Balancing the Needs of Children, Parents and Yourself

How to Thrive in the Sandwich Years

WEALTH CONCEPTS, INC.

Family Empowerment | Wealth Management | Retirement Planning | Worksite Benefits

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Corporate Overview

At Wealth Concepts, our mission is to assist individuals, families and businesses in the optimization, protection and preservation of their human, intellectual and financial assets.

Antione Turner, president of Wealth Concepts, understands that true wealth preservation is qualitative, not quantitative. Most families believe that wealth preservation means successful management of their individual financial wealth; in part they're correct. At Wealth Concepts, we believe the emphasis only on financial wealth leaves out the growth of human and intellectual capital.

Without the growth of human and intellectual capital, financial capital may still grow, but it will not matter to the family's ability to preserve its wealth over the long term, since the family will go bankrupt as its human assets become less and less valuable. We believe successful long-term wealth preservation lies in understanding that it is the growth of a family's human and intellectual capital that determines its success, and that the growth of its financial capital provides a major tool for achieving this success.

- Our investment strategies enhance your success by establishing a growing portfolio that optimizes returns and lowers volatility
- We are affiliated with many of the country's leading investment management firms. They provide the investment tools dictated by your personal plan. These alliances allow Wealth Concepts to provide comprehensive quarterly performance reports, detailed tax information, and high levels of advice and service at a reasonable cost.
- Our clients are individuals, families, business owners and professionals, including entrepreneurs, physicians, executives, association members, retirees, and public and private sector employees. They are financially successful, experienced, and prudent investors with an average portfolio size of $250,000 and above.

While every client is unique, they all have one thing in common: They want their wealth to be invested in support of their values and receive advice from experienced professionals. Our clients look to Wealth Concepts and our ***Circle of Wealth Network*** to optimize, protect, and preserve their capital, empower their families, and provide real growth in their lives.

Our Approach

When you start working with Wealth Concepts, we become your "personal chief wealth management firm," offering resources to coordinate all of your human, intellectual and financial needs. Through our ***Circle of Wealth Network*** we have assembled a strategic group of carefully selected high-caliber wealth management advisors with a collaborative team approach. They offer specific expertise in the areas of asset protection, financial planning, retirement planning, estate planning, business continuation & succession planning, employee benefits, corporate formations, offshore trusts, tax law, insurance strategies, proper home equity management, charitable giving, and family empowerment. We believe that the synergy created by professionals working together makes our team approach more efficient than working with any one of us individually.

Unlike many product-only focused advisors, we take a unique approach to wealth management and have moved beyond a sole focus on financial planning, and believe in supporting our client's values with their resources.

- Our fees vary depending on portfolio size, types of assets, management style and, in some cases, performance.
- Because your goals are constantly evolving our fees adjust only if your portfolio grows more complex, our interest is aligned with yours. We focus on your total wealth and your future.

Our Investment Process

Before we begin developing your investment strategy, we take a good, hard look at where you are today in building a framework so you can better capitalize on financial opportunities as they arise. This research allows us to customize a plan to fit your specific needs.

Then, we measure your net worth before we create a wealth plan, taking a snapshot of where you are today financially. Now that you know what you have, you decide what you want from the wealth planning process.

Our design team of wealth managers works for 1-3 weeks to develop a unique Investment Policy Statement—a blueprint that addresses your specific risk versus return concerns. Once that blueprint is in place, we provide personalized investment advice.

We walk you through the plan and agree on a firm commitment to take the action needed to implement the plan. Once agreed upon, Wealth Concepts and our ***Circle of Wealth Network*** will implement a well drafted investment strategy that will meet the fiduciary and regulatory responsibilities between advisor and client.

However, our interest in your success doesn't stop there:

- Our relationship managers will help you get organized and track your progress as well as assess our mutual accountability in achieving your true wealth. We have regular progress meetings ensuring that our strategies stay on track with your needs.

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THE CHALLENGE OF YOUR LIFE

If you're in your 40s, 50s or even 60s, you may already be facing or soon face perhaps the most difficult challenge of your life. It's the formidable task of fulfilling three major responsibilities at once:

1. Raising children and funding their education,
2. Helping to care for and/or support aging parents, and
3. Funding your own retirement.

Certain costs may make it even harder to fulfill these responsibilities because they're rising faster than inflation — particularly college tuition and health care. At the same time, of course, you likely want to maintain a comfortable lifestyle.

Welcome to the Sandwich Generation, where you're sandwiched between your parents' and your children's needs. Those who have already begun to cope with their threefold obligations realize that long-range planning is one of the keys to their survival.

WHY IS THIS GENERATION DIFFERENT?

Families have dealt with these kinds of responsibilities for countless generations. Parents, grandparents and children have always helped care for each other. What makes the obligations of the Sandwich Generation more difficult than those of previous generations?

Their responsibilities are (or soon will be) greater and more complex, mainly because of these factors:

Couples are starting families later. Years ago, most couples started families in their 20s, and they were empty-nesters by the time they were 50. Nowadays, couples often have children later in life — many in their 30s and 40s. At the same time, thanks to advances in medicine and fitness, aging parents are living longer, in some cases outliving their retirement funds. The result: Members of the Sandwich Generation are still raising young children or sending them through college when their parents are becoming more dependent.

Families are more dispersed today. In previous generations, it wasn't so unusual to find members of three generations living in the same town or even under one roof; you could always count on a nearby parent or sibling for support. Sandwich Generation members, on the other hand, have scattered across the country and even around the

globe, and their parents sometimes find that their nearest offspring lives hundreds, if not thousands, of miles away.

REDUCING ANXIETY AND FRUSTRATION

While most people in the Sandwich Generation welcome the chance to help care for their parents, they may feel stressed, if not overwhelmed, by the added demands:

- They may fear that the burden of caring for both parents and children will consume their energy as well as their finances.
- They may be frustrated that their efforts to step up saving for retirement have been stalled by the financial demands of both college-bound children and parents who need a higher level of assistance in their daily lives.
- They may agonize over tough choices: whether to take extended leave, reduce their work hours, take less demanding, lower-paying but more flexible jobs, scale back on their ambitions and expectations, or abandon their careers altogether so they can devote more time to family.

The best way to reduce anxiety — and increase your odds of truly thriving — is by careful planning, preferably in collaboration with parents and siblings. A good plan addresses three kinds of issues: legal, financial and emotional. You don't have to create the entire plan all at once: Take it a step at a time so it doesn't seem overwhelming. But don't wait; the sooner you start planning, the broader your options will be.

LONG-RANGE PLANNING

In addition to projecting expenses for the coming month (or quarter or year), you should anticipate long-term financial needs, so you're not caught by surprise. Individuals and couples in their 40s and 50s should be aggressively saving for retirement, for example. Even if your parents are still healthy and active, you should think about who will care for them five, 10 or 20 years in the future, and what that care might cost in terms of dollars and time.

And, as if that's not enough to think about, you likely also want to consider how you'll fund your children's higher education — assuming that college tuition will continue to increase significantly.

To help you with long-range planning, this booklet discusses the potential costs for each of the three generations in your sandwich, plus sources of financing and alternative strategies for navigating the uncertain future.

LEGAL ISSUES: POWERS AND COMPETENCE

With life expectancies increasing dramatically, the time is coming when one or both of your parents may become physically unable to manage their own affairs. We hope that this doesn't occur until a ripe old age, if at all. But, knowing that it might occur at any time, it's best to plan for it now while they are fully cognizant and still able to make smart decisions.

Planning involves two major steps: executing powers of attorney and taking inventory of your parents' assets and key documents.

Many parents avoid such planning until they are urged to do so by their children. Asking your parents for a power of attorney can be a delicate issue, but the consequences of failing to plan for the possibility of their incompetence can be devastating to your family, not to mention your parents' well-being. (See "Use a power of attorney for property to avoid difficult situations" at right.)

TWO TYPES OF POWER OF ATTORNEY

Through a power of attorney, your parents appoint someone to make decisions and do business on their behalf. The person they appoint is called an agent or attorney-in-fact. Powers should be drafted by an attorney under the laws of the state in which your parents live, and the documents should be reviewed — and updated if necessary — every few years.

The best plan is to create two separate powers: one for property and one for health care. Both may have the same agent, or your parents can appoint a different agent for each power.

Power of attorney for property

The power of attorney for property gives the agent the right to transact business on behalf of the signer, also known as the principal. Those transactions might include paying bills; depositing and withdrawing funds from bank accounts; trading securities; signing tax returns, leases and other types of contracts; and hiring help.

The principal can make the power broad or limit it to certain types of transactions, such as using a checking account to pay bills and make deposits. The principal can also provide specific instructions as to how he or she

USE A POWER OF ATTORNEY FOR PROPERTY TO AVOID DIFFICULT SITUATIONS

Joanne was alarmed that her father's good judgment was starting to slip. She took him to meet with their attorney, who drew up powers of attorney for property and health care and a new will. The powers gave Joanne the authority to make all of her father's decisions without his consent, as long as his doctor considered him mentally impaired. A year later, she found it necessary to obtain a letter from her father's doctor to that effect.

If a power of attorney isn't in place, different states use different terms to describe an incompetent person — such as incapacitated, disabled or mentally impaired. Whatever term is used, in this case it means the person is unable to manage his or her own affairs, including the ability to sign a contract, will, trust or power of attorney. In most states, to have an individual declared legally incompetent requires a guardianship proceeding in court and an actual finding of incompetence by the judge. A relative or trustee will then be appointed to assume responsibility for that individual's affairs. Once someone is declared incompetent, there is usually no going back. This legal process is both difficult and costly. Unless you offer overwhelming proof, such as medical records, doctors' testimony and witnesses, it's not easy to gain a finding of incompetence. Judges typically don't wish to rob elderly people of their independence.

Even if you have the best of intentions, it's natural to feel some guilt and pain as the person who is taking a parent to court. Although legal action isn't the ideal route, it's often better than failing to take any action. Elderly people frequently become the targets of scams and frauds, and can be unduly influenced by unethical parties. In the long run, you're doing your parents and yourself (and siblings) a favor by intervening.

wants these responsibilities carried out, or leave it largely up to the agent's discretion.

With a standard (not durable) power of attorney, the agent's right to make decisions or transact business on the principal's behalf ends when the principal becomes incapacitated. With a durable power, the agent's right *begins* (or continues) when the principal becomes incapacitated.

A power of attorney doesn't let you assume control over matters that are normally handled by a trustee, such as managing and distributing assets held in a trust. Even if your parent has a trust, designating a power of attorney is still important because it will cover any assets that haven't been transferred to the trust as well as other responsibilities.

To act under a durable power of attorney, the agent usually must obtain a written statement from the parent's physician attesting that the parent is incapacitated, either temporarily or permanently.

Agent's responsibility

If you're designated as the agent, you should familiarize yourself with the power of attorney document immediately and clarify any ambiguous or confusing instructions. That will save you a lot of hassles later, when your parent may not be available to explain.

Make several copies of the original power and give them to the people with whom you'll have to transact business on your parent's behalf. Those may include your parent's banker, insurance company representative, landlord, broker and accountant. Those

professionals sometimes insist that their own power-of-attorney form be used, in which case you can have your parent complete and sign the forms while still competent to do so.

When it comes time to exercise the agent's powers, remember that your fiduciary duty is to act in your parent's best interest, not your own. (You can be sued for abusing the authority granted to you.) Always keep your parent's assets separate from your own.

Power of attorney for health care

A health care power of attorney appoints someone as an agent (sometimes known as the patient advocate) to make important medical decisions should the principal become unable to communicate with his or her doctor. It also may contain a clause that gives the agent the right to terminate life support in a terminal illness or other specific situation.

As with a power of attorney for property, the agent's duty is to act in the best interests of the principal and in accordance with any instructions contained in the document or in an addendum attached to it.

INVENTORY YOUR PARENTS' ASSETS AND LEGAL DOCUMENTS

In addition to persuading your parents to execute powers of attorney, you should make a list of their valuable assets (possibly including the titles or deeds to them) and where to locate them. This list will prove useful if you ever have to fill out a financial statement or loan application on your parents' behalf, if you need to sell a car or real estate for them, or in the event of their death.

Finally, keep an updated list of your parents' financial and legal advisors, consultants and health care providers, with names, addresses and phone numbers. Also write down the contact information for the utility companies that service your parents' residence and, if applicable, for their landlord. Give copies of all these records to your siblings or other family members for backup.

PROTECT YOUR CHILDREN, TOO

While you're at it, make sure you and your spouse have powers of attorney in effect. You can name each other, or any other trusted individuals, as your agents. If you become disabled or incapacitated without these documents in place, your spouse or other family members may wind up in court to determine who will manage your

affairs and in what manner. That would ultimately hurt your children most.

Nominate a guardian

As a parent, perhaps the most critical legal issue you need to decide is whom to nominate as a guardian for your minor children. The guardian will care for your children if both you and your spouse die or become incapacitated while they are minors. The best place to name your guardian — and the only place in most states — is in your will.

If a sudden catastrophe does take the lives of you and your spouse, and you haven't designated a guardian, a state court will appoint a guardian to care for the children until they reach the age of majority (18 in most states). The court will try to make a good decision, of course, based partly on recommendations by your relatives and considering the wishes of the children.

With a will, you not only can name the guardian of your choice, but also can leave instructions about how you would like your children to be raised and educated. The courts aren't required to appoint the guardian you've chosen — they have the power to reject your nomination and appoint someone else if they feel that is in the child's best interests. But courts are rarely inclined to meddle with the wishes of a child's natural (or adoptive) parents.

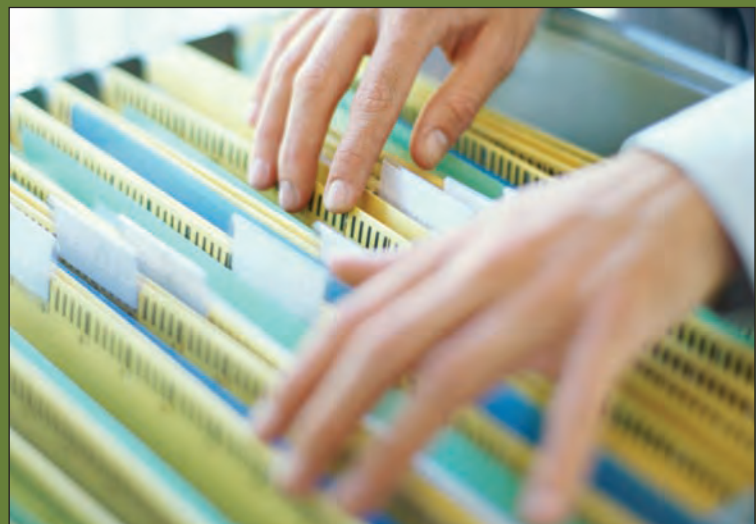
Natural vs. legal guardians

A child's natural or adoptive parents are considered the natural guardians. If one

DOCUMENT INVENTORY

If possible, store photocopies of the important documents that your parents have in their possession, and give a set to your siblings or other family members for backup. If you can't make copies, at least keep a list of what the important documents are and where they can be found. In particular, check to see if your parents have the following:

- Social Security cards and records
- Titles to personal property
- Deeds to real property
- Estate planning documents: wills, trusts, powers of attorney
- Names and current addresses of trustees, executors and beneficiaries
- Bank account statements, IRAs and retirement plans (including beneficiary designations)
- Investment account statements
- Insurance policies
- Previous years' tax returns and tax records for the current year
- Business interests, including partnership agreements
- Safe deposit box agreement and location of keys
- Mortgages and other loan agreements
- Marriage certificate, divorce decree
- Military records, Veterans Administration documents
- Preneed funeral plan documents



parent dies or abandons the family, the surviving or remaining parent normally retains all the rights of a natural guardian.

If both parents die, at a minimum the court will appoint a personal guardian, who will provide the children with a home and, it's hoped, a loving and healthy environment. In your will you may also nominate a guardian of the estate to oversee your children's property and finances, if you don't believe the personal guardian will handle the job well. Alternatively, you could place your financial assets in a trust for your children's benefit, so that a trustee will have responsibility for managing their financial affairs. (See page 21 for more information on trusts.)

On the other hand, if you believe the personal guardian is also competent to handle your children's property, you may nominate that person as a general guardian. You can also nominate an alternate guardian in case your first choice is unable to serve.

Guardian's qualifications

You may nominate any legally fit adult (or couple) as your children's personal guardian. If the judge has any doubt about the nomination, or if the nomination is legally challenged in court, the judge will consider factors such as:

- The children's preference, when appropriate,
- Whether the nominee(s) will provide stability and continuity of care, and
- The existing relationships, if any, between the children and the proposed guardian(s).

If the person or persons you think will best care for your children don't have the financial means, consider making a bequest to them in your will or setting up one or more trusts for your children.

TESTAMENTARY LETTER

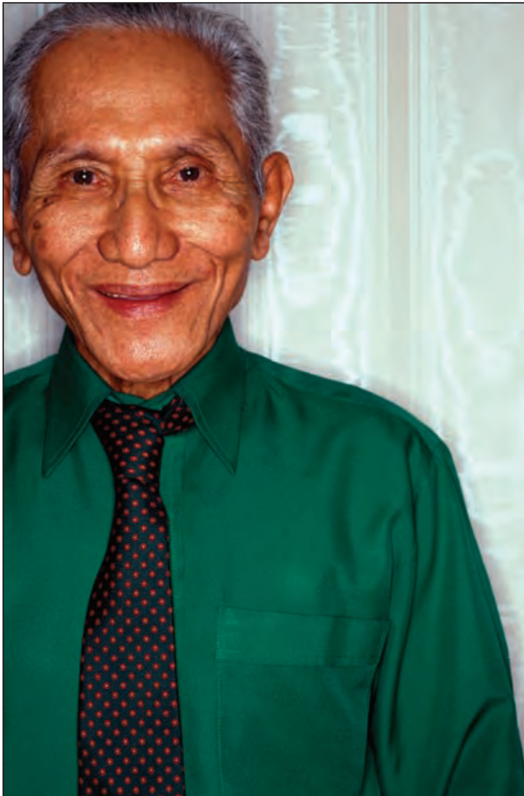
Finally, write a testamentary letter in which you advise the guardian of your wishes for the children's education, health care, religious upbringing, lifestyle, etc. The letter will also help the court determine whether the nominated person is capable of fulfilling your wishes.

FINANCING THE FUTURE: YOUR PARENTS

Many Americans will need some kind of long-term care during their lives, whether it's provided in a family home or an institution. As both life expectancies and demand for long-term-care services increase, costs can only go up as well.

A caregiver can do many things: help with household chores, provide transportation and dispense medication, among other things.

Try to get a sense of your parents' preferences with respect to long-term care. Would they feel comfortable in an assisted living facility or nursing home? Would they prefer to receive care at home? Will they



consider selling their home? In general, let your parents know you're concerned about their welfare and will assist them in any way you can.

Also talk with your siblings. How willing and able are you or they to assist your parents, in terms of time and money? Would any of you consider inviting your parents to live with you?

HOME VS. INSTITUTIONAL CARE

Before you commit to hosting your parents or in-laws, learn about the alternative kinds of long-term care available. Basically, your parents have three options: remain in their home, live with family members or enter a residential facility.

The benefits of remaining in their own home can be great. In-home care lets an older person maintain a degree of independence, privacy and comfort in familiar surroundings. Public health studies have shown that the longer people stay independent from institutional care, the better their overall physical and emotional health.

In recent years, a wide range of elder care professionals, both medical and custodial, have made their services available to those living in private homes. The only drawback is that some of these care providers, especially the medical specialists, aren't typically available full-time or around-the-clock. They work in shifts, which can be very costly — 24-hour home care typically costs twice as much as institutional care. Think of it as paying the ultimate private room rate!

