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Your Financial Affairs: What Your Children Should Know

Many parents may find it uncomfortable, or even believe it is unnecessary, to inform their children about personal finance matters. Yet, communicating openly with your family members can help to reassure them about your financial and health care wishes. This may also ease the decision-making process for your family in many important areas.

As time goes by, informing your children of financial, estate, and medical arrangements that could affect the entire family helps everyone prepare and plan for the future. This does not need to include detailed facts and figures; however, you may want to consider sharing the following information with your adult children:

- **Life Insurance.** Life insurance is typically purchased to provide a death benefit to help cover final expenses, estate taxes, outstanding mortgages, other liabilities, and lost income. Knowledge of the existence and location of life insurance policies can be of the utmost importance to children when settling their parents' finances in a timely manner.

- **Other Insurance.** Be sure to inform children of other insurance policies that you may have, including health, disability income, and long-term care insurance. If you're age 65 or older, make sure your children have a basic understanding of Medicare coverage and are aware of any health insurance policies that exceed **Medicare** coverage. Older adults can greatly benefit when their children understand and follow appropriate procedures, as well as submit any necessary forms on deadline.

- **Wills.** Preparing a will allows you to avoid leaving the disposition of your estate up to your particular state and its probate laws. To help ensure that your assets are distributed according to your wishes, both you and your spouse should prepare wills, review them regularly, and make necessary updates as circumstances change.

Although specific contents can be kept private, it is important to disclose the existence and location of wills to several family members or a trusted legal advisor. Keep in mind that bank safe-deposit boxes may be temporarily sealed at death, so you may want to choose an alternate location for this key document. For example, the original will may be left with your legal advisor for safekeeping.

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Americans Lack Confidence In Ability to Save for Retirement

While a majority of Americans continue to lack confidence in their ability to save enough for retirement, those who have access to a retirement plan at work are somewhat more confident about their financial future, and are considerably more likely to have set retirement savings goals than those who do not have a workplace plan, the results of a survey conducted by Plan Sponsor indicated.

The survey of 1,035 employed adults ages 23 and older was conducted in March 2016. The survey is designed to examine the retirement planning attitudes and behaviors of American workers, regardless of whether they participate in an employer-sponsored retirement plan.

Just 29.8% of respondents said they are either confident or very confident that they will achieve their retirement goals—a share that researchers noted was the lowest in the survey's three-year history. The results also showed that just 28.1% of the adults surveyed said they have a retirement goal, 24.1% said they use a financial adviser, 34.2% indicated they have a family budget, and 53.7% said they have at least $5,000 in an emergency fund. When asked about the amount they have saved for retirement, 41% of respondents reported that they have less than $50,000 in savings, 31.5% said they have between $50,000 and $250,000, and 21% said they have more than $250,000.

Compared to the respondents who reported saving less than $50,000, the respondents who said they had saved more than $250,000 were three times more likely to indicate they have a retirement savings goal, and more than four times as likely to say they work with a financial adviser. The survey also showed that the respondents with access to a defined contribution plan at work were twice as likely to have established retirement goals as those without access (30.8% vs. 15.3%)

When the respondents with access to an employer-provided retirement plan were asked about their deferral rate, just 17.4% said they are defering more than 10%, while 42.8% said they are deferring less than 6%. Not surprisingly, younger people are saving less than older people: only slightly more than 30% of respondents ages 50 and younger reported having a deferral rate of more than 6%, compared with 48.6% over age 50.

The survey also indicated that while 44.6% of respondents under age 30 said they would like to receive more financial education at work, only 34.9% of this group said they always read plan communications, compared with 54.2% over age 50.

The findings further showed that 87.4% of respondents who said they are usually or always living paycheck to paycheck have little or no confidence that they will have a secure retirement. Moreover, even among the respondents who said they are confident or very confident that they will be able to achieve their retirement goals, 58.8% estimate that they will need to replace less than 70% of their current income—a figure that researchers pointed out is considerably lower than the 85% often cited in the industry. ■

What Makes a Start-Up Business Start?

Small businesses often have many advantages over Fortune 500 companies. For example, start-up companies may have a greater capacity to be more flexible and adapt to changing times than their larger competitors. Capitalizing on the benefits of being small can often improve a company's sales and help create a more effective marketing program.

Are you using *your* business assets to full advantage in your sales and marketing strategy? The following inexpensive and proven methods may help propel your company to success:

- Make use of networking, an extremely effective way to generate more business. Providing peers or potential customers with samples or a portfolio of the products or services you offer may be one of the best ways to advertise your talents and company.
- Consider making alliances with companies that complement yours, to share advertising, promotional, and market-research expenses.
- Establish an online presence, which is increasingly important as a marketing tool. Your company website can give a wealth of information about the services and products you provide to new and existing customers. Also, advertising your company on social media sites, such as Facebook, Twitter, and LinkedIn has become an integral part of reaching out, to attract a younger demographic of consumers.

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- "Sell" your business at trade shows and conferences, great promotional venues that also give you the perfect opportunity to quietly observe and assess the competition.
- Volunteer your time and services to community and industry-related events as a great way of introducing yourself and building or expanding your professional network. You can create media kits with your photograph, company bio, service goals, and credentials, and then mail them to the appropriate parties after an event. Remember to follow up, by phone preferably, or by email, after a reasonable amount of time.
- Send out information by direct mail, which is an economical form of advertising when used appropriately. You can obtain mailing lists at a reasonable cost, to target a specific market for your services or products.

All businesses are unique, and strategies work differently for each company. Try redirecting the creativity and energy that you used for starting your own business to further promoting your products or services. There are many ways to reach potential customers, and with some brainstorming and a little extra effort, you may find solutions that yield better results for your company. ■

Assigning Your Life Insurance Policy

Getting approval for a loan can sometimes depend on, for example, a lender asking a borrower, "How will this loan be repaid in the event of your death?" Your answer may be to **assign** your **life insurance** policy, a useful feature that can help provide necessary security for a lender.

You can freely assign your life insurance policy unless some limitation is specified in your contract (your insurance company can furnish the required assignment forms). Through an assignment, you can transfer your rights to all or a portion of the policy proceeds to an **assignee**. The extent to which these rights are transferable depends on the assignment provisions in the policy, the intention of the parties as expressed in the assignment form, and the actual circumstances of the assignment.

Types of Assignments

There are two types of conventional insurance policy assignments:

1. An **absolute assignment** is typically intended to transfer all your interests, rights and ownership in the policy to an assignee. When the transaction is completed, you have no further financial interest in the policy.

   The terminology of absolute assignments differs from contract to contract. It may state that you transfer all rights, title, and interest in the policy to the assignee. Some insurance companies use an "ownership clause" to accomplish this transfer.

2. A **collateral assignment** is a more limited type of transfer. It is a security arrangement to protect the assignee (lender) by using the policy as security for repayment. After the debt is repaid, the assignee releases his or her interest in the policy, and all rights to the policy revert to the owner.

   Under the usual procedure, if the collateral assignment is still in force at the time of your death, the assignee informs the insurance company of the remaining debt, including interest, and receives that amount in a lump sum. Any excess proceeds are then payable to your named **beneficiary** in accordance with the beneficiary designation in your policy.

To fully protect the assignee, notice must be given to the life insurance company that the assignment has been made. If a company without notice of assignment pays the proceeds to another assignee or to a named beneficiary, the insurance company cannot be forced to pay a second time.

Policy Provisions

Some typical policy provisions regarding assignments may include the following:

1. The assignment will not be binding until the original, or a duplicate thereof, is filed at the insurance company's home office.
2. The insurance company assumes no obligation as to the effect, sufficiency, or validity of the assignment.
3. The assignment is subject to any indebtedness to the insurance company on the policy.

Therefore, it is important to ensure that an assignment is made properly, regardless of whether it is absolute or collateral. Be sure to consult your qualified insurance professional for specific guidance about your unique circumstances. ■

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- **Trusts.** Trusts can help protect your estate from unnecessary taxation or mismanagement. Make sure to discuss pertinent terms with those who will be involved. As children reach adulthood, it is common for parents to select a responsible son or daughter to act as **trustee** in the event of the parents' death.
- **Living Will.** This document specifies your preferences regarding the administering or withholding of life-sustaining medical treatment. Under many state statutes, a patient must be considered "terminal," "permanently unconscious," or in a "persistent vegetative state" before life support can be withdrawn. Be sure to provide copies of living wills to anyone who may be involved with the health care of you or your spouse, and keep the originals in a safe, readily accessible place.
- **Health Care Proxy.** This legal document allows you to appoint a person to act as an agent on your behalf to make medical decisions, should you become incapacitated. It is important to file a copy of the health care proxy with your primary doctor and your hospital, if possible. In addition, be sure that the individual appointed as your agent retains a copy.

- **Durable Power of Attorney.** With a durable power of attorney, an individual or financial institution may act as an agent to oversee your legal and financial affairs, even if you become incapacitated. Grown children need to be informed of the steps that have been taken to ensure the competent direction of your finances, should the need arise. However, their actual *involvement* in your financial matters may be limited, according to your wishes. A power of attorney automatically terminates upon the death of the principal.
- **Assets and Debts.** It can be beneficial for your children to know that you have compiled a list of your assets and debts, even if you choose not to show them the list. An asset list updated regularly may include information on your bank accounts, real estate holdings, pension payments, annuities, business agreements, brokerage accounts, boats, cars, artwork, collectibles, jewelry, or other valuables, and insurance policies. A debt list may include information on your current mortgages, consumer indebtedness, personal loans, and business obligations. For both lists, be sure to identify where the paperwork and associated files for each item can be found.

Initially, preparing these lists and the associated documentation may seem like an overwhelming task. However, once completed, both you and your adult children may experience a sense of relief in the knowledge that thoughtful planning was discussed and implemented according to your wishes. ■

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