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Financial Planning Strategies

A Financial Planning Update

From the Desk of:
Troy E. Kennedy
Principal/Advisor

ITI Financial Management
4650 S. National, Suite A-1
Springfield, MO 65810
Phone: (417) 889-2550
Fax: (417) 889-2559
tkennedy@itifinancialmgt.com
www.itifinancialmgt.com

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.

Managing Your Benefits When Changing Jobs

Starting a new job can be exciting. But, as you look forward to your new opportunity, consider carefully how you will manage your employer-provided benefits while transitioning from one workplace to another.

When you leave a job, your employee benefits generally end, unless you elect to continue them. While you may receive benefits from your new employer, they will most likely differ from your previous employer's benefits package. So, if there are any benefits you want to take with you, for example, accumulated savings in a 401(k) plan or similar retirement account, you will need to decide how to manage those funds before you exit.

Insurance Conversions

Your new employer may not offer **health insurance**, or there could be a waiting period before health coverage begins, which sometimes can be from 30 to 90 days. To avoid becoming uninsured, even for a short period of transition, explore the possibilities of continuation or conversion under your former employer's health insurance.

Under a Federal law known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), you are permitted to continue as a member of your previous company's health plan for up to 18 months after termination of employment, unless you are terminated for cause. Under COBRA, you are responsible for paying the entire premium, including the employer's contribution to the insurance, making COBRA premiums generally expensive. However, premiums may be less than you would pay for an individual policy. To continue coverage under COBRA, you must advise your employer that you are electing COBRA coverage.

COBRA continuation rights may not apply if you work for an employer with fewer than 20 employees. But, you may be able to convert your group health insurance policy to an individual policy without having to undergo a separate application for individual coverage. There may also be "interim" or "short term" policy options that could provide coverage for a couple of months for people between jobs. Or, you may need to secure individual health insurance coverage with a new provider that is not tied to your place of employment.

You may also have the option of converting other types of employer-sponsored insurance into individual policies. Depending on the group plan, you may be permitted to convert **life insurance**, **disability income insurance**,

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Securing Future Care with a Special Needs Trust

Caring for a child or an adult with special needs can be emotionally challenging for parents, family members, and other caregivers. In addition, the economic issues that result from providing special care often strain current and future family finances. This is further complicated by the potential loss of government benefits if finances are improperly managed. Therefore, families must plan carefully, for both present and future care. Often, an important part of such a plan is a **special needs trust**.

A special needs trust can be invaluable in providing care for a child or other dependent with special needs, and can be used to help with finances, often without affecting eligibility for government benefits. However, in order to maintain the individual's eligibility for **Supplemental Security Income (SSI)** and **Medicaid**, trust assets can be used only for "extras," such as transportation, therapy, or day care—*not* for essentials such as housing, clothing, or food.

Funding a Special Needs Trust

There are no limitations on how much money or what type of assets can be put into a special needs trust. In this respect, a properly written and executed special needs trust can be used to receive inheritances and gifts. Usually, the parents of the trust beneficiary are **co-trustees** and actively manage trust assets. In general, income from trust

assets is taxable to either the trust (if the income remains in trust) or to the trust beneficiary (if income is paid out).

Special needs trusts are typically funded with gifts made to the trust by parents or others. Under current tax law, a taxpayer can make a gift of up to $14,000 in 2015 to as many individuals as he or she so chooses ($28,000 for a married couple) without incurring any Federal gift taxes. This is known as the **annual gift tax exclusion**. Although the annual gift tax exclusion normally cannot be used for gifts made to trusts, there are exceptions that may warrant further exploration. In addition, the **applicable exclusion amount**, which is the amount that can be excluded from estate taxes, could be used by an individual to fund a special needs trust. However, using the applicable exclusion amount during one's lifetime eliminates its usage at the donor's death.*

Besides making gifts to a special needs trust, it is also common to have a **life insurance** policy (or policies) transferred to, or purchased by, the trust. When the insured (typically a parent) dies, the policy's death benefit proceeds become part of the trust and are used for the ongoing support of the trust's beneficiary (the dependent with special needs).

Another benefit of a special needs trust is that it avoids **probate** if the parent/trust donor dies. If the parents are the trustees, they can also name a **successor trustee(s)** to manage trust assets, including any inheritance.

Providing for the Future

A special needs trust can help ensure that a child or an adult with special needs will be provided for beyond the limitations of government benefits. Parents and caregivers may feel more confident in knowing that their child or other loved one will be cared for in the years ahead. Remember that the laws affecting the usage of special needs trusts vary from state to state. Be sure to consult a qualified professional before making any definitive arrangements.

