, Cory, doesn't start investing $1,000 until age 31. But once he starts, he invests $1,000 in his IRA every year for 34 years, until he reaches retirement age.

Alletta and Cory both earn 9 percent annually on their IRAs. Who has the most money accumulated in their IRA for retirement at age 65?

Look at the chart below—you may be surprised.

	Alletta's IRA	Cory's IRA
Interest rate	**9%**	**9%**
Number of years of contributions	9	34
Age when investing/saving	**22 – 31**	**31–65**
Total Amount contributed	**$1,000 per year for 9 years (or $9,000)**	**$1,000 per year for 34 years (or $34,000)**
Future value @ age 65	**$243,863**	**$196,982**

Traditional IRA vs. Roth IRA

	Traditional	Roth
Who is eligible?	Any person with earned income who is under 70 ½ years old A nonworking spouse under age 70 ½ who files a joint return that includes earned income	Single Filer, with MAGI: less than $112,000 - full contribution less than $127,000 - partial contribution greater than $127,000 - not eligible Joint Filer, with MAGI: less than $178,000 - full contribution less than $188,000 - partial contribution greater than $188,000 - not eligible Married, filing separately with MAGI: no income – full contribution less than $10,000 – partial contribution more than $10,000 – not eligible
Maximum Annual Contribution	$5,500 $1,000 additional contribution if 50 years old or older	$5,500 $1,000 additional contribution if 50 years old or older (subject to modified adjusted gross income phase out range)
Deductible Contributions	Single filer, retirement plan participant with MAGI of: $59,000 or less – fully deductible $69,000 or less – partial deductible $69,000 or more – nondeductible Single filer, no retirement plan participation Fully deductible Joint filer, retirement plan participant with MAGI of: $95,000 or less – fully deductible $115,000 or less – partial deductible $115,000 or more – nondeductible Joint filer, no retirement plan participation with MAGI of: $178,000 or less – fully deductible $188,000 or less – partial deductible $188,000 or more – nondeductible	NONE of the contribution is tax-deductible 2013 Tax Year

	Traditional	Roth
Distributions	Distributions from contributions and earnings can taken after 59 ½ without penalty. Mandatory withdrawals must begin at age 70 ½ <u>Premature distributions are subject to a 10% penalty unless:</u> You're 59 ½ - Disabled - Substantial and equal periodic payments - Used to pay certain medical bills - Health insurance premiums during at least 12 weeks of unemployment - Purchase of a first home (10K limit) - Certain military personnel - Beneficiary of a deceased IRA owner Distributions to your beneficiaries are exempt from the 10% penalty	Distributions from contributions can be made at any time without taxes or penalty. Distributions from earnings are tax-free after: 5 years from initial contribution - You're 59 ½ - Disabled - Purchasing first home Payments made to your beneficiaries after the 5 year periods are also tax and penalty free. Payments made before the end of the 5 year period are penalty free. Distributions from earnings are not subject to the 10% penalty as long as you qualify for the same traditional IRA exemptions Distributions from a conversion amount must satisfy a 5 year investment period to avoid the 10% penalty
Required Minimum Distributions	Must begin no later than April 1st of the year following the year you turn 70 ½	No RMD applies before your death. After death, traditional IRA distribution rules apply for your beneficiaries

Conversion

Beginning January 1, 2010 all individuals - no matter their age or income - will be permitted to convert a traditional IRA to a Roth IRA. One consequence of the conversion to keep in mind is the Federal and State taxes due. When an individual converts a traditional IRA into a Roth IRA, the individual has to pay income tax on all pre-taxed contributions and tax-deferred earnings that are included in the converted amount.

Federal and State Income Taxes

With a conversion of a traditional IRA to a Roth IRA, federal and state income taxes must be paid on any pre-taxed contributions and any accrued earnings in the traditional IRA. The trickiest part of paying tax in a Roth conversion involves the IRS' "pro-rata" rule. Under the "pro-rata" rule, a traditional IRA owner cannot arbitrarily choose which IRA assets to convert.

The following example will help in understanding the "pro-rata" rule associated with Roth IRA conversions:

- Sam, a federal employee, has a rollover (traditional) IRA from a previous employer's pension plan with a balance of $300,000.
- Sam also has a traditional IRA with a current value of $60,000.
- The traditional IRA consists of $20,000 in accrued earnings and $40,000 in nondeductible (previously taxed) IRA contributions made over a period of years between 1987 (when non-deductible traditional IRAs started) and 2008.
- Sam would like to convert the already taxed $40,000 to a Roth IRA and not pay any taxes.
- But instead Sam must follow the" pro-rata" rule.

The IRS requires that Sam must first combine the balances of all of his traditional IRAs: in this case $360,000.

Then he must divide his nondeductible contributions of $40,000 by $360,000.

This gives Sam the percentage of 11.1 percent of any conversion that is tax-free.

So if Sam wants to convert $50,000 of his traditional to a Roth during 2010, then the amount of the conversion that will be tax-free is:

11.1% of $50,000 = $5,556

That means that of the $50,000 being converted, Sam will have to pay federal and state income taxes on $50,000 less $5,556, or $44,444 of income.

Advantages to Converting to a Roth IRA

- Avoid Taxes in the Future: Roth IRAs grow tax free. No taxes are owed when you decide to withdraw your money
- No Required Minimum Distributions (RMD): Roth IRAs do not require RMDs after age 70 ½, so your money can continue to grow tax free

Prime Candidates for Roth IRA Conversion

- Younger individuals will have more time to recoup income tax payments on the conversion. The quicker you reach the break even point the better off you will be
- Peopl who don't need the money for retirement, then the conversion allows you to avoid taking RMD's and leave the income tax-free money to heirs

Individuals Who Should Think Twice

- People who do not have the money to pay the income taxes on the converted amount, then converting to a Roth IRA is probably not a wise choice.
- People who will be in a lower tax bracket in the future, could pay less in tax by waiting. Example - moving to a state that doesn't have income tax

Thrift Savings Plan

Before investing, consider the funds' investment objectives, risks, charges and expenses. Read the full prospectus carefully for this information.

The Thrift Savings Plan (TSP) is a tax-advantaged retirement savings plan for Federal employees. The retirement income you receive will depend on how much you contribute and how you allocate your money among the various investment choices.

Before investing in individual TSP funds, consider the fund's investment objectives, risks, charges, and expenses. Then, link your asset selection to your goals: assets for short-term goals need to be out of the market, assets for long-term goals need to be in the market. Just signing up isn't enough, fund selection is key!

G Fund

Government Securities Investment Fund

Key Features:

The G Fund offers the opportunity to earn rates of interest similar to those of long-term Government securities but without any risk of loss of principal and very little volatility of earnings. The objective of the G Fund is to maintain a higher return than inflation without exposing the fund to risk of default or changes in market prices.   The G Fund is invested in short-term U.S. Treasury securities specially issued to the TSP. Payment of principal and interest is guaranteed by the U.S. Government. Thus, there is no "credit risk."

By law, the G Fund must be invested in nonmarketable U.S. Treasury securities specially issued to the TSP. The G Fund investments are kept by electronic entries which do not involve any transaction costs to the TSP.

F Fund

Fixed Income Index Investment Fund

Key Features:

The F Fund offers the opportunity to earn rates of return that exceed those of money market funds over the long term, with relatively low risk. The risk of nonpayment of interest or principal (credit risk) is relatively low because the fund includes only investment-grade securities and is broadly diversified. However, the F Fund has market risk (the risk that the value of the underlying securities will decline) and prepayment risk (the risk that the security will be repaid before it matures).

By law, the F Fund must be invested in fixed-income securities. The Barclays Capital U.S. Aggregate Bond Index is comprised of Treasury and Agency bonds, asset-backed securities, and corporate and non-corporate bonds.

C Fund

Common Stock Index Investment Fund

Key Features:

The C Fund offers the opportunity to earn a potentially high investment return over the long term from a broadly diversified portfolio of stocks of large and medium-sized U.S. companies. By law, the C Fund must be invested in a portfolio designed to replicate the performance of an index of stocks representing the U.S. stock market (they have chosen the S&P 500).

There is a risk of loss if the S&P 500 Index declines in response to changes in overall economic conditions (market risk).

S Fund

Small Capitalization Stock Index Investment Fund

Key Features:

The S Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of small and medium- sized U.S. companies. There is a risk of loss if the Dow Jones U.S. Completion TSM Index declines in response to changes in overall economic conditions (market risk).

By law, the S Fund must be invested in a portfolio designed to replicate the performance of an index of U.S. common stocks, excluding those that are held in the C Fund.

I Fund

International Stock Index Investment Fund

Key Features:

The I Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of companies in developed countries outside of the United States.
The objective of the I Fund is to match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) Index.

There is a risk of loss if the EAFE Index declines in response to changes in overall economic conditions (market risk) or in response to increases in the value of the U.S. dollar (currency risk).

L Funds
Lifecycle Funds

Key Features:

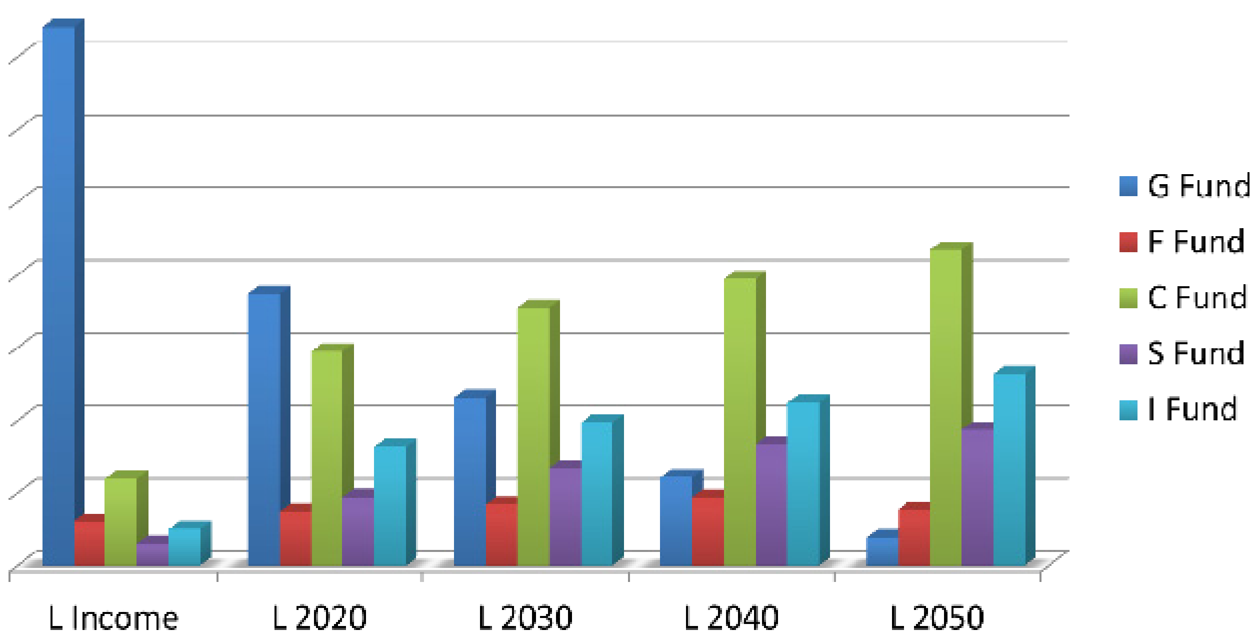
The L Funds diversify participant accounts among the G, F, C, S, and I Funds using professionally determined investment mixes (allocations) that are tailored to different time horizons. The L Funds are rebalanced to their target allocations each business day. The investment mix of each fund adjusts quarterly to more conservative investments as the fund's time horizon shortens.

The objective of the L Funds is to provide the highest possible rate of return for the amount of risk taken. Investing in the L Funds is not a guarantee against loss and does not eliminate risk. The L Funds are subject to the risks inherent in the underlying funds, and can have periods of gain and loss.

The L Funds' returns will be approximately equal to the weighted average of the G, F, C, S, and I Funds' returns. Earnings are calculated daily, and there is a daily share price for each L Fund.

Fund	Growth	Preservation of Assets
L 2050	High	Very Low
L 2040	High	Low
L 2030	Moderate/High	Low
L 2020	Moderate	Moderate
L Income	Low	High

L Fund Allocations



TSP at Retirement

Should you leave your money in the TSP?

When you separate from service, you can leave your entire account balance in the TSP if it is above $200. However, you can transfer money into your account from IRAs and eligible employer plans. Your account will continue to accrue earnings and you can continue to change the way your money is invested in the TSP investment funds by making interfund transfers. You can make two interfund transfers per month into any fund, after which your interfund transfers can only move money <u>into</u> the G fund.

There are limitations on leaving your money in the TSP. Beware of withdrawal deadlines. If you do not withdraw (or begin withdrawing) your account by the required withdrawal deadline, your account balance will be forfeited to the TSP. You can reclaim your account; however, you will not receive earnings on your account from the time the account was forfeited.

Should you withdraw from your TSP Account?

<u>Partial Withdrawal:</u>
You are eligible to make one partial withdrawal so long as you did not make an age-based in-service withdrawal (at age 59½ or older) from your TSP account while you were employed by the federal government or the uniformed services. The withdrawal must exceed $1,000.

<u>Full Withdrawal:</u>
A single payment.
A series of monthly payments.
A life annuity: the TSP will purchase an annuity for you from the TSP 's annuity provider (Met-Life) for a minimum amount of $3,500. The annuity provides monthly income for life, and is taxed as ordinary income.

<u>Mixed withdrawal:</u>
You can withdraw your entire account balance through a combination of any two, or all three, of the available withdrawal options. The rules for each of the options that you choose will be the same as those described above.

Transferring Your Withdrawal

Your TSP account is a portable retirement benefit. This means that when you make a full or partial withdrawal of your account after you leave service, you can have the TSP transfer part or all of your single payment or certain monthly payments to an IRA or an eligible employer plan (for example, the 401(k) plan of a new employer). Amounts transferred will retain their tax-deferred status until you withdraw your money.

Voluntary Contributions (CSRS only)

Eligibility

If you are an employee covered by the Civil Service Retirement System (CSRS), or the CSRS Offset provisions, and you want to receive a larger annuity than would be payable based on your service and "high-3," you may establish a voluntary contribution account to purchase additional annuity. However, if you owe a deposit or redeposit for civilian service that wasn't covered by retirement or for which you received a refund, you will be eligible to make voluntary contributions only after the deposit or redeposit is paid. Also, if you previously made voluntary contributions and received a refund of those contributions, you may not make voluntary contributions again, unless you had a break in service after receiving the refund.

If you are covered by the Federal Employees Retirement System (FERS), you are not eligible to make voluntary contributions. You may, however, retain funds on accounts that you deposited while subject to the CSRS.

Amount of Additional Annuity

At retirement, each $100 in your voluntary contributions account (including interest earned) will provide an additional annuity of $7 per year, plus 20 cents for each full year you are over age 55 at the time you retire. You may also choose to share the additional annuity by electing to provide a survivor annuity. However, your additional annuity would then be reduced by 10% to 40% depending on the difference between your age and the age of the person designated to receive the survivor annuity.

Any person related or unrelated to you may be designated, and need not be the same person for whom regular survivor annuity benefits were elected.

Note: Voluntary contributions annuities are not increased by cost of living increases.

Interest

Voluntary contributions earn a variable interest rate determined by the Treasury Department each calendar year, based on the average yield of new investments purchased by the Retirement Fund during the previous fiscal year. The interest credited to each voluntary contributions account is compounded annually on December 31. Interest accrues to the date of the refund calculation, separation (including retirement), or transfer to a position not subject to CSRS or Federal Employees Retirement System, whichever is earliest. If you expect to be leaving Federal service, you can avoid having a period of time during which your funds are not earning interest by planning ahead.

Limitations on Voluntary Contributions

Voluntary contributions may be made only in multiples of $25. Total contributions may not exceed 10% of the total basic pay you received during all of your Federal service. The 10% limit test applies at each point of time that a deposit is made and is not based upon a projection of lifetime earnings.

Refund of Voluntary Contributions

You may withdraw all voluntary contributions with interest at any time before receiving an annuity based on those contributions. If you die while still in federal service (or after leaving but before you begin to receive annuity benefits), the voluntary contributions account, plus interest, will be paid to your survivors as a lump-sum payment.

If you die after retirement, but before having received additional annuity payments equal to your voluntary contributions plus interest, the difference will be paid either as a lump sum or in additional survivor annuity payments, depending upon your election at retirement.

Federal Taxation of Voluntary Contributions

If you take a refund of voluntary contributions, any accrued interest is taxable in the tax year in which you receive it. In addition, if you receive the refund before you reach age 59½, the interest portion of the refund is subject to an additional 10% early distribution tax.

Payments to survivors are not subject to the 10% tax. To determine whether the tax applies to you, use the Internal Revenue Service Form 5329 from, available at your local Internal Revenue Service office. The interest portion of the refund is eligible for rollover treatment.

If you will receive an additional annuity as a result of your voluntary contributions, it will be taxed under the “General Rule.” Please refer to IRS Publication 721 “Comprehensive Tax Guide to U.S. Civil Service Benefits” for further information.

Direct Transfers to Roth IRAs

Effective for distributions after Dec. 31, 2007, new tax law allows transfers from a qualified retirement plan, tax-sheltered annuity or governmental plan directly to a Roth IRA. Such transfers will be treated as a Roth conversion if all other conversion qualifications are met. The primary conversion qualification was a limit on your modified adjusted gross income of $100,000. That limit was waived in 2010.

Estate Planning

Estate planning should be done early. As soon as you start to gather assets and take responsibility for others, you should start planning. It's a good rule of thumb to review your plans every three years or whenever there's a material change in your family's lifestyle, such as a marriage, a divorce, the birth of children, death, etc.

