



# FINANCIAL *Planning Strategies*

A Financial Planning Update

**WestPoint** *Private client*  
G R O U P



Kevin Clasen, James Brocke, Scott Eckart

900 East 96th Street, Suite 300  
Indianapolis, IN 46240

Tel: 317.469.9999

Fax: 317.469.2500

kclasen@westpointfinancialgroup.com

jbrocke@finsvcs.com

seckart@westpointfinancialgroup.com

www.wppcg.com

Kevin, Scott and Jim are registered representatives of and offer securities, investment advisory, and financial planning services through MML Investors Services, Inc., 900 East 96th Street, Suite 300 Indianapolis, IN 46240. WestPoint Private Client Group is not a subsidiary or affiliate of MML Investors Services, Inc.

## How Much Life Insurance Do You Really Need?

Sometimes people buy life insurance before performing a financial needs analysis. They might choose an amount that seems comfortable, without actually taking into account all the potential expenses their families might face in the event of an untimely death. If they did make an objective assessment of the possible economic consequences, they would be doing what is called a financial needs analysis.

In fact, you could analyze your *own* financial needs by following a few

simple steps. First, total the value of all the things that you and/or your spouse own. These are your *assets*. (Enter amounts in one column for yourself and in another column for your spouse.) When totaling your assets, you might typically include what you currently have in savings and retirement funds (such as IRAs, 401(k) plans, or TSAs, etc.), as well as real estate and existing life insurance. Next, list and evaluate all expenses that you or your family may

*(continued on page three)*

## A Vacation Home—The Ultimate Hideaway

If a mountain getaway or an ocean view has become your American dream, then perhaps you should know that a vacation home can offer some tax savings that may help pay for your hideaway. The tax laws differ depending on whether you use the home solely for enjoyment or mix business with pleasure by renting the property part-time.

As long as the combined debt secured by the vacation home and your principal residence does not exceed \$1 million, you can deduct all of the interest paid on a mortgage used to buy a second home. This advantage is restricted to two homes. If you purchase

a third, interest on that mortgage is not deductible. However, no matter how many homes you have, you may be able to deduct all the property tax you pay.

One break enjoyed by homeowners—the right to immediately deduct points paid on a mortgage—applies only to a principal residence. Points paid on a loan for a vacation home must be deducted gradually as you pay off the mortgage.

### Personal Residence

Your vacation home counts as a personal residence even if you rent it for up to 14 days a year. In that case, you

*(continued on page four)*



## “Top Off” Your Retirement Income

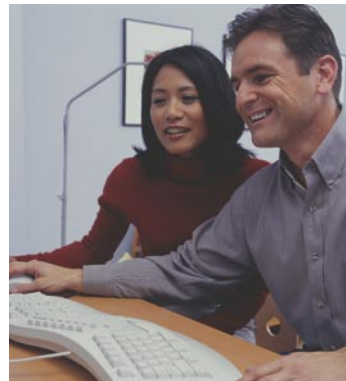
Somewhere along the road to retirement, you will need to be sure you’ve taken advantage of all possible sources to “fill up” your retirement income “tank.” You don’t want to exhaust your financial resources before the end of your journey. Yet, the truth of the matter is that many people don’t save enough for retirement. However, the more you accumulate now, *before* retirement, the less you will need to worry about working *after* you retire to maintain your lifestyle. Consider this route to “top off” your retirement income:

1. **Determine your retirement needs and resources.** With people living longer than ever before, a sound retirement strategy may need to provide an income stream, indexed for inflation, that can last anywhere from thirty to forty years. Even with a four percent annualized rate of inflation, the cost of goods and services will triple in about twenty-nine years. With this in mind, compare the amount of income you receive *now* with the amount you will have *during retirement*.

Once you’ve established this information, you’ll need to develop sufficient financial resources to provide you with the needed income stream. What assets do you currently have? What savings plans do you have in place? As you review your retirement program, how will you fill any gaps between what you have saved to

date and your retirement needs?

2. **Don’t count on Social Security and your pension alone.** In the past, Social Security and a company pension have provided significant sources of retirement income. However, the days of “living off” a pension or Social Security have passed. If you depend on Social Security or your pension alone, you may find your income is insufficient to meet your retirement needs.



3. **Increase your personal savings.** One way to start filling the gap between your expected income and your needs is to increase your savings. Consider adjusting your budget to reallocate cash toward a savings program that is suitable for you.

4. **Take advantage of your company plan.** If your employer sponsors a retirement program, consider contributing the maximum amount. This can help you take advantage of pre-tax contributions and accumulations on a tax-deferred basis. In addition, many employers *match* employee contri-

butions—usually up to a maximum percentage. For example, suppose you contribute ten percent of your income to your 401(k) plan and your employer matches 50 percent of your contribution. Thus, for every dollar you contribute, your employer adds fifty cents. Consequently, your account receives 50 percent more money than you actually contributed. This narrows the gap even further.

5. **Use personal tax-advantaged alternatives.** Individual Retirement Accounts (IRAs) allow you to save on a tax-deferred basis. In addition, permanent life insurance policies and annuities may also provide tax-deferred opportunities.

### Put Yourself in the Driver’s Seat

Retirement may seem a long way off, especially if you have immediate and pressing financial concerns. However, many people in their prime earning years neglect to build adequate savings. The sooner you start taking advantage of *all* your retirement income opportunities, the better off you are likely to be when retirement day dawns. Why not take a few moments to review your retirement strategy? If you begin fueling up on all potential sources of retirement income *now*, you’ll be in the best position to secure a comfortable financial future. \$

## How Much Life Insurance Do You Really Need?

(continued from page one)

face, in case one spouse dies. These are your potential liabilities.

In order to determine how much cash is needed following the death of a spouse, take a look at these potential cash needs and assign a dollar amount to each:

**1. Immediate Money Fund.** This includes the total cost of possible medical and hospital expenses, outstanding bills, burial costs, and attorney/executor fees.

**2. Debt Liquidation.** Your debt, if any, may be in the form of credit card bills, school and auto loans, unpaid notes, outstanding bills, etc.

**3. Emergency Fund.** Unexpected bills not readily payable from current income could include major

home and car repairs, or even medical emergencies.

**4. Mortgage/Rent Payment Fund.** How much would you need to pay off your mortgage or provide for at least ten years' house or apartment rent should one spouse die?

**5. Child/Home Care Fund.** Expenses may be created as a result of the death of a spouse who had been performing child and/or home care duties; be sure estimate the cost of hired help needed to substitute your spouse's duties.

**6. Education Fund.** Be sure to include the cost of funding a four-year undergraduate education or comparable vocational training for your children.

The total of all of the above costs minus your liq-

uid assets and life insurance would give you your new cash needs. The numbers will be different for you and for your spouse, because assets and existing life insurance, as well as child/home care amounts, are likely to be different.

The steps noted above are a simple way for a family to figure out how much life insurance is really needed. Circumstances vary from person to person and from family to family. Analyzing your financial needs in detail is an important step toward determining the right coverage for you and your family. Consult your financial professional who can provide you with an in-depth analysis of your unique needs. \$

## Baby Boomers and Their “Boomer-ang” Children

In recent years, many baby boomers have been witnessing a growing trend: Their college-aged children are moving back home after they complete their education.

After college, many young adults find themselves having difficulty standing on their own financial feet. This immobility may be due to a tight job market and the high cost of housing in some parts of the country. However, in other cases, it may be because these grown children have become too accustomed to *spending* rather than *saving* and lack the necessary finan-

cial self-sufficiency to live on their own.

Parents who wish to see their children ultimately leave the nest and make it on their own should consider establishing new ground rules. As rule number one, adult children should be obliged to contribute cash or services in lieu of rent to the household. At the same time, they should also be expected to save a significant portion of their earnings for a down payment on a starter home, to furnish a first apartment, or to establish a business.

Parents can also aid their children in achieving financial self-sufficiency by

helping them set financial goals and then working with them to monitor their progress in meeting those goals. An incentive plan can help further this effort: Perhaps for every dollar a child saves, his or her parents may wish to contribute a certain percentage.

For parents who are too personally and emotionally involved to teach their adult children good financial habits, a financial professional can perform a valuable function as a neutral, outside party in counseling young adults on how to loosen the “ties that bind” and pursue financial independence. \$



## A Vacation Home—The Ultimate Hideaway

(continued from page one)

get to retain the rent tax free and don't jeopardize your mortgage interest and tax deductions. However, you may not deduct any rental-related expenses. If you rent out the house on a continual basis, things may become more complicated. Different rules apply depending on the breakdown between personal and rental use.



First, if you buy primarily for pleasure but rent for 15 days or more, the rent you receive is taxable. Because the house is still considered a personal residence, you get to deduct all the interest and property tax. You may also be able to deduct other rental-related expenses, including the cost of utilities, repairs, and insurance attributable to the time the house is rented. In some cases, you might even get to deduct depreciation. When the house is considered a personal residence, rental de-

ductions cannot exceed the amount of rental income you report. In other words, your second home cannot produce a tax loss to shelter other income. In most cases, the interest and taxes assigned to the rental use of the house, plus the operating expenses, more than offset rental income, limiting your ability to write off depreciation.

### Rental Property

Now consider your tax situation if you buy a property primarily as an investment and limit your personal use of the property to 14 days a year (or 10% of the number of rental days if that allows you more than 14). Because the house is a rental property in the eyes of the Internal Revenue Service (IRS), your deductions can exceed the amount of rental income you receive.

If your rental income does not cover the cost of renting the house, you may be able to claim a taxable loss. Rental losses are classified as passive and can be deducted only against passive income such as another rental property that realizes a gain. If you do not have passive income to shelter, the losses have no immediate value (unused

losses can be used in future years when you have passive income).

There's an exception to this rule, however, that permits taxpayers with adjusted gross income (AGI) under \$100,000 to deduct up to \$25,000 of passive losses against other kinds of income including salaries. To qualify, you have to actively manage the property. The \$25,000 allowance is gradually phased out as AGI rises between \$100,000 and \$150,000.

When your vacation home is considered a rental property, the mortgage interest attributable to the time the premises are rented is a business deduction. The rest, though, cannot be deducted as home mortgage interest since the house doesn't qualify as a personal residence.

The tax laws discussed here also apply to homes other than houses, such as apartments, condominiums, mobile homes, or boats with basic living accommodations. Generally, these include a sleeping space, bathroom, and cooking facilities. Hotels, motels, and inns are treated differently. \$

Copyright 2008 Liberty Publishing, Inc., Beverly, MA. The opinions and recommendations expressed herein are solely those of Liberty Publishing, Inc., and in no way represent advice, opinions, or recommendations of the Financial Planning Association, its affiliates or members. CFP™ and CERTIFIED FINANCIAL PLANNER™ are federally registered service marks of the Certified Financial Planner Board of Standards (CFP Board). This summary does not constitute legal and/or tax advice and should only be relied upon when coordinated with a qualified legal and/or tax advisor. February, 2008.

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.