Whether you or a sibling would want to invite your parents to reside with you involves issues of living space and relationships, and it's not always an easy decision.

If transportation is available, adult day care can be a cost-effective way to keep elders active and social while living at home.

But many elders prefer the security and convenience of total, around-the-clock care provided by an institution. For them, a residential care facility may be best.

FINANCING LONG-TERM CARE

Because many elders will live several decades after they retire, long-term care costs can add up to hundreds of thousands, if not millions, of dollars. If your parents can't afford the care they need, the burden will likely fall on you and your siblings. For everyone's well-being, urge your parents to start planning now. You can help by familiarizing yourself with the options for financing long-term care.

Medicaid eligibility

Medicare covers health care services and hospitalization for seniors, but not general long-term care. Medicare does cover some nursing home stays and visits to the home by health care professionals, but only for limited periods of time.

Medicaid can provide assistance through a welfare-like program, if your parent qualifies. Federal and state governments share Medicaid funding. The states have some flexibility in the way they administer their Medicaid programs. For example, to some extent each state sets its own rules for determining who qualifies for Medicaid assistance.

In every state, eligibility depends partly on your parent's income and assets. A person who has an excess of either won't qualify for Medicaid assistance.

Asset levels vary from state to state, but a person generally must have less than $2,000 in nonexempt assets to be eligible for Medicaid. For purposes of determining eligibility, nonexempt assets typically include cash savings, securities and pension plans, and real estate other than a primary

residence. Assets that are exempt from the eligibility determination may include your parent's primary residence and household goods, clothing, books, wedding and engagement rings, and cemetery plots. A car may also be exempt if the person or his or her spouse needs it to drive to work or to receive medical treatment.

To prevent the impoverishment of the spouse who isn't receiving long-term care, the couple's joint income and assets are divided between them according to formulas established by the state. The healthier spouse retains his or her portion of the income and assets, while the institutionalized spouse claims only the remaining portion on the Medicaid application.

Even if your parent isn't initially eligible, he or she may qualify for Medicaid assistance after residing in a nursing home, paying costs and depleting his or her assets. On the other hand, Medicaid eligibility can end if a medical review determines that your parent no longer needs long-term care.

Some people attempt to qualify for Medicaid by giving away assets to relatives, but this strategy requires long-term planning because of the strict eligibility rules regarding transfers of assets. For example, any assets that your parent gave to another individual within the five years before his or her application will generally be taken into account in determining eligibility. Moreover, your parent won't be eligible, even if 60 months have passed since the gift, until 60 months have passed from the time he or she otherwise qualifies for Medicaid by virtue of having limited assets.

Likewise, assets transferred to certain trusts within the past five years may also impact whether or how soon a parent can qualify for Medicaid benefits. If he or she sells an asset for less than fair market value, a Medicaid administrator may include the difference in total assets for eligibility purposes or may delay your parent's eligibility.

Reverse mortgages

Another way that parents can receive monthly income to pay for long-term care is through a reverse mortgage, assuming they own a home or condo. In essence, a reverse mortgage is a way for your parents to receive cash for the equity in their home without having to sell it. Your parents can choose a lump sum payment, fixed monthly payments, a line of credit, or a combination of these payment forms. Unlike a home equity loan, a reverse mortgage doesn't need to be paid back until your parents permanently move out of the home, sell the home or die. The loan is then paid back with the proceeds from the home's sale — or other funds can be used if they're available and the family wants to keep the home.

Your parents retain ownership of the home and remain responsible for property tax and maintenance.

LTC insurance

Long-term-care (LTC) insurance covers what regular health insurance policies and Medicare do not: assisted living arrangements, nursing home residence and long-term home care. LTC insurance pays benefits mainly to people with chronic illnesses and can cover a broad range of medical, skilled-nursing and nonmedical services.

A chronic illness is typically defined by LTC policies as one that requires care for at least 90 days. Nonmedical or custodial services can include help with simple daily tasks like bathing, dressing, taking medication, going to the doctor and shopping. Some policies even cover adult day care.

LTC policies usually require a short waiting period, similar to a health policy's deductible amount, before they will start paying benefits. Policies generally state a daily or monthly maximum benefit in terms of dollars, and/or a maximum period (in years) for which they will cover services. Also, some policies offer "inflation protection," which increases the maximum benefit levels yearly, based on certain economic indicators.

If your parents' disposable net worth is substantial, they may not need LTC insurance because the interest and dividends they earn could probably cover their LTC expenses. If their net worth isn't substantial, they could likely benefit from some amount of LTC insurance, as long as they can afford the premiums without compromising their standard of living. The coverage can provide the base for their LTC expenses, with the balance, if any, coming from income.

The amount of the annual premiums depends on the insured's age and coverage amount purchased. The younger your parents are when they buy an LTC policy, the lower the monthly premiums will be.

Of course, the earlier your parents start coverage, the longer they're likely to pay premiums. But as with life insurance, they must purchase LTC insurance before they really need it. People who are already in

poor health will have a hard time getting LTC coverage. Your parents likely will pay less in total premiums in the long run if they begin coverage now rather than wait until costs escalate or until their health starts to fail. If you have concerns about your parents' potential health problems, urge them to start sooner rather than later.

Once they decide to buy an LTC insurance policy, they may be able to choose between a group plan and an individual plan. A group plan may be available through their employer, if they're not yet retired. Here are the advantages and drawbacks of each:

- Individual plans are usually more expensive but offer more coverage and benefit options. Discounts are often available for married couples and individuals in excellent health.
- Group plans are generally less expensive and easier to qualify for, because your parent may not have to meet any medical requirements or may have to meet only minimal medical requirements during the period. Your parent will have fewer options, however, because benefits are less flexible.

If either parent has serious health problems and their employer offers guaranteed coverage, urge them to take advantage of it as soon as possible. Otherwise, they should consider individual policies.

TAX INCENTIVES FOR YOU

If you and your spouse are helping to care for a parent, and you can claim that parent as a dependent on your tax return, you may be eligible for certain tax credits and deductions. Consult with your financial advisor to determine if you qualify for any tax breaks.

FMLA PROVIDES ANOTHER TYPE OF RELIEF

The Family and Medical Leave Act (FMLA) of 1993 requires companies with 50 or more employees to do the following:

- Give full-time employees up to 12 weeks per 12-month period of unpaid leave to care for a family member with a serious health problem,
- Continue providing health benefits during the leave, and
- Let those employees return to their jobs, or equivalent jobs, at the same pay level.

Some states have similar laws that apply to businesses with fewer than 50 employees, and some even provide longer leave periods.