Wills

If you don't make a will or use some other legal method to transfer your property when you die, the state will determine what happens to your property.

Non-probate assets transfer automatically to the new owner (joint tenancies, IRAs, etc.). All other assets are subject to probate. Probate is the legal process of administering the estate by resolving all claims and distributing the deceased person's property under the valid will.

Without a valid will, assets in probate are distributed according to state intestacy laws. Generally, it will go to your spouse and children or other descendants. If no relatives can be found to inherit your property, it will go to the state. Further, in the absence of a will, the court will determine who will care for your young children and their property if the other parent is unavailable or unfit to do so.

If you are part of an unmarried couple without a will, your surviving partner will not inherit anything unless you live in one of the few states that allow registered domestic partners to inherit like spouses: California, Connecticut, District of Columbia, Maine, New Jersey, and Vermont.

<u>Functions of a Will</u>

1. Transfer of property at death.
2. Leave property to party who would not inherit under the state's intestacy laws.
3. Prevent a person who would inherit under the state's laws from inheriting.
4. Leave property to heirs in unequal shares.
5. Name an executor for the estate.
6. Nominate a guardian for minor children.
7. Name a custodian to hold and manage assets passing to named beneficiaries.
8. Establish trusts to take effect at death.

<u>What a will cannot do</u>

1. Distribute nonprobate assets – wills do not override beneficiary designations.
2. Avoid probate.
3. Change statutory rights- in many states a surviving spouse by law is entitled to a share of the estate and generally a will cannot disinherit a spouse.

Advanced Directives

Durable Power of Attorney, Health Care Directives, & Living Will

Under the common law, a power of attorney becomes ineffective if its grantor dies or becomes incapacitated. The grantor must specify that the power of attorney will continue to be effective even if the grantor becomes incapacitated. This is a durable power of attorney.

In some jurisdictions, a durable power of attorney can also be a Health Care Power of Attorney: an advance directive which empowers the proxy to make health care decisions for the grantor, up to and including terminating care on machines keeping a critically and terminally ill patient alive. Health care decisions include the power to consent, refuse consent, or withdraw consent to any type of medical care, treatment, service or procedure. A living will is a written statement of a person's health care and medical wishes, but does not appoint another person to make health care decisions.

A type of advance directive, "Five Wishes" includes:

1. The Person I Want to Make Care Decisions for Me
2. The Kind of Medical Treatment I Want or Don't Want
3. How Comfortable I Want to Be
4. How I Want People to Treat Me
5. What I Want My Loved Ones to Know

Meets legal requirements of 42 states (including MD, DC, & VA)

http://www.agingwithdignity.org/five-wishes.php

Trusts

A trust is a property reliance held by one person for the benefit of another. Unlike a will, a trust is private and confidential. The size of the estate and the purpose of the trust determine what kind of trust is appropriate.

Functions of a Trust

- Provide and manage assets efficiently for minors or incompetent beneficiaries.
- Asset protection and tax planning: protection from creditors and certain taxes.
- Various Purposes: charitable, special needs, protective, etc.
- Living or Testamentary: effective in life or at death.
- Revocable or Irrevocable: the right to amend, change, or terminate at any time.

Revocable Living Trust

A Revocable Living Trust is necessary in planning for incapacity. With this kind of trust, you may still control property and amend the trust while you have the capacity to do so. Further, the trust allows you to set the standards of the trust, set the definition for incapacity, and allows you to decide who manages and distributes the assets.

Inheritance and Estate Taxes

An inheritance tax is an assessment made on the portion of an estate received by an individual. It differs from an estate tax which is a tax levied on an entire estate before it is distributed to individuals. It is strictly a state tax. Eleven states still collect an inheritance tax. They are: Connecticut, Indiana, Iowa, Kansas, Kentucky, Maryland, Nebraska, New Jersey, Oregon, Pennsylvania and Tennessee. In all states, transfers of assets to a spouse are exempt from the tax. In some states, transfers to children and close relatives are also exempt.

Estate-tax changes are inevitable. Under current law, the basic federal estate-tax exemption for 2012 is $5 million, and the top estate-tax rate is 35%. (Transfers between spouses typically are tax-free.) Another factor to consider: Many states impose their own death-related taxes.

In most states, estate and inheritance taxes are designed in such a way that states face either a full or partial loss of estate tax revenues as this credit is phased out. States can avert this loss of revenue by "decoupling." Decoupling means protecting the relevant parts of their tax code from the changes in the federal tax code, in most cases by remaining linked to federal law as it existed prior to the change.

Seventeen states and the District of Columbia have retained their estate taxes after the federal changes. Of these, 15 states -- Illinois, Kansas, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, North Carolina, Ohio, Oregon, Rhode Island, Vermont, Virginia, and Wisconsin -- and the District of Columbia decoupled from the federal changes. Two states -- Nebraska and Washington -- retained their tax by enacting similar but separate estate taxes.

Of these, 12 states acted to decouple from the federal changes. Illinois, Maine, Maryland, Massachusetts, New Jersey, Rhode Island, and Vermont enacted legislation linking their estate taxes to the federal estate tax as in effect before the 2001 tax bill. Minnesota, which passes a tax conformity package each year, explicitly elected not to change its estate tax to conform to the federal changes. North Carolina elected to decouple at least through 2005, and Wisconsin has decoupled through 2007. Nebraska decoupled by creating a separate state estate tax on estates that exceed $1 million based on the federal law before the 2001 changes. In 2005, Washington enacted a separate tax with a somewhat different rate structure that applies to estates that exceed $2 million after the state's original decoupling was nullified in court.

In addition, five states and the District of Columbia will remain decoupled unless they take legislative action. In five states -- Kansas, New York, Ohio, Oregon, and Virginia -- and the District of Columbia, estate tax laws are written in such a way that the state will not conform to the federal changes unless it takes legislative action.

Steps in the Estate Calculation

1. Calculate the Gross Estate, including
   - 100% of everything you own in your name
   - 50% of everything owned jointly with your spouse
   - All assets in a revocable, living trust
   - The death benefit value of life insurance owned by you, on your life
2. Subtract Expenses and Debts
   - Expenses must be reasonable and include professional fees, funeral expenses, etc.
3. Subtract Deductions
   - Marital (if to U.S. Citizen spouse)
   - Charitable
4. Add Adjusted Taxable Gifts
   - If you have made taxable gifts during your lifetime (over $13,000 per person per year), the amount over $13,000 comes into the calculation at this point and often has the effect of placing the estate in a higher marginal tax bracket.
5. Calculate the Federal Estate Tax Due
   - Rates start at 18% and increase to 35%.
6. Subtract Gift taxes Paid
   - If you have made taxable gifts during your lifetime and paid a tax, you take credit for it here.
7. Subtract the Unified Credit
   - Unless used during lifetime to offset gift taxes, everyone has a credit of $1,772,800 (the tax on $5 million).
8. Add Other Taxes due at this time
   - Generation Skipping Tax.
   - Excess Accumulation in Retirement Plans.

Charity

While planning, don't' forget that being generous can also reduce taxes. Giving to charity can result in an income tax deduction. For example: a donor in the 33% tax bracket giving $100 to charity will result in $33 of income tax savings.

Document and itemize!

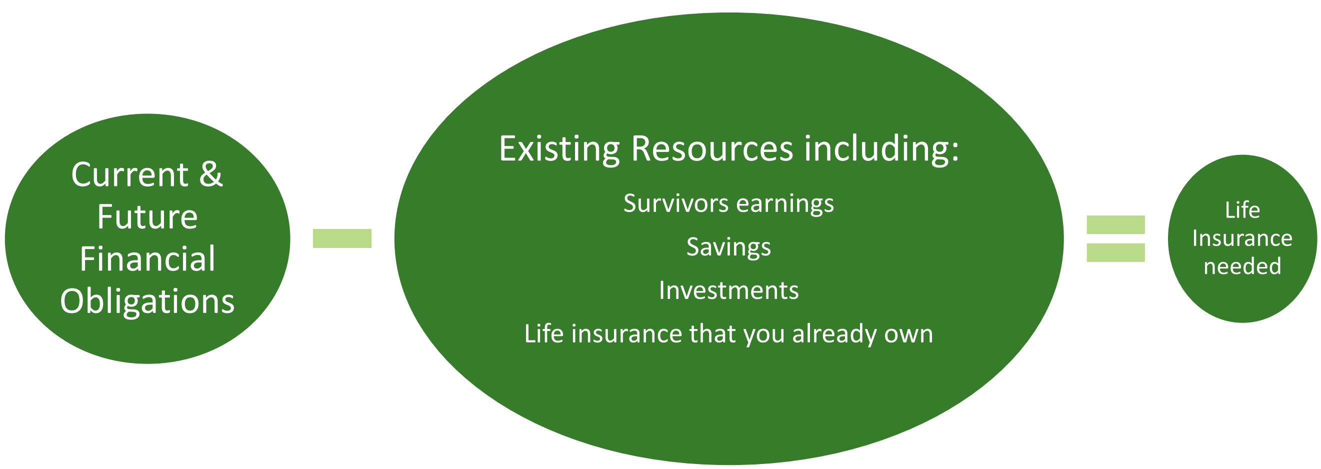
Life Insurance

How Much Life Insurance Do I need?

