

# Life's Many Stages – What Should I/We Be Doing

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As we begin 2009 it might be appropriate to look at where each of us is in our life cycle and the issues we should be concerned or at least thinking about.

## Retirement – It Doesn't Matter How Old You Are

Even if you are a recent graduate, single, and have just started a job or career, you should be thinking about retirement and the savings opportunities that are available to you. If you are 25, you might have 40 to 45 years to work, but your life expectancy might be to ages 85 or 90, meaning that you may have to live on your retirement monies for 20 to 25 years or more. Many people do not focus on retirement planning because it is easier to spend money rather than. However, employers are placing the burden of retirement planning on the employee. We all have the risk of outliving our retirement resources so saving for retirement must begin today.

One opportunity that should be fully explored is an employer sponsored retirement plan. An employer may match, meaning that if you contribute to the plan, your employer will add to your account. This is typically a stepped contribution. As an example, if you contribute 3% of your salary, your employer might match it \$1 for \$1 and \$.50 on the \$1 for your next 3%. In this scenario if you contribute 6%, your employer will add an additional 4.5% of your salary which represents a 75% match of your contribution. By participating in the plan you are receiving free money from your employer.

Here is a link to a Lincoln Financial Advisors "Retirement Calculator" that may be helpful in understanding the cost of retirement and the savings that will be required to realize the desired goals.

<http://www.lfg.com/LincolnPageServer?LFGPage=/lfg/lfgclient/plntls/fincal/calc1/index.html>

## Marriage

When a couple marries, life insurance is important in the event of the death of one spouse. Life insurance can help provide replacement income to the survivor. For example, if a couple purchased a home in 2005, a surviving spouse may not be able to afford to stay in the home today. In addition, it is highly likely there will be a shortfall between the sales price and the amount of the mortgage if it were to be sold. Life insurance can provide beneficiaries with income tax free proceeds to minimize the debt load.

## Married With Children

Having a child is very exciting. It is also a big responsibility for the parents including commitments of both time and financial resources. However with a child or children, one spouse may choose to stay at home. Should the working spouse die pre-maturely not only is there a loss of income but a surviving spouse may earn less upon returning to the workforce. Therefore, life insurance plays a critical role in helping assure the financial future of the survivors. In situations such as this, term insurance may be preferred because it offers the

largest death benefit for the dollar of premium and the cost of the insurance can be fixed for as many as 30 to 35 years. Depending upon the situation it is possible that permanent insurance, which has cash value, could be part of the solution.

The amount of insurance should not be “guessed at”. There are many rules of the most common is 10 times the annual income of the deceased is sufficient. I highly recommend that the provider of life insurance undertake a detailed review of all future funding sources and uses based upon a “present value” calculation. The uses may include ongoing living expenses and funding extras, as many desire the family not to have to change their lifestyle in the event of the death of a parent. Life Insurance is purchased subject to underwriting approval.

### **Disability**

Another risk factor that should be considered is what would happen if one or both working spouses became disabled. Without adequate coverage, an unexpected period of disability could wipe out a family’s savings and potentially leave the family without any income. Many people believe they have sufficient coverage through their employer’s group coverage. Unfortunately, these policies only pay 50% to 65% of an employee’s salary. If these benefits are provided by the employer, then it is likely any benefits received will be taxable income which further reduces the benefit. In addition, if an employee receives significant income in the form of commissions or bonuses, it is unlikely this will be included when calculating the amount to be received. An individual disability income policy that includes commissions and bonuses as earnings that are insured should be considered to supplement group coverage.

College funding should also be considered. Possible solutions may include state sponsored 529 Plans, prepaid state college tuition plans, UTMA accounts, Coverdale Education Savings Account, parent’s savings, as well as others.

### **Estates Planning**

Executed Wills are critically important. In the event an Illinois resident dies without a Will, all assets solely titled in the deceased’s name will be divided 50% to the surviving spouse and 50% to the children. When a child turns 18, the pro-rata share will be distributed outright to that child to spend as the child pleases, no restrictions. This may not be appealing to the surviving spouse. Parents should also be concerned about tax efficiently transferring and protecting their wealth for their children and future generations because estate taxes are currently at 45% on amounts over \$3.5 million. It may be helpful to know there are only three places wealth can go at death: heirs; charity; and taxes. Experience shows that most people prefer only two of the three.

### **Aging Parents**

Many parents do not want to be a burden on their children, but they may have no choice but to turn to the children for help in the event of a long term physical or mental illness. It is important to consider the significant financial impact of a long nursing home or hospital stay. Talk with your parents to hear what they want in order to better prepare for such a possibility. If you are in your fifties, long term care insurance is something that you should also be considering for yourself.

## **Retirement**

**Start planning today. Use the same type of “present value” calculation required for determining life insurance coverage to evaluate the type of retirement you are likely to experience. You may want to make some changes in your spending and savings patterns.**

**To assist you with the foregoing, consult with a qualified financial professional.**

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