*Under current law, Federal estate taxes in 2015 have an applicable exclusion amount of $5.43 million and a top tax rate of 40% until the end of 2015. $

Gearing Up for the Golden Years

Will you have enough money for your retirement? This is a major concern facing many Americans, as retirement looms closer on their financial horizon. If you're facing a retirement shortfall, you're not alone. Many American households may retire on less annual income than they may need to live comfortably during their "golden years."

Guidelines for retirement planning recommend that you may need at least 60% to 80% of your pre-retirement income to maintain your current lifestyle. The following steps may help you get a clearer view of your retirement finances, and may help you identify any needed adjustments to your savings strategy:

1. **Project a retirement budget**, taking your current standard of living into consideration. How will you meet future medical expenses, housing costs, travel, and entertainment? Answering this question can give you a target for your budget.

2. **Review your financial assets** to see if they will meet your retirement needs. Be sure to consult your qualified financial planning professional annually to determine if your assets are on track for the retirement lifestyle you envision.

   Remember to include *all* your resources on your balance sheet. Some of these untapped sources may be:

   Home Equity. If you sell your home, the Internal Revenue Service (IRS) allows you to keep up to a certain dollar amount of capital gains tax free, which you can then use to boost your retirement savings, provided you have owned and occupied the residence as a principal resident for an aggregate of at least two of the last five years before the sale.

   Highly-Appreciated Non-Income-Producing Assets. With careful financial planning, you may be able to convert non-income-producing assets, such as stocks or real estate, into income-producing assets.

   Valuable Collectibles. Specialty items, such as estate jewelry, antiques, and stamp, coin, or doll collections, may be converted into cash, but only if you're willing to relinquish them at some point. Evaluate what these valuables may be worth to you in your retirement years and seek the services of a professional appraiser, if needed, for an accurate appraisal of items.

3. **Consider moving to a more affordable locale** that could potentially free up additional retirement capital by lowering your cost of living.

4. **Consider delaying your retirement.** Each additional year you wait to retire will help reduce your budget shortfall. In addition, working longer will give you an added opportunity to increase your savings.

The way to handle a potential retirement shortfall is to plan carefully and begin acting *now*. Once you have determined your strategy with a financial planning professional, implement it. If you start now, your golden years may turn out just as you have planned. $

The Importance of Insurance and Risk Management

Insurance, in all its varied forms, is simply a method for handling risk. In order to plan an effective insurance program, consider the risks that you and your family are exposed to and how financial loss could affect you. Buying insurance is the process of transferring risk you cannot afford, or choose not to accept. Since you may be unable to afford to rebuild your home and replace all its contents in the event of fire, for example, you may choose to transfer that risk to an insurer by purchasing the appropriate amount of **homeowners insurance**.

However, even in situations of risk transfer, it is quite common to share some of the risk. The deductible on an **automobile** or homeowners insurance policy is a form of risk sharing whereby you accept responsibility for a small portion of the risk while transferring the bulk of the risk to the insurer. The fundamental rationale behind all forms of insurance is to determine what risks can be transferred on a cost-effective basis. $

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or **long term care insurance**. Be sure to talk with your benefits administrator about all your options.

Retirement Plan Rollovers

If you have a retirement savings account in your current employer's 401(k) plan or comparable account, you will have the choice of reinvesting, transferring, or cashing in the funds.

To keep your retirement savings on track, you may want to consider rolling over the funds into another qualified retirement savings account, such as a rollover IRA. There are two ways to roll over funds. With an indirect rollover, your former employer makes the distribution payable to you, less 20%, which is withheld for Federal taxes. You must then reinvest the distribution into an IRA or other qualified plan within 60 days. In order to achieve a tax-free rollover, you must reinvest the full distribution amount, which includes the 80% you receive in cash, as well as 20% from your own funds to cover the amount that is withheld. Your withheld funds are refunded after you file your tax return, provided your rollover occurred within the 60-day time limit. Failure to reinvest the 20% withheld may result in income tax and a tax penalty if you are under the age of 59½.

To avoid the 20% withholding requirement, you may request a direct rollover to an IRA set up in your name or another qualified plan. Be aware that not all qualified plans accept this type of transfer. Because this method is considered a distribution option, spousal consent and other similar participant and beneficiary rules of protection may apply.

Another option is to roll over your funds from your previous employer's retirement plan into your new company's plan. In some cases, however, it may make sense to leave the funds where they are. Ask both employers about restrictions on these options, as well as any tax implications.

You have the option to take the funds in your 401(k) account as a cash distribution. For most people, however, this is not the best choice. After cashing in, you owe taxes on the funds, and you may also be required to pay a 10% tax penalty if you are under age 59½. Further, you forfeit the long-term benefits associated with tax-deferred earnings, making it more difficult to build the financial resources for your retirement income.

Your decisions regarding benefits when changing jobs can have a great impact on your financial future. Before making such important decisions, be sure to discuss your circumstances with the benefit administrators at both companies and consult your professional advisors. $

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