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FINANCIAL CONCEPTS INC
A MEMBER FIRM OF M FINANCIAL GROUP
Executive Compensation ■ Succession ■ Wealth Transfer Planning

Patrick J. McNamara, MSFS
President & CEO
pmcnamara@finconcepts.com

Kathy H. Barnett, CLU®, ChFC®
Vice President, Client Services
kbarnett@finconcepts.com

Kathleen M. Garber, CLU®
Vice President, Case Design
kgarber@finconcepts.com

24 Frank Lloyd Wright Drive
Suite 3050 H - PO Box 554
Ann Arbor, MI 48106-0554
Tel: (734) 214-9770 • Fax: (734) 214-9771
info@finconcepts.com

finconcepts.com

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in this issue:

Build It from the Ground Up— A Blueprint for Retirement

A comfortable and worry-free retirement is the goal of many Americans. However, the biggest obstacle in attaining retirement goals is that people may tend to procrastinate and avoid thinking ahead to formulate a plan of action. As a result, many are left scratching their heads, with little time on their side. How will they attain the funds needed to enjoy their retirement years?

Whatever your age, it is never too soon to look ahead and begin giving thought to your retirement. Planning for retirement has become a more difficult task. Therefore, it's important that you plan well in advance by setting goals and deciding how they will be met.

Invest for a Future Lifestyle

Although pre-retirement and post-retirement investment portfolios should each have both income *and* accumulation aspects, your pre-retirement portfolio should be more heavily weighted toward accumulation for later use. It is never too early to begin planning for your retirement. Generally, you will desire to maintain a standard of living consistent with your pre-retirement years. However, you may need about 60-80% of your pre-retirement income to support a comfortable retirement lifestyle.

Proceeds from pension plans and Social Security may account for as little as 35% of the typical retiree's income. Another 25% may be derived from earned income—either full or part-time employment. In order to retire comfortably, the remaining amount needed would have to come from your personal retirement savings or investments.

Fill the "Void"

The amount needed to fill this income "void" will depend on the amount of Social Security you will receive and what income you will have from other sources such as a **company pension plan** or your own **Individual Retirement Account (IRA)**. That is why the steps you take today (investing, diversifying, increasing already existing investments, etc.) will be vital to help fill this gap and secure a comfortable retirement.

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Survivorship Life: A Win-Win Proposal

If you are looking for a flexible and creative life insurance product, you may want to consider **survivorship life insurance**. Often referred to as ***last-to-die*** or ***second-to-die*** life insurance, this coverage insures *two* individuals, but provides only one death benefit payable at the death of the second insured. In some instances, especially when the insured individuals are nearing retirement, it may be less expensive than a single life insurance policy on one individual.

Cost savings are possible because the insurance risk is spread over the life expectancy of two lives rather than one. In fact, two individuals can be insured even if one is medically "uninsurable," therefore providing added planning potential for otherwise difficult situations.

Benefits for Estate Planning

Survivorship life insurance is often used as a vehicle to fund estate taxes. Even with the appropriate wills, trusts, and property-ownership designations, married individuals who properly balance their estates are still subject to estate tax on assets exceeding the **applicable exclusion amount** of $11.4 million per person for 2019. In this type of situation, a survivorship life insurance policy can be an integral part of an estate plan.

For example, consider the hypothetical case of Adam and Julie. Adam and Julie are both 60 years of age and have three adult children. They have updated and signed the appropriate legal documents (**wills, trusts**, and so forth) and repositioned their asset ownership to maximize their individual applicable exclusion amounts. For a married couple in 2019, $22.8 million can potentially pass to their heirs free of estate taxes. However, the remainder of their assets may incur as much as a 40% Federal estate tax in 2019.

One solution to this problem would be to create an **irrevocable trust** to purchase a survivorship life insurance policy on their lives. The trust would own and be the beneficiary of the policy and, thus, would allow the policy proceeds to pass to the trust beneficiaries (the couple's children) free of estate taxes. Adam and Julie could also *gift* the policy premiums to the trust using their ***annual gift tax exclusions*** of $15,000 (indexed for inflation) per person per donee for 2019. In order to qualify for the annual exclusion, the trust would need to contain a provision called a **Crummey withdrawal power**.

Enhancing Charitable Gifting

Even if an individual does not foresee any estate tax problems, survivorship life insurance can be a dynamic method to enhance any gifting program. Suppose Adam and Julie's net assets total $600,000 and they have little concern about estate taxes. However, they make an annual gift of $5,000 to a favorite local charity. Rather than gifting $5,000 in cash to the charity every year, they may choose to leverage their gift and pay the premium on a survivorship life insurance policy. This insurance gifting program can be arranged so that the charity would be the owner and beneficiary of the new survivorship life policy. Adam and Julie would then receive an annual charitable deduction for their gift, and the charity would ultimately receive a life insurance death benefit.

Maintaining Business Continuity

In a more advanced use, survivorship life insurance can be effective in helping to ensure continuity in a closely held business. For instance, passing a family-owned business of substantial value to heirs may be hindered by potentially high estate taxes that, in some instances, may require a forced sale of the business in order to raise the necessary cash to pay the taxes. A survivorship life insurance policy can be purchased on the lives of the owner and his or her spouse, with the death benefit providing cash to help meet estate tax obligations and keep the business in the family.

Whether you have concerns about potential estate taxes or wish to leverage the value of a gift to your favorite charity, a survivorship policy can help provide a relatively high benefit for a minimal cost. Be sure to consult your team of professional advisors, including tax and legal professionals, for specific advice about your unique circumstances. ■

build it from the ground up—a blueprint for retirement

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Steps to Take Now

- Contribute the maximum amount to your IRA. The tax law changes give taxpayers more flexibility than ever, but also become more confusing. There are some enhancements to traditional IRAs and the **"Roth" IRA** provides tax-free growth and flexibility of withdrawals after five years. In addition, if your spouse is not working, you might consider getting a **spousal IRA**. However, it is essential that you consult with a qualified professional to determine which course of action best suits your needs (especially when comparing the benefits of the "traditional" IRA to the "Roth" IRA).
- If you have an employer-sponsored **401(k)** or **403(b) plan**, you may wish to maximize your contributions there also. The same applies if you are self-employed and enrolled in a **Keogh**, **SEP-IRA**, or **SIMPLE plan**.
- Devise and utilize your own individual investment strategy.

Individualize Your Portfolio

Diversification, or spreading your investible assets among a group of different asset classes (stocks, bonds, and cash), is an investment strategy intended to help protect against a severe crisis every few years and avoidance of the old "feast or famine" characteristic of the investment markets. Diversification is used to create

a portfolio by spreading your investible assets among various groups, including **mutual funds**, **variable annuities, fixed-return** accounts, and **money market funds**. Today, the majority of all retirement assets are contributed to tax-deferred retirement plans through employers or through individual retirement accounts. Diversification does not eliminate risk, does not guarantee a profitable investment return, and does not guarantee against a loss. It is a method used to manage risk. Diversification offers returns that are not directly related over time and is intended for the structure of a whole portfolio to reduce the risk inherent in a particular security.

Periodically Review Your Goals

When you are younger, you may opt for growth-oriented investments. Consider, however, that investment return and principal value of stocks and mutual funds may rise or fall due to market conditions and shares may be redeemed for more or less than their original purchase price. Thus, the degree of comfort you have with market fluctuation should determine your overall investment strategy. As you grow older, you may wish to moderate risk with fixed income investments, particularly if you plan to take distributions soon after retiring. A balanced asset mix should be employed.

A post-retirement portfolio should show a greater allocation of investment resources toward *income-producing* vehicles, with a portion allocated for accumulation, in order to be able to create a greater income in the future; inflation will erode some of the purchasing power of current income-producing investments.

Irrespective of your age, you can use different investment management techniques as you create your own portfolio and consider the different investment alternatives available to you.

It's In Your Hands

If you are financially independent at retirement, it can become a time of new opportunities, a time to try a second career, to develop a new lifestyle, or to pursue new dreams and goals. Instead of a period of boredom, worry, and disenchantment, retirement can be your most stimulating, fulfilling time ever—truly your golden years. When the time finally comes and you've done the proper planning, the transition will be smooth and you will feel comfortable and secure about it. ■

When the Going Gets Tough: Cultivating Resilience

Building and sustaining a business is not a task for the faint of heart. As anyone who has launched a business from the ground up knows, transforming an idea into a successful enterprise requires not only technical know-how, but also a steadfast willingness to work hard and weather the setbacks that inevitably come with establishing a new business in a competitive marketplace.

But when the going gets really tough, how do you maintain your energy and optimism? While most of us are born with some ability to cope with adversity, resilience is also a skill that can be learned and cultivated. By considering in advance how you would recover from an adverse change in circumstances, you can prepare yourself to bounce back quickly from even the most challenging situations.

While there are some practical steps you can take to protect yourself from potential setbacks, such as having sufficient insurance and savings, problems may arise for which no protection is available, such as an abrupt downturn in the market or the unexpected loss of a major client or key employee. By approaching these unanticipated setbacks with the right attitude, you may be able to address the problem more competently and more quickly.

Keep in mind that resilience does not necessarily mean going it alone. By building your personal and professional networks, you ensure that you have trusted allies who can provide encouragement and advice when problems arise. While friends and family members can be an invaluable source of support in a crisis, they may not understand all the issues you face in your business. By joining industry organizations and getting to know other people working in your field, you create a support network of professionals you can consult when weighing how best to handle specific problems related to your business. An experienced mentor can also provide insight and encouragement.

However, just talking about problems does not resolve them. You must be prepared to take whatever action is necessary to meet the challenges ahead. Start by making a detailed list of possible ways to address a problem, and then assess pros and cons of each. If, for example, market conditions have changed, revisit your business plan and adjust your goals to the new environment. Rather than becoming discouraged because you are unable to meet your original goals, set your sights on hitting new targets. Don't be afraid to consider unconventional strategies, such as partnering or bartering with other businesses, or branching out into a seemingly unrelated business area. Simply by doing what you can each day to improve your situation, you may find that you are gaining positive momentum that can help propel you forward, despite obstacles.

If current circumstances cannot be easily changed, strive to accept the situation. Some problems, such as a downturn in your particular market, could remedy themselves with time. If work is slow, consider taking breaks to travel, get outside, or spend time with family or friends. Catch up on sleep, get more exercise, improve your diet, or clean out your closets at home. Focusing on your overall well-being—and getting some distance from the business-related issues you have been focusing on so intensely—can generate a much-needed shift in perspective and provide new insights into solving some seemingly insurmountable problems.

Whatever your difficulties, do not overlook the assets you have acquired. Take the time to appreciate the strengths within your organization. Even if you have downsized your workforce in response to the economy, remind your remaining employees how the company can continue to be competitive, despite the challenges in the marketplace. If you demonstrate a steadfast willingness to work hard and weather the inevitable ups and downs with energy, optimism, and resilience, your staff may also do the same. Together, you can work toward the success of the business. ■

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