FINANCING THE FUTURE: YOU AND YOUR SPOUSE

Thanks to medical advances, many Americans are living 20 or 30 years beyond retirement age. Longer life expectancies have created a problem as well as a blessing, though. The blessing, of course, is that you'll have more years to enjoy your leisure time and your children, grandchildren, and even great-grandchildren.

The problem is, how will you get along in your retirement years without the wages, salaries, health benefits and perks to which you've grown accustomed?

Many Sandwich Generation members haven't been quite as frugal as their parents, and there's no guarantee that Social Security will provide the income safety net often needed. Skyrocketing college and health care costs are only making matters worse. Then there's the possibility that you'll have to help finance your parents' long-term care.

If you're like many Americans, you may not feel confident that you'll meet your retirement income goals. Clearly, if you haven't started to aggressively save money for retirement, you should meet with your financial advisors and create a retirement plan now.

HOW MUCH WILL YOU NEED?

For those in the middle of the generational sandwich, budgeting is an excellent habit to develop. A budget lets you project your income and expenses for the coming month, and then adjust your spending — and ultimately your lifestyle — to make sure the income exceeds the outflow.

The amount of money that you must contribute regularly to a retirement plan depends on your goals and expected lifestyle.

You may be tempted to take the simplest approach to retirement planning: Resolve to save as much as you can. That strategy may work, or it may not.

A slightly more sophisticated strategy is to accumulate enough savings to replace a target of 85% of your annual gross income, or 100% of your after-tax disposable income, during your retirement. Then calculate the amount you'll need to put away each month until your projected retirement date to hit that target.

RETIREMENT PLANNING PART 1: THE BUDGET

The most reliable strategy is to first estimate the income you'll need during retirement, using itemized projections of fixed, variable and discretionary expenses. Then add up your expected sources of retirement income, including retirement accounts, pensions and Social Security, interest and dividends on savings and investments, veterans' benefits, and so on.

The "Retirement budget worksheet" on page 23 will help you get started. Meanwhile, your accountant or other financial advisors can help you with the projections and calculations, including adjustments for inflation.

If your estimated expenses are greater than projected income, the difference between the two is called the "retirement gap." To fill that gap, you'll need to step up contributions to your existing retirement accounts or establish additional accounts and start funding them.

If your target starts to appear unreachable, you may have to scale back your expectations, postpone your retirement or cut back your current living expenses.

RETIREMENT PLANNING PART 2: TAX-ADVANTAGED ACCOUNTS

The best way to accumulate retirement funds is by contributing to a tax-advantaged retirement savings plan, the most popular of which are the IRA and the 401(k). These plans are powerful savings vehicles, thanks to their prodigious tax advantages.

Some retirement plans, such as the 401(k), are sponsored by employers, while others (like traditional and Roth IRAs) can be set up by individuals. Contributions are subject to annual limits.

Participants can contribute pretax dollars to the account — that is, your contributions aren't included in (or are deducted from, in the case of traditional IRAs) taxable income. What's more, the income generated by the account is tax-deferred, which means you don't pay income tax on it until you take distributions during retirement. Roth IRA contributions aren't deductible, but the income generated is tax free as long as you are at least 59½ when you take distributions and the account has been open at least five years. Roth 401(k)s offer similar benefits.

Chart 1

The power of tax-deferred compounding

	Taxable earnings (after tax) deposited in a fully taxable investment account with a 7% return	401(k) contribution with a 7% return, after tax on distribution
Amount invested	$1,000 before tax, minus $280 (28%) tax = $720	$1,000 tax-deferred
Value after 10 years	$ 1,177	$ 1,416
Value after 20 years	$ 1,925	$ 2,786
Value after 30 years	$ 3,148	$ 5,481
Value after 40 years	$ 5,147	$ 10,781

Assumptions: *The individual is in the 28% tax bracket; the account earns a 7% pretax return on investment (ROI). For illustrative purposes only. There is no guarantee you will be able to obtain a 7% return over the life of your investments.*

Thus, funds in the tax-advantaged account grow much faster than in an ordinary savings or investment account due to tax-deferred or tax-free compounding. For this reason, you should make the maximum allowable contribution to these accounts each year, if you can afford to do so.

Here's an example of the power of tax-deferred compounding. Let's say you take $720 out of your paycheck one day and deposit it in a taxable investment account, where it earns a return of 7%. (See Chart 1.) Let's assume that you're in the 28% tax bracket. In reality, you have to gross $1,000 to net $720, because you're paying 28%, or $280, in income tax on the gross. You'll also pay income tax on the interest that the investment account earns each year. After 40 years, your original $720 will have grown to $5,147. That's not bad. Lower maximum

Chart 2

Uniform lifetime table

To calculate your required minimum retirement-plan distribution, divide your retirement account balance (on Dec. 31 of the previous year) by the distribution period for your age at the end of the current year. (If your spouse is the beneficiary and more than 10 years younger than you, use the table in IRS Publication 590.)

Your age	Distribution period (years)	Your age	Distribution period (years)
70	27.4	88	12.7
71	26.5	89	12.0
72	25.6	90	11.4
73	24.7	91	10.8
74	23.8	92	10.2
75	22.9	93	9.6
76	22.0	94	9.1
77	21.2	95	8.6
78	20.3	96	8.1
79	19.5	97	7.6
80	18.7	98	7.1
81	17.9	99	6.7
82	17.1	100	6.3
83	16.3	101	5.9
84	15.5	102	5.5
85	14.8	103	5.2
86	14.1	104	4.9
87	13.4	105	4.5

tax rates on long-term capital gains and qualified dividends would make the investment return for the taxable investment more favorable, thereby reducing the difference in performance between the accounts shown.

But look what happens when you contribute to a 401(k) plan instead. Because your contribution comes out of your gross income "pretax" (meaning you don't pay income tax on it), you can contribute the full $1,000. In this case, your original deposit will grow tax-deferred over 40 years to a whopping $14,974! Even when you take a distribution from the 401(k) and pay tax at the 28% rate ($4,193 tax due), you still come out ahead — in this case, you still have $10,781 in your tax-deferred account instead of the $5,147 saved in the taxable investment account.

If your employer matches all or a portion of your 401(k) contributions, that's free money! Try to focus your retirement savings in that plan first, at least up to the point where you'll receive the maximum match.

Just keep one thing in mind before you commit funds to a retirement plan: In most cases, you must pay a penalty of up to 10% — in addition to income taxes — for withdrawing funds from these accounts before age 59½. With some plans, exceptions are made if you withdraw funds to pay education expenses or medical bills. But as a rule, you should contribute to a retirement fund with the goal of leaving it alone — there are better ways to save for education and medical expenses.

