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Financial Planning Strategies

A Financial Planning Update

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Mr. Kennedy's investment philosophy is the same that he has practiced over the last decade: securities markets are efficient and advisors primarily add value by coordinating the asset allocation for clients based upon risk tolerance, objectives, and time horizons. The firm has constructed 5 models for clients that vary in risk to meet the goals of each client. The firm primarily uses passive mutual funds in each model and uses select actively managed funds for bond, commodity, and real estate exposure. ITI uses several research resources, including many that were used over the last 20 years, to assist with the asset allocation and the appropriate funds to utilize in each model.

Mr. Kennedy is an Investment Advisor Representative of ITI Financial Management, LLC. Investment services are offered through ITI Financial Management, LLC, a registered investment adviser with the state of Missouri.

Social Security: Is Your Age a Retirement Numbers Game?

When preparing for your retirement, think about how much income you may need each year to fund the lifestyle you want. To help maintain your living standard, you may need to save enough money to supplement other sources of retirement income, such as a company pension and/or Social Security. It is also important to be aware of how your *age* factors into your retirement decisions. Here are some important age milestones to consider:

Age 55. If you take an early retirement, quit, or are otherwise terminated from employment, you can generally withdraw money from **401(k)**, **403(b)**, and **profit-sharing plans** without being subject to a 10% Federal income tax penalty for early withdrawals. As specified in IRS *Publication 575*, the following apply: you must reach age 55 by December 31 of the year you leave the workforce; money must be distributed to you from your employer's plan and cannot be transferred to an **Individual Retirement Account (IRA)**; early withdrawals are subject to the plan's provisions; and only money from your last employer's plan qualifies (not funds from previous employers). You may take early distributions from a traditional IRA without penalty, provided you receive "substantially equal periodic payments." Since certain rules govern this provision, be sure to consult a qualified tax professional.

Age 59½. Generally, you can withdraw money from traditional IRAs and qualified retirement plans after the age of 59½ without being subject to the 10% tax penalty, if plan-specific qualifications are met. Ordinary income tax is due if your contributions were tax deductible. No income tax or penalty applies to distributions from a **Roth IRA**, provided you have reached age 59½ and have owned the account for at least five tax years.

Age 60. Widows and widowers may be eligible for Social Security benefits. For the most up-to-date information, visit the Social Security Administration's website at www.ssa.gov.

Age 62. Some companies may allow retirement at 62 with full pension plan benefits. This is also the earliest age for receiving regular Social Security benefits, but the benefit amount is permanently lower than its potential maximum.

Ages 62–64. For those who are working and collecting Social Security benefits while younger than full retirement age—the age at which an individual is eligible to receive full Social Security benefits—the earnings threshold

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is $16,920 for 2017. One dollar in benefits is withheld (a "give back") for every $2 earned above that amount. A portion of benefits may also be taxed as income based on a complex formula that includes wages and tax-exempt income.

Age 65. Many company pension plans provide full benefits at this age. However, the age may vary by the company plan. **Medicare** eligibility also generally begins at age 65.

Ages 65–67 (or the year in which full retirement age is attained). Traditionally, full retirement age was 65. However, for those born between 1938 and 1959, full retirement age has been rising incrementally, and for those born in 1960 or later, the age for receiving full benefits is 67. The lower earnings threshold amount still applies for years prior to full retirement age, and a second earnings threshold rule applies for the year in which full retirement age is attained.

For those who are working and receiving Social Security benefits, there is a benefit give-back in 2017 of $1 for every $3 over $44,880 earned in the months prior to attaining full retirement. Once full retirement age is attained, the earnings threshold no longer applies, and a portion of benefits may be taxed as income based on a complex formula that includes wages and tax-exempt income.

Age 70½. Required minimum distributions (RMDs) from qualified retirement plans, such as a 401(k) or IRA, must generally begin by April 1 of the calendar year following the year in which you reach age 70½. Roth IRAs, however, are not subject to the age 70½ mandatory distribution rules.

You have worked many decades to accumulate assets to prepare for enjoyable "golden years." Be sure to consult with qualified tax and financial professionals to help you stay on the track to achieving your retirement goals. $

Term Conversion: Changing Times, Changing Needs

Although **term** insurance premiums are relatively low when a policy owner is younger, premiums can substantially increase with age. In some cases, the premiums may remain level, but typically either the death benefit decreases yearly or a significant premium increase occurs. Over time, you may want to consider converting your term policy to a **permanent** one. Here are some benefits of conversion to permanent life insurance:

- Provided that premiums are paid on time, benefits will never decrease. Also, premiums will never increase and cannot be canceled due to any health changes.
- Permanent policies have the potential to accumulate cash value over time, which can be withdrawn from the policy. Withdrawals may be subject to surrender charges, however, and could have a permanent effect on the cash value and death benefit. Loans reduce the cash value and death benefit by the amount of the loan outstanding plus interest.
- Some permanent policies offer non-guaranteed dividend payouts when the insuring company's earnings exceed original projections.
- Guaranteed purchase options allow the insured to purchase additional amounts of coverage without a medical exam.
- If the policy owner decides to cancel the policy, he or she is guaranteed to receive the amount of cash value that accumulated during the life of the policy, minus any fees and surrender charges that apply to canceling the policy.

Converting your term insurance to a permanent insurance policy may allow you to continue coverage at an affordable cost, while your premiums build tax-deferred cash value for your financial future. Be sure to consult a qualified insurance professional to determine the appropriate coverage for your unique circumstances. $

Issues Facing Growing Families

Chris and Jill (a hypothetical case), both in their late twenties, have been married for five years. Chris is a sales representative for a biotechnology company and Jill works as an ophthalmic assistant at a local eye clinic. When they were first married, they enjoyed a lifestyle supported by two incomes. Without children, they were able to be somewhat carefree about their spending. Now, however, they are contemplating having children and are raising questions about the financial implications of adding to their family.

Discussions with family and friends have led them to the conclusion that *uncertainty* may be the defining characteristic of their generation. Emerging families like that of Chris and Jill are facing a new reality—financial uncertainty not faced by previous generations. With a decline in the popularity of traditional pension plans and the future of Social Security in question, individuals may be increasingly responsible for their financial futures. In the years ahead, company retirement plans and government-sponsored social programs may offer less support to today's workers than these resources offered past generations.

Here are some of the issues that now concern Chris and Jill as they look to the future:

- They know their parents made sacrifices to send them to good colleges. How difficult will it be for *them* to save for a child's education? What about saving for more than one child?
- If Jill would like to devote most of her time to being with their children, how would she manage financially if Chris, who would then be the primary means of support in the family, were to die unexpectedly?
- They both participate in **401(k) plans** at work, but will they be able to save enough for a retirement that may last for two or three decades? What about Social Security? Will the system change significantly?

Since most young couples have not had enough time to accumulate a lot of money, **life insurance** can help provide an instant estate, thereby assuring money will be available in the case of an untimely event (such as an early death). Depending on specific needs to be met, such an instant estate could provide annual income for the surviving spouse, money to help pay the mortgage on a house, and funds to help pay for a child's education.

Chris and Jill hope to arrive at a realistic assessment of what they should and should not do financially, what they can and cannot afford, and what sacrifices they might need to make to help prepare themselves for their financial futures. If they chart their future course prudently, they may be in a better position to achieve their dreams. By making informed financial decisions and choosing appropriate strategies today, they may be less likely to lose their way if they encounter personal and economic detours tomorrow. $

Estate Planning: A Team Effort

Estate planning often involves a team consisting of an attorney, a financial professional, an insurance professional, and yourself. However, whether you are establishing a new estate plan or revising an existing one, only *you* can provide the guidance, direction, and information your estate planning team needs to develop an effective plan.

Most estate planning efforts begin with a questionnaire and an asset inventory. Although the process may seem cumbersome, the more complete the information you provide, the better equipped your team will be to help you achieve your goals. Even questions that seem intrusive at first have specific purposes. Following are some examples of the kinds of estate planning information you may be asked to provide:

Assets and Liabilities. A list of your assets, their estimated net value, and documentation of the form of ownership (individual, joint tenancy, tenancy by the entirety, and other forms of co-ownership). You will also need to identify your liabilities and those of your spouse. If you live, or have ever lived, in a community property state, you will need to provide information to separate your individual and community property and to determine who is responsible for the management and control of community property.

Family and Other Beneficiaries. The names, ages, relationships, and special needs of family members and other beneficiaries. A copy of property settlements, other financial agreements, and court decrees from any prior marriages of both you and your spouse.

Existing Estate Plans. A copy of your current will, along with information on any contractual or legal restrictions on the disposition of your assets. In addition, documentation of survivorship provisions and beneficiary designations on insurance policies, retirement plans, employee benefit plans, business buy-sell agreements, and other such assets.

Health Status. Information on your current health status and that of your beneficiaries. Also, the average life spans of your ancestors and their ages at death.

Objectives and Purposes. Your objectives, purposes, and hopes for yourself and each beneficiary, along with an assessment of each beneficiary's ability to manage money.

Benefits of Team Work

Once fully informed, your estate planning team can assist you in several important ways. They can: 1) Analyze your assets to determine which you should dispose of during your lifetime, which you should retain, and whether any special expertise may be required to value and dispose of your assets; 2) Identify which assets may be subject to probate and estate taxes and estimate the potential shrinkage due to these costs; 3) Estimate and plan for the liquidity (cash) needs of your estate, your surviving spouse, and other family members and beneficiaries (for instance, cash may be needed to help cover estate taxes, probate costs, or for income replacement); and 4) Guide you in selecting the best domicile—assuming you have a choice—to help reduce the net effect of taxes on your estate.

No Plan is Final

Bear in mind that no estate plan is permanent. Marriages, remarriages, births, deaths, new employee benefits, and legislative changes may all necessitate adjusting an existing plan or creating a new one. Also, the composition of your assets may change over time. You can keep your estate plan up-to-date by notifying your estate planning team of any relevant changes as they occur, and by responding when they alert you to legislative changes that may affect your estate. $

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