



# FINANCIAL *Planning Strategies*

A Financial Planning Update



*From the Desk of:*  
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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 recommended 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.

## Ten Common Estate Planning Mistakes

**W**hether your estate plan is simple or complex, many details can get overlooked and may undermine your plan's effectiveness. The following is a list of the 10 most common estate planning mistakes to avoid:

**1) Titling property jointly with your children as a substitute for a will.** Unlike a will, a transfer of an interest in your property is irrevocable, which may prevent you from changing the disposition if circumstances change before your death. Also, titling your personal residence jointly can result in partial loss of the capital gain exclusion if it is sold before your death.

**2) Failing to plan for the possibility of children getting divorced or having problems with creditors.** Parents often have cause to regret having made outright gifts to their child when the child subsequently divorces and the ex-son- or daughter-in-law is awarded an interest in the gifted property by a court, or when the property is taken pursuant to a legal judgment against the child. Such problems can be minimized through proper use of trusts or a business entity, such as an LLC.

**3) Failing to make sure that all your assets will be passed on in accordance with your wishes after you die.**

Many types of assets (life insurance, IRAs, brokerage accounts) can pass to your heirs or others based on beneficiary designations. The provisions of your will cannot change a beneficiary designation. Remember to account for things you've already designated. You should review your will, as well as all beneficiary designations, when formulating your estate plan.

**4) Underestimating the true value of your estate for Federal estate tax purposes.** For instance, many people are unaware that the proceeds of life insurance on their lives are includable in their taxable estates if they own the policy. This could bring the total value of their estates to more than the amount sheltered from estate tax by the estate tax exemption—\$10.86 million per married couple in 2015, which is annually adjusted for inflation.

**5) Failing to consider state death taxes in light of recent changes in the law.** Many states have "decoupled" their death tax from the Federal estate tax, which means your estate could be subject to death tax in a state even if no Federal estate tax is due. This could result in an unpleasant surprise at your death, one that might be avoidable with proper planning. The laws of each state where you own property should

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## The Changing Face of America: Dual Income Families

The concept of the “traditional” American family is continually changing. The dual income family—with both spouses maintaining separate careers and contributing to the financial success of the household—has now become commonplace.

The economic challenges and opportunities of this century may often require two incomes to meet overall family expenses. Many families ask themselves, “How will we be able to plan for our retirement, save for our children’s education, and perhaps help our aging parents deal with some of their financial burdens?” These concerns may be especially pressing given today’s high cost of living and the current economic climate.

### The Cost of Working

Although it may seem that dual income families will have more disposable income to afford life’s necessities, this may not always be the case. Families with both spouses working often lose some portion of the second paycheck to extra expenses, such as unreimbursed childcare, domestic help, job-related transportation, business attire and dry cleaning, lunches and dinners at restaurants, and take-out meals. These additional, daily expenses all eat away at that second income.

When both parents work outside the home, childcare concerns are especially critical. Quality childcare is a major expense



for many families with working parents—after housing, food, and taxes. It is this cost that often reduces the income that could be used to help fund education or retirement.

As American businesses continue to restructure and downsize, some dual income families may face the possibility of living on a single income for an unspecified period of time. For those who need the additional income to help pay for basic expenses, a loss of one income could have a serious impact on the family finances.

### Protecting Your Family’s Future

How would your family protect its income if either working parent should die or become disabled? One solution may be to purchase a permanent life insurance policy that will pay a death benefit upon the death of the insured spouse. There are several advantages to life insurance plans: For example, policies bought at a younger age may have lower premiums, and some policies maintain level premiums and build cash value.

Generally, the cost for life insurance policies is lower when purchased relatively early in life. However, it is important to re-evaluate insurance coverage as time goes on and circumstances change. The protection that life insurance policies provide for dual income families can best be calculated by periodically analyzing all life insurance needs in order to determine the best plan for your family.

Now, what about loss of family income due to disability? This possibility is not as unlikely as you might think. According to the Social Security Administration\*, studies show that just over 1 in 4 of today’s 20 year-olds will become disabled before reaching age 67.

A debilitating illness or injury can be financially devastating. An individual disability income insurance policy to help replace a portion of those lost dollars would be a worthwhile consideration.

Dual income families have become a fixture in today’s society. Although individuals may have different motives for working, most families come to depend upon that second income, whether it is used to meet current or future needs. Thus, it is important to ensure that both spousal incomes are protected from loss with life and disability income insurance. \$

\*Source: Social Security Administration, 2015.  
<http://www.ssa.gov/dibplan/>



## Keep Debt in Check

Accumulating personal debt is nearly inevitable at some point in life. Whether debt is a cause for concern, however, depends upon a number of factors, including the condition of the economy, your current earnings and future economic prospects, and the type of debt incurred. By monitoring your spending habits, including credit card use, you can better understand ways to control debt—before it starts to control you.

### Simplify Debt Management

In order to properly manage debt, it is important to distinguish between “good debt” and “bad debt.” From a purely financial perspective, good debt is borrowing in order to purchase an asset that is likely to appreciate in value (e.g., a home or business). In some cases, good debt may become “better” if, for instance, you itemize certain repayments (e.g., home mortgage interest) on your tax return and, as a result, qualify for certain tax deductions.

On the other hand, bad debt is borrowing in order to purchase an asset that is likely to depreciate in value (e.g., an automobile) or borrowing for non-asset consumption (e.g., a vacation). And, bad debt has been made “worse” now that the government has limited tax deductions for certain kinds of debts (e.g., interest on personal loans and credit card debt is no longer tax deductible).

In order to manage your debt effectively, it is helpful to consider the following points:

#### Categorize Your Debt.

Ask yourself how much “good” and “bad” debt you have. Then, sort your debts into groups: short-term (e.g., credit card), intermediate-term (e.g., car loans), and long-term (e.g., mortgage and home equity).

#### Pay Off the “Right”

**Debt First.** It generally makes sense to pay off high interest debt first, particularly if the interest is not tax deductible. Stretching out payments is most appropriate for intermediate- and long-term debt. For short-term debt, try to keep enough money in savings to pay it off, if necessary.

#### Reduce Your Credit

**Card Use.** Although credit cards may be convenient, they can also tempt you to live beyond your means. If you tend to use credit cards to purchase consumables, rather than assets that appreciate, you may want to reduce your dependence on them. It is also best to try to

avoid the minimum payment trap. By making only the minimum monthly payment, the interest that accumulates can make even “bargain” purchases costly in the long run.

**Control Impulse Spending.** If you have a tendency toward impulse spending, avoid shopping unless you have a specific purpose. Or, try delaying your impulse purchases for 24 hours. You may find the desire passes once you’ve had a chance to sleep on it.

### Be Realistic

Keep in mind that spending is not always based on financial considerations alone. Emotions can sometimes blur the line between *wants* and *needs*. Nevertheless, the reality of living in today’s society leaves most of us with little choice but to amass some “bad debt.” However, common sense strategies, such as the ones outlined above, can help you control your debt and make it more manageable to live within your means. \$





## Ten Common Estate Planning Mistakes

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be carefully reviewed to determine the potential exposure to state death taxes and how to minimize them.

**6) Being uninformed about recent legislation affecting the gift tax and estate tax amounts.** As of January 2013, the American Taxpayer Relief Act (ATRA) provides a 40% tax rate and a unified estate and gift tax exemption of \$5.43 million per individual and \$10.86 million per married couple (adjusted annually for inflation). You can make yearly gifts up to the annual exclusion amount (\$14,000 per person for gifts made by an individual and \$28,000 for those made jointly by husband and wife) that don't count against your \$5.43 million estate and gift tax exemption.

**7) Failing to maximize the benefits of the income tax basis "step-up" at death.** Low-basis/high-value assets should generally not be given away during your lifetime, since the basis for capital gain computation purposes will be increased to fair market value at death. If the asset is given away, the basis remains at the property's original cost.

**8) Failing to indicate your desired funeral arrangements.** A prearranged funeral can greatly relieve family members from additional stress after your death.

**9) Failing to plan for disability.** In the absence of adequate medical care directives, powers of attorney, or trusteeship of assets,

costly and time-consuming court proceedings may be required in order to appoint a guardian or conservator to act on your behalf if you become disabled.

**10) Not reviewing and updating your estate plan on a regular basis.** Changes in the law and in your personal financial and family situation over time make it essential that you periodically review your estate plan to make sure it still carries out your wishes.

Be sure to consult with your qualified team of tax, legal, and financial professionals. Early and thorough planning can help you avoid these common mistakes, meet your financial goals, and leave a lasting legacy for your loved ones. \$

## The IRS and Your Scholarship Dollars

Students who receive scholarships or grants need to be aware that some of their award may be taxable. The portion of a scholarship that is *taxable* applies to room, board, travel, and other noneducational expenses. However, tuition, fees, books, supplies, and course-required equipment are *nontaxable*.

If taxes are due on awarded funds, they are payable by the scholarship recipient. Generally, students do not receive

enough yearly income to owe tax, especially if they file independently and can take a personal exemption. Students claimed on their parents' tax returns may not fare as well.

The key is to apply scholarship dollars to *tax-free* expenses first, such as tuition, fees, and books. The remaining taxable portion of the scholarship should be itemized in detail on the student bill, along with the scholarship amount received.

Teaching grants or project assistantships are nontaxable if integral to a *student's chosen field of study*. On the other hand, research assistantships that benefit the academic institution, rather than the student, are taxable.

A scholarship can be a major education funding boost. However, the scholarship recipient must keep informed of possible "taxing" issues of scholarship dollars. \$

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