The answer isn't really how much life insurance you need, its how much money your family will need after you're gone. Ask yourself:

1. How much money will my family need after my death to meet immediate expenses, like funeral expenses and debts?
2. How much money will my family need to maintain their standard of living over the long run?

The most common way to determine your life insurance needs is by conducting what's called a Capital Needs Analysis. Start by gathering all of your personal financial information and estimate what each of your family members would need to meet current and future financial obligations. Then tally up all of the resources that your surviving family members could draw upon to support themselves. The difference between their needs and the resources in place to meet those needs is your need for additional life insurance.



How Much Life Insurance Do I Need?

Things to Think About	Assuming Spouse 1 Dies First	Assuming Spouse 2 Dies First
Current annual living expenses?		
Today's cost of tuition, room & board?		
Rate of inflation?		
Estimated funeral expenses?		
Mortgage balance?		
Other loan balances?		
Liquid assets?		
Current life insurance coverage?		
Spouse's current after-tax salary?		
Social Security survivor benefits?		
Estimated yield on investments?		

Child's Name	Years Until College

Computation of Life Insurance Needs	If Spouse 1 Dies First	If If Spouse 2 Dies First
Mortgage balance		
Other loan balances		
College fund		
Dollars needed at death		

Analysis of Annual Cash Flow of Survivors	Spouse 1	Spouse 2
75% of annual living expenses		
Less:		
Spouse's current after-tax salary		
Social Security survivor benefits		
Net annual cash flow surplus or (deficit)		

Additional Life Insurance Needed:	Spouse 1	Spouse 2
Dollars needed at death		
Liquid assets		
Current life insurance coverage		
Additional insurance needed or (surplus)		

Types of Life Insurance:

Term

As the name implies, term insurance provides protection for a specific period of time and generally pays a benefit only if you die during the "term." Term periods typically range from one year to 30 years, with 20 years being the most common term.

One of the biggest advantages of term insurance is its low cost in comparison to permanent insurance. Term insurance is cheaper because you're generally just paying for the death benefit, the lump sum payment your beneficiaries will receive if you die during the term of the policy. With most permanent policies, your premiums help fund the death benefit and can accumulate cash value.

Term insurance is often the best choice for people in their family-formation years because it allows them to buy high levels of coverage when the need for protection is often greatest. Term insurance is also a good option for covering needs that will disappear in time. For instance, if paying for college is a major financial concern but you're pretty sure that you won't need life insurance coverage after the kids graduate, then it might make sense to buy a term policy that will get you through the college years.

Other types of life insurance have investment elements and other features that make them more expensive and infrequently ideal for federal government retirees.

Whole

Whole provides coverage for the purchaser's entire life, as well as pays fixed death benefit and accrued savings benefits. Whole is subject to fees, rates, and inflation.

Variable

Benefits at death are dependent on portfolio market value. Variable rate life insurance is typically invested in common stocks.

Federal Employees’ Group Life Insurance

Basic Life Insurance:

Basic Life Insurance benefits at death are roughly equal to 1 year salary of the federal employee from 45 years old until the age of 65. 35 or younger are allowed 2 years salary. Between the ages of 36 and 44, benefits are graduated.

Optional Life Insurance:

Option A - $ 10,000
Option A provides $10,000 in additional life insurance coverage.

Option B - Additional Multiples of Salary
Option B provides additional insurance in multiples of 1,2,3,4 or 5 times the annual basic pay on date of retirement. The annual basic pay is rounded up to the next thousand.

Option C - Family Life Insurance
Family Life Insurance provides coverage on the spouse and eligible children of the insured. Benefits are available in 1,2,3,4, or 5 multiples of $5,000 if the spouse predeceases the retiree and $ 2,500 if an eligible child predeceases the retiree.

Long Term Care Insurance

If you can afford long-term care insurance, you should definitely consider it. The overwhelming cost of long-term care can quickly deplete your life's savings. For instance, having a home health aide visit just three days a week can cost more than $20,000 annually. Full-time nursing home care now averages $69,000 to $78,000 per year.

While financial considerations cannot be understated, long-term care insurance isn't only about money: it's also about peace of mind. It ensures you'll have access to first-rate care when you need it. It also means you won't have to be dependent on others or be a burden to your children.

Choosing a plan

Long-term care insurance pays for a wide range of services and procedures that typically aren't covered by standard medical insurance. The types of care fall into three categories: skilled, intermediate and custodial.

<u>Skilled Care</u>
If you have a serious illness or injury that you can recover from, you will probably receive skilled care from nurses or professional therapists. Skilled care is provided daily and involves a treatment plan.

<u>Intermediate Care</u>
This type of care is the same as skilled care, but not provided on a daily basis. For instance, if you injured your leg and need to visit a physical therapist five times a week to help you heal, that would be considered intermediate care.

<u>Custodial Care</u>
Custodial care isn't intended to get you better. Custodial care includes assistance with daily activities like bathing, eating, dressing, toileting, and continence and transferring to name a few. Custodial care can range from in-home care provided two or three days a week, to 24-hour nursing home care.

Long-term care is not the same as nursing home care. A nursing home is a facility that provides long-term care services, but it's just one of the many settings in which long-term care is provided. Long-term care services are also provided in assisted living facilities, adult day care centers, and in-home. Because long-term care insurance policies may differ in what they cover, it's important to be familiar with the different locations where you can receive care.

Key Terms

Benefit Amount and Duration
Most long-term care policies pay a fixed dollar amount for each day you receive care. Policyholders usually have a choice of daily benefit amounts and can also choose the length of time that benefits will be paid. Long-term care policies generally limit benefits to a maximum dollar amount or a maximum number of days and may have separate benefit limits for nursing home, assisted living facility, and home health care within the same policy.

Elimination or Deductible Periods
These refer to how many days you must spend in a nursing home or how many home health visits you must receive before benefits begin. Most policies offer a choice of deductible: the longer the elimination or deductible period, the lower the premium.

Exclusions
Preexisting conditions may make coverage more expensive, and the insurance company may choose not to cover you for these conditions during your first six months of coverage.

Inflation protection
By purchasing inflation protection, your policy benefit will automatically increase each year at a specified rate, compounded over the life of the policy, protecting you against rising long-term care costs.

Non-forfeiture benefits
This feature allows you to drop your coverage and still receive a portion of the benefits based on a percentage of the total premiums you have paid.

Renewability
Almost all long-term care policies are guaranteed renewable. That means that they cannot be canceled as long as you pay your premiums. Companies can raise premiums, however, as long as they raise them for an entire class of policyholders. The renewability provision outlines under what conditions the company can cancel the policy or raise premiums.

Waiver of premium
This provision allows you to stop paying premiums while you are receiving benefits. Your policy may contain restrictions on this feature.

The Federal Long Term care Insurance Program

The Federal Long Term Care Insurance Program (FLTCIP) provides long-term care insurance to help pay costs for help with daily activities and severe cognitive impairment, such as Alzheimer's disease. See www.ltcfeds.com for detailed information on the Federal Long Term Care Insurance Program.

A Family Affair

Intergenerational Planning

For retirement planning to be successful, you must make a plan, share the plan with your family, and follow the plan If everyone is on the same page, your hopes for the future and your family are much more likely to be fulfilled.

Once you have a plan, do a paperwork fire drill. Have all of the necessary documents been completed? Is your family familiar with these documents: where they're located and what they contain (apart from confidential information)? Don't wait to get the documents in order:

- Living Will
- Revocable Living Trust + Re-title Assets
- Healthcare Directives
- Durable Power of Attorney
- Guardianship and Conservatorship
- Charitable Intent

Planning for Incapacity

You must acknowledge the possibility of incapacity. Approximately 90% of the population will need long-term personal or medical care in their lifetime (US News and World Report, Jan 2008). 78% of adults in long-term care depend on family or friends for personal and financial care ('Beyond 50' AARP, 2003).

Have the Right Conversation

Planning starts with the willingness to ask yourself and others the right questions. For your health, your goals, your financial security, and your loved ones, don't wait to have the conversation.

- Have you planned for incapacity?
- Have you completed the necessary documents?
- Have you made a decision about Medicare Part D?
- Do your children/grandchildren have health insurance?
- What is your preference for housing as you get older?
- What do you love or hate about your job?
- What do you look forward to in retirement?
- What is your biggest concern about retirement?

Answering these questions, and other important questions that apply to your life and financial situation, will put you on the path to a proper plan and peace of mind.

Karen P. Schaeffer, CFP® is the Managing Member and Co-founder of Schaeffer Financial LLC, an SEC-registered investment advisory firm located in Rockville, Maryland.

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