



FINANCIAL *Planning Strategies*

A Financial Planning Update

WestPoint *Private Client*
G R O U P



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“Living Value”—The Other Side of Life Insurance

Many people may think of **life insurance**—in its simplest form—as a means of securing funds to cover financial obligations, such as a mortgage, or to replace income in the event of the death of a family breadwinner. It’s no wonder that the **death benefit** under a life insurance policy is often its most important and most well-understood feature.

However, not all policies are the same. With a **cash value life insurance** policy, also known as a **permanent life** policy, there is typically a component that allows cash to accumulate, and it may be used to help supplement a number of financial objectives, such as a

retirement plan or a child’s education. Because cash value insurance may be used to supplement a savings program, it has a “living value” in addition to the traditional **death benefit** feature. Let’s take a closer look.

The Value of Cash Value

The cash value in this type of life insurance policy accumulates on a tax-deferred basis in the same way that money does in an Individual Retirement Account (IRA). Because of this tax-deferred accumulation, there may be some income taxes due upon withdrawal. However, you are generally

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Pension Payout Options—What’s Right for You?

Thoughts of retirement are often accompanied by images of the enjoyable ways you’ll spend your days. One thing you may not even consider, though, is that you may be faced with a very important decision come retirement day. If you participate in a **company pension plan**, you’ll have to decide *how* you want to receive your pension proceeds. For this reason, take the time *now* to consider your options, so when the time comes, you can make the choice that’s right for you.

Typically, most pension plans give retirees the following choices:

1. Income for the rest of your life (**single life option**)
2. Income for the lives of both you and your spouse (**joint and survivorship option**)
3. A **lump-sum distribution**

At first glance, you might think your marital status will dictate which option is best for you. But, there’s a lot more to it than that. Let’s take a closer look at the options. The first two

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“Living Value”—The Other Side of Life Insurance

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only taxed on amounts that exceed the *total* amount of premium payments you’ve made over the course of the policy’s existence.

One of the key benefits of cash value life insurance is that you can access the accumulated cash values through policy loans without the worry of taxes or penalties. Generally, the loan interest rate is stated in the policy and is comparable to traditional lending rates. Bear in mind, any cash value that is not repaid will reduce the policy’s death benefit amount (unless, of course, the policy makes specific provisions to cover the policy loan at death, thus providing 100% of the death benefit).

Another interesting aspect of a cash value life insurance policy is that, unlike a traditional IRA or another qualified plan, you may make premium

payments after age 70½, and there are no rules that stipulate you must begin mandatory withdrawals of cash values by age 70½. This feature may provide you with an excellent opportunity to continue making premium payments and receive the benefits of tax-deferred accumulation of cash values.

With a life insurance policy, there are few rules that limit the size of premium payments. Simply stated—the higher the death benefit, the higher the premium. Some forms of cash value life insurance allow you to make premium payments in addition to what was stipulated under the terms of the policy. Often, paying additional premiums may increase the cash value.

Care should be taken to avoid “overfunding” a life insurance policy, because that may lead to

some adverse tax consequences. Generally speaking, however, policies are issued so they avoid this possibility altogether.

Dual Purpose Protection

Life insurance serves many purposes. Through its death benefit, life insurance aims to help protect and secure your family’s future in the event you suffer an untimely death. At the same time, life insurance with a cash value component may provide you with the opportunity to use the benefits of your policy during your lifetime. In this respect, life insurance can be a ready source of cash to help supplement an array of financial needs. A review of your current coverage may help show you how cash value life insurance can fit into *your* overall financial plans. \$

The Taxability of Social Security Benefits

Did you know that the Social Security benefits you receive might be subject to income tax? If you earn provisional income that exceeds certain limits, you may need to pay income taxes on a portion of your Social Security benefits. Your provisional income is your adjusted gross income (AGI) plus 1) any tax-exempt interest, 2) any income earned from certain foreign sources, and 3) 50% of any Social Security benefits that you receive.

Married individuals filing jointly who earn

between \$32,000 and \$44,000 may have to pay taxes on 50% of their



Social Security benefits. If AGI exceeds \$44,000, then 85% of benefits may

be subject to taxation. Individual taxpayers (generally including married individuals who file separately) earning between \$25,000 and \$34,000 may have to pay taxes on 50% of Social Security benefits. If AGI exceeds \$34,000, then 85% of benefits may be subject to taxation.

Keep in mind that you may choose to have federal taxes withheld from your Social Security benefits instead of paying tax quarterly. Consult your tax professional for more information. \$

Pension Payout Options—What’s Right for You?

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options (single life and joint and survivorship) provide you with a fixed income (usually in monthly installments) in exchange for your pension balance. The third option (lump sum) allows you to take your entire pension balance, and you can manage it yourself.

If you’re worried about outliving your assets, regardless of your marital status, you should take one of the two “income” options. It’s a simple way to ease your fears about running out of money. If you’re single, this choice is easy because you can select only the single life option. If you’re married, however, it’s a different story altogether because you can choose either income option.

The single life option pays a higher monthly income, but payments cease at your death. While the joint and survivorship option pays a lower monthly income, payments continue until the death of both you and your spouse. If you have other substantial retirement assets or your spouse has his or her own pension, taking the larger income offered by the single life option may be your best bet. On the other hand, if your pension is all you and your spouse have, the spousal security offered by the joint and survivorship option might make sense.

As you carefully review these two income options, keep in mind that there may be an actual “third”

income option. This third option is really a combination of the first option—the single life option—and **life insurance**. By taking the higher income with the single life option less taxes and using some of that income to pay the premiums on a life insurance policy, you may be able to “net” more income than with the joint and survivorship option. All the while, your spouse will be protected by a potentially significant life insurance death benefit. After your death, the death benefit proceeds will be received income tax free by your spouse and can be used to help fund his or her own retirement income.

The success of this strategy—often called “pension maximization”—depends on your age, your health, the type of insurance policy, and the schedule of premium payments. The issuance of a life insurance policy is subject to underwriting approval, and the issuance of a policy at a reasonable premium is not guaranteed. If the premium takes up too much of your monthly benefit amount, this strategy may not make sense. In addition, guarantees of a life insurance policy are based upon the claims-paying ability of the insurer. You should analyze your situation carefully with the assistance of a financial professional before proceeding with this strategy.

As previously mentioned, selecting either income option requires that you give up your pension

balance in exchange for income. In other words, you can’t just select a payout option one day and then decide at a later date that you’d like to receive your remaining pension balance in a lump sum. With this in mind, let’s turn our attention to the final payout option—the lump-sum distribution.

Taking Control

If you want full control over your pension assets during retirement, or if you are concerned that your pension income may not keep pace with the cost of living, then a lump-sum distribution could be the thing for you. You can take a lump-sum distribution in one of two ways. You can either roll it over into your own **Individual Retirement Account (IRA)** or receive the pension proceeds net of income taxes. Unless you plan on using your pension assets for something other than retirement, don’t even think about receiving your lump sum net of income taxes. The IRA rollover makes the most sense because you’ll continue to receive the benefits of tax-deferred accumulation and only be taxed when you take withdrawals from the IRA.

As you can see, before you relax into a comfortable retirement, you must make a difficult decision about your pension proceeds. This will require you to consider several options and determine which one best meets your financial needs and goals. 💰



What to Expect When Working with Your Estate Planning Team

Estate planning often involves the coordinated efforts of an estate planning team consisting of your attorney, accountant, and financial professional. Most estate planning teams begin the process by requesting that you complete a questionnaire and asset inventory. The more complete information you provide, the more your team will be able to help you achieve your goals.

You may be requested to provide any or all of the following information when formulating an estate plan:

Family and Other Beneficiaries

- The names, ages, relationships, and special needs of family members and other beneficiaries.
- Copies of property settlements, other financial agreements, and court decrees relating to your family.

Health

- Information on your current health and the health of your beneficiaries.
- The average health and life spans of your ancestors.

Assets and Liabilities

- A list of your assets, their estimated net value, and documentation of their ownership.
- Identification of your liabilities and those of your spouse.

Existing Plans

- A copy of your current will, including information on contractual or legal restrictions on the disposition of your assets.
- Documentation of survivorship provisions and beneficiary designations on insurance policies, retirement plans, employee benefit plans, business buy-sell agreements, and other such assets.

Objectives and Purposes

- Your objectives, purposes, and hopes for yourself and each beneficiary.
- An assessment of each beneficiary's ability to manage assets.

Benefits of Estate Planning

Once fully informed, your estate planning team can help you accomplish the following:

- Analyze your assets to determine which should be disposed of

during your lifetime and which should be retained, as well as whether any special expertise will be required to value and dispose of your assets.

- Identify which assets will be subject to probate and estate taxes, and estimate the potential costs to your estate.
- Estimate and plan for the liquidity needs of your estate, your surviving spouse, and other family members and beneficiaries to cover estate taxes, probate costs, and future living expenses.
- Guide you in selecting the best domicile, if applicable, to help reduce the net effect of taxes on your estate.

No Plan Is Final

Bear in mind that no estate plan is permanent. Marriages, remarriages, births, deaths, job changes, and new legislation may necessitate adjusting an existing plan or creating a new one. Also, the composition of your assets may change over time. To keep your estate plan up-to-date, notify your estate planning team of any relevant changes as they occur, and work with them when they alert you to legislative changes. \$

Current tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on the particular set of facts and circumstances. The information provided herein is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. Entities or persons distributing this information are not authorized to give tax or legal advice, and you are encouraged to seek specific advice from your personal tax or legal counsel.