DISTRIBUTIONS FROM RETIREMENT ACCOUNTS

Beginning in the first year after you reach age 70½, you must take yearly distributions from any 401(k), traditional IRA or other qualified retirement plan. To exploit the tax-deferred compounding as long as possible, ideally you would withdraw only the minimum required by the IRS each year. You can estimate the annual required minimum distribution (RMD) using the "Uniform lifetime table" published by the IRS. (See Chart 2 above.)

Review your retirement budget every few years, or more often as you approach retirement. Be sure to adjust your estimates and targets for major shifts in the economy, new tax laws, revised personal goals, changes in your health, and the birth or death of family members. Also consider the benefits of long-term care insurance (see page 12), disability insurance (see "Replace lost income with disability insurance" below) and life insurance for yourself and your spouse.

REPLACE LOST INCOME WITH DISABILITY INSURANCE

A person's ability to earn income is usually his or her most valuable asset. One way to protect that asset is through disability insurance. Although people often overlook it, most financial planners consider disability insurance an essential element of long-range planning.

Disability insurance's purpose is to replace a percentage — typically 50% to 70% — of earned income that is lost due to a disability. (A disability policy, however, won't replace unearned income such as interest and dividends.)

Many employees have some form of disability insurance through their employer. If employer-sponsored disability coverage is available, check the type of coverage and the policy benefits to see if they're adequate for your needs. You may want to supplement the employer's policy with an individual policy.

Keep in mind that, when an employer pays the disability insurance premiums, the replacement income (in case of disability) will be subject to income taxation. If the premiums on an individual policy are paid with personal after-tax dollars, the disability income is tax free. For those reasons, it's important to find out how much coverage you would have at time of claim.

Individual policies also offer greater flexibility than group policies. For example, you can choose the amount of income replacement (up to certain limits), the length of time (in years or up to a specific age) that you want to receive benefits for a total or partial disability, and the "elimination period" (the time you must wait from the day you become disabled before you can begin collecting disability benefits). That can be 91, 181 or even 366 days and beyond! Naturally, the higher the percentage of income, the longer you receive benefits, and the shorter the elimination period, the higher the premium.

The premium amount will also depend on the insured's age, gender, occupation or profession, earned income, and whether the policy is noncancelable and guaranteed renewable. (That means the company can't increase premiums before age 65.)

Another key variable in the policy is its definition of "disability." As you'd expect, a broader definition would probably result in greater benefits. For example, some policies pay a benefit only if the insured is unable to work in any occupation. That's more restrictive than a policy that pays benefits if the insured is merely unable to work in his or her regular occupation. So be sure to scrutinize this definition when you compare policies.

Not all disabilities are totally disabling. Look for a policy that will pay a proportionate benefit if you're unable to work on a full-time basis and have a corresponding loss of income.

Note that Social Security provides disability income for people under age 65, but its benefits are modest and its claims process can be slow.

FINANCING THE FUTURE: YOUR CHILDREN

Higher education might be your child's ticket to both material success and career satisfaction. There's no guarantee of that, of course. But one thing is guaranteed: It'll be an expensive ticket.

You can count on the average annual cost of tuition, fees, room and board at a college or university (public or private) to be tens of thousands of dollars. For parents with more than one child in college at the same time, the expense can be crushing. If there's any chance that you might find yourself in that situation, don't wait until you're sure your kids will go to college. The time to start planning is when they are young.

A good plan involves two activities: contributing to a tax-sheltered education savings plan and keeping your estate plan up-to-date.

TAX-SHELTERED SAVINGS PLANS

Recognizing the importance of a well-educated population, Congress established two excellent programs that let you save money for your children's education while enjoying generous tax benefits: Coverdell Education Savings Accounts (ESAs) and Section 529 plans.

ESAs aren't just for college

You can set up an ESA for any beneficiary who is less than 18 years old, and for as many beneficiaries as you wish. In addition, people with disabilities or "special needs" can be named beneficiaries beyond age 18.

The beneficiary can use account funds to pay expenses required for enrolling in or attending eligible public, private, parochial and vocational schools. Schools at the elementary or secondary level are eligible, as well as colleges. Funds may be used to pay for tuition, fees, books, supplies, computer equipment, Internet access, academic tutoring and, in some cases, housing and special-needs services.

Unlike contributions to a traditional IRA, your contributions to an ESA aren't tax-deductible for income tax purposes. The maximum amount of your contribution in a given year depends on your adjusted gross income (AGI) for the same calendar year and statutory limits, which are relatively low compared with Sec. 529 plans. You may not make contributions after the beneficiary turns 18, except for those with special needs.

Donors have broad discretion over how to invest the funds in the account, which grow tax free.

Withdrawals aren't included as taxable income to the beneficiary as long as they are used for qualified education expenses. If a beneficiary withdraws funds that exceed those qualified expenses, he or she must pay income tax on the excess funds as well as a 10% penalty. Exceptions to this penalty apply when the beneficiary is disabled, or in some cases upon the beneficiary's death.

All funds remaining in the ESA must be withdrawn when the beneficiary reaches age 30. An exception is made, as usual, for special-needs beneficiaries.

If the beneficiary doesn't go to college, or drops out, and there are still funds in the ESA, you (the donor) have two choices, both of which have no adverse tax consequences:

- Roll over the funds from one ESA into another one for a family member of the beneficiary, or
- Change the designated beneficiary of the original ESA to a member of the first beneficiary's family.

If you think your child will be eligible for financial aid in college, establishing an ESA for him or her might be a bad idea. That's because eligibility for financial aid is usually based on the income and assets of both the parents and the student. An ESA in the student's name might disqualify him or her for aid.

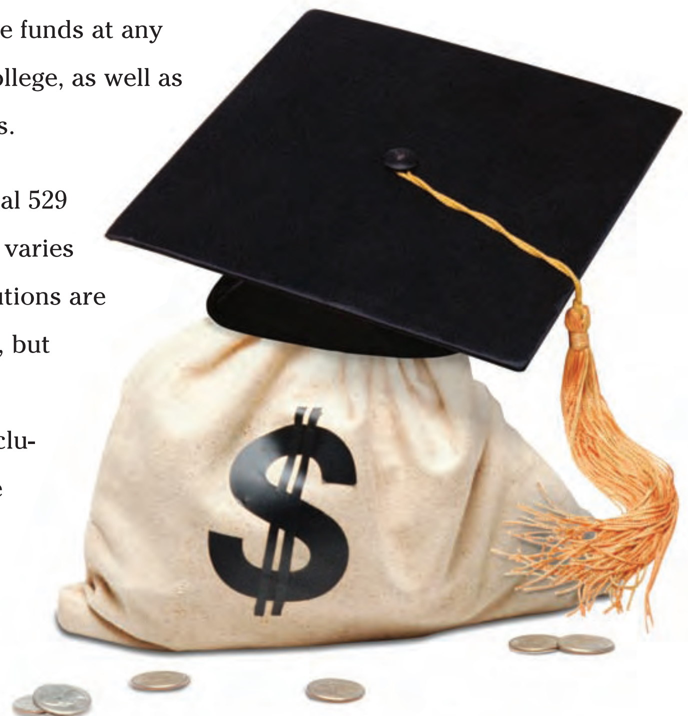
529 plans

Under Section 529 of the Internal Revenue Code, all 50 states have created tax-advantaged education funding plans, and you're not limited to your own state's plan. There are two types of 529 plans:

1. Prepaid tuition plan. With a prepaid tuition plan, you secure future tuition, regardless of how much tuition increases, by making set contributions. But plan funds are designed to be used at a specific school or group of schools of a particular state and normally cannot go toward nontuition expenses, such as room and board. While you may be able to transfer funds to a private or out-of-state school, you'll likely incur a penalty if you do so. Some private colleges and universities have established their own private tuition savings plans. Many participate in the Independent 529 Plan that allows you to use tuition certificates at any of more than 200 institutions.

2. Savings plan. With a savings plan, your contributions are managed by an investment firm hired by the state sponsoring the plan. Given the uncertainty of both future college costs and investment return, it's possible you won't accumulate enough funds to pay for your child's education. But you could also accumulate excess funds. If you're willing to bear the risk, one advantage over prepaid tuition plans is that you can fund all qualified education costs, including such potentially large expenses as room and board, and use the funds at any accredited U.S. college, as well as many foreign ones.

The maximum total 529 plan contribution varies by state. Contributions are subject to gift tax, but you can use your annual gift tax exclusions to avoid the tax. (See page 22 for more on the annual gift tax exclusion.) You can even use



five years of annual gift exclusions at one time, allowing you to gift thousands of dollars to numerous beneficiaries without incurring a gift tax.

Contributors to 529 plans have little discretion over how to invest funds in the account, in contrast to ESAs. The state or plan administrator makes the investment decisions, although most plans allow some choices.

When you use 529 plan distributions to pay for qualified education expenses, you pay no tax on them. But, unlike ESA distributions, you can't use them to pay elementary or secondary education expenses.

If you find a state that has a 529 plan you think will better meet your needs, you can roll over your 529 plan funds (only once in a 12-month period) with no negative tax consequences as long as you keep the same beneficiary. If your 529 plan accumulates more funds than your child needs, or your child chooses not to go to college, you can transfer the plan's balance to benefit his or her brother, sister or even first cousin. And if you're considering college or graduate school for yourself, you can create a plan in your own name and later make your child the beneficiary.

Which education savings plan you should contribute to depends on what state you live in, your AGI, how much money you wish to contribute and when you think the beneficiary might need the funds (whether for college or sooner). You also should carefully review the costs involved with various 529 plans and determine whether or not they offer state tax advantages. Ask your financial advisor for help in determining the best plan for your situation.

ESAs will be better if you'd like to fund elementary and secondary expenses. On the other hand, the 529 plans typically permit much larger annual contributions. Therefore, some parents contribute up to their annual limit to an ESA, and then contribute additional funds to a 529 plan for the same beneficiary.

ESTATE PLANNING

When it comes to providing for your children's future, saving for their college education is only the beginning. You also need to consider how they would get along if both you and your spouse were to die unexpectedly.

A good estate plan can help ensure your children receive excellent care in the event of your death, minimize estate taxes and guarantee that your assets are passed along to your heirs according to your wishes.

If you and your spouse die without a will, a state court judge (who probably has never met your family) will not only appoint a guardian for your minor children (see page 7) but will decide how to distribute your assets among your heirs (in accordance with state law). If you have a large estate and fail to protect it from federal estate taxes, you could end up forfeiting tens or even hundreds of thousands of dollars to the IRS that otherwise would have enriched the lives of your children.

4 keys to smart estate planning

For parents with minor children, the four most important elements of an estate plan are 1) durable powers of attorney (covered earlier on page 5), 2) wills, 3) trusts and 4) life insurance.

The purpose of a will is to distribute your assets according to your wishes, in an orderly fashion, and in a way that minimizes resentment and jealousy (and litigation) among family members. In most states, a will is also the only document in which you can name a guardian for your children. (See "Nominate a guardian" on page 7.) Some people choose to also have a living trust to ease distribution of their assets and avoid probate.

Other trust types can also be useful. A trust is an agreement that lets you transfer property to a trustee to hold, manage and distribute according to the specifications of the agreement. There are many kinds of trusts, each of which, if properly drafted, provides significant tax benefits. Often there are good nontax reasons for having a trust as well, especially when your trust beneficiaries are too young (or otherwise unable) to manage the property themselves.

Assets that you transfer into certain trusts by gift are considered outside of your estate for federal estate tax purposes. This is a great advantage, considering the estate tax is the biggest single tax that most affluent families will ever pay. State taxes in some states can add to the liability.

One reason to buy life insurance is to replace the financial support your children would lose if you and your spouse were to die unexpectedly. Your policy should provide enough money to cover your children's living expenses and repay any remaining debts.

For couples whose estate assets are largely illiquid — a closely held business, for example — a second reason to buy life insurance is to provide cash to pay the estate tax. Without insurance proceeds, your children's guardian or trustee may have to sell the business quickly, possibly at a fire-sale price, in order to pay the tax.

Chart 3
Transfer tax exemptions and rates

Year	Estate and GST tax exemptions[1]	Gift tax exemption	Highest estate, GST and gift tax rate
2008	$ 2 million	$1 million	45%
2009	$3.5 million	$1 million	45%
2010	(repealed)	$1 million	35%[3]
2011	$ 1 million[2]	$1 million	55%[4]

[1] *Less any gift tax and GST tax exemptions used during life.*
[2] *The GST tax exemption is adjusted for inflation.*
[3] *Gift tax only. Equal to highest marginal income tax rate, which is currently 35%.*
[4] *Reverts to 2001 rules. The benefits of the graduated estate and gift tax rates and exemptions are phased out for estates and gifts over $10 million.*
Source: *U.S. Internal Revenue Code*

In some cases, especially if your estate is worth more than the current year's estate tax exemption amount (the amount that can be passed tax free at your death), the most effective way to hold a life insurance policy is by placing it in an irrevocable life insurance trust (ILIT). When you die, proceeds from the policy will be available to your spouse but will ultimately pass to your children (assuming they're the beneficiaries) free of both estate tax and income tax. The ILIT may not always be the best way to own life insurance, but it's worth considering.

Gifts and charitable donations

When you can afford to do so, giving money to your children and other family members not only feels good, but it's a sound estate planning strategy as well. You can give up to the annual exclusion amount per year to any individuals you choose, without incurring gift tax or using any of your $1 million lifetime gift tax exemption. The exclusion is adjusted every few years for inflation, so check with your financial advisor for the current amount. The gift can be cash or an investment or property of the same value. This is a way to gradually transfer a portion of your wealth to your children, without paying estate tax. When you consider that a gift today may be worth much more when you die, the tax savings can be enormous.

Charitable gifts are also exempt from gift and estate taxes. If you give now, instead of at your death, you'll enjoy the satisfaction of seeing the benefits that your gift confers on the recipient, and you may be eligible for a charitable income tax deduction.

If you want to give money to charity but are concerned that you might need to use these funds during your lifetime, consider a charitable remainder trust. This lets you make the gift while you're still alive, obtaining a partial income tax deduction, but also permits you to receive an annual payment from the trust for the remainder of your life — a real win-win situation.

Update your estate plan

Contrary to what many people believe about their estate plans, they aren't meant to be signed, witnessed, placed in a drawer and forgotten. Rather, they regularly need to be reviewed and possibly amended — sometimes totally rewritten — in response to changes in the estate tax law, changes in your marital status, substantial changes in your net worth, the birth or adoption of a child, or the death of a beneficiary, just to name a few circumstances.

RETIREMENT BUDGET WORKSHEET

Income source (annual)	You	Your spouse	Total
Social Security benefits*	$	$	$
Veterans Administration benefits			
Employer-sponsored pension (e.g., 401(k))			
Individual retirement funds (e.g., IRA)			
Interest on savings			
Investment income (or total return)			
Partnership income			
Rental income			
Gifts and inheritances (if annual)			
Fees and royalties			
Annuity			
Trust distributions			
Other			
Other			
Other			
Total annual retirement income	**$**	**$**	**$**

* Your local Social Security office will provide a statement of your lifetime earnings, Social Security contributions and estimated retirement benefits.

Expense (annual)	Estimate
Fixed expenses	
Mortgage or rent	$
Cable or satellite TV, Internet services	
Property taxes	
Homeowner’s or renter’s insurance	
Health insurance (including dental, vision)	
Automobile insurance	
Life insurance or trust contributions	
Long-term-care insurance	
Other insurance	
Auto loan payments	
Other installment loan payments	

(Continued on next page)

RETIREMENT BUDGET WORKSHEET (CONTINUED)

Variable expenses	
Home maintenance	$
Utilities: gas, electric, water, sewer, etc.	
Telephone, cell phone	
Household furniture, furnishings and improvements	
Appliances and maintenance	
Food, sundries, groceries	
Clothing, laundry, dry cleaning	
Health care, medical expenses	
Pharmaceuticals	
Auto expenses: gas, maintenance, etc.	
Transportation	
Federal, state and local income taxes	
Investment expenses	
Professional fees: attorney, accountant, etc.	
Contributions to trusts	
Personal services, such as hair/beauty/spa	

Discretionary expenses	
Vacations and travel	$
Gifts	
Household help	
Entertainment, restaurants	
Education	
Membership dues	
Hobbies	
Books and periodicals	
Charitable contributions	
Political contributions	
Total estimated expenses (annual)	$

Calculate your retirement gap

Total annual retirement income (both spouses) $__________

Subtract total estimated expenses $__________

Surplus or shortfall $__________

Calculate the additional yearly savings needed to fill the gap

Target retirement age __________

Number of years to retirement __________

Shortfall divided by years to retirement $__________

The WEALTH CONCEPTS EVOLUTION®

Our mission
is to cultivate seeds of potential on the path to true wealth that blossom in the form of financial freedom

We advise
individuals, families, and businesses through our strategic alliances in the Optimization, Protection, Preservation, and Perpetuation of all assets on the balance sheet: human, intellectual & financial

1. The Values Based Conversation

Discover your core values, which make any resulting plan have more personal meaning and therefore move you to action more effectively than anything else.

2. The Discovery Meeting

What's your ideal future? This meeting assesses your current status and future objectives.

3. The Wealth Development Design

Our design team works for 1-3 weeks to prepare a comprehensive written recommended plan for wealth development.

4. The Mutual Commitment Meeting

This meeting is to walk you through the plan and agree on a firm commitment to take the action needed to implement the plan.

5. The Strategic Implementation Plan

Wealth Concepts and our "Circle of Wealth" partners will implement a well-drafted investment plan that will meet the fiduciary and regulatory responsibilities between advisor and client.

6. Accountability Factor

Our relationship managers will help you get organized and track your progress as well as assess our mutual accountability in achieving your True Wealth.

OUR UNIQUE PROCESS

What We Do: Services & Strategies

Family Empowerment: Every Family, looking at the next generation, hopes to confer advantages that are more than just material and financial — to include character and leadership, to inspire creativity and enterprise, to help all family members find and follow their individual callings, and to avoid the financial dependency and loss of initiative that can all too often be an unwanted consequence of financial success. Yet many families never succeed in realizing that vision, much less sustaining it for three, four, or five generations and beyond.

Wealth Management: Wealth management is a holistic approach to understanding and providing solutions to our client's major financial challenges in life. From our client's perspective, this means having all financial challenges solved. It usually involves a diverse range of offerings according to the needs of each investor, but may well include family governance, investment management, financial planning, proper home equity management, pensions, estate planning, tax planning, life insurance, asset protection, cash flow and debt management. It derives integrated solutions to complex challenges, and does so in close consultation with the client.

Retirement Planning: Most Americans are lured into saving for retirement with traditional qualified retirement plans, such as 403(b), TSA, 457's, IRAs and 401(k)s. They are convinced by financial advisors to contribute pre-tax dollars to these plans or place tax-deductible contributions into IRAs because of the tax advantages during the contribution and accumulation phases of their retirement planning. *If you were a farmer, would you rather save tax on the purchase of your seed in the springtime and pay tax on the sale of your harvest in the fall, or would you rather pay tax on the seed and sell your harvest without any tax on the gain?*

Worksite Benefits: The world of employee benefits grows more complicated each year. *Rising health care costs and premiums, new government regulations, competition to offer a better benefits program, and increased overhead to compete with your benefits budget.* Wealth Concepts works with the leader in communicating and enrolling employee benefits at the worksite. Our ability to enhance employee benefits program by packaging employers offerings with supplemental insurance products that help fill the gaps in their coverage, allows employees to select and pay for the protection they feel they need the most. *Are you seeking a cost-effective way to expand your benefits program?*

WEALTH CONCEPTS, INC.

Family Empowerment | Wealth Management | Retirement Planning | Worksite Benefits

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