

STRATEGIC Planning

The Fee Based Financial, Investment, & Tax Report

WestPoint *Private client*
G R O U P



Scott Eckart Kevin Clasen

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

Tel: 317.469.9999

Fax: 317.469.2500

seckart@westpointfinancialgroup.com

kclasen@westpointfinancialgroup.com

www.wppcg.com

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Assessing Your Retirement Resources

How resourceful can you be during your retirement? Determining *where* your retirement money will come from is an integral part of planning for retirement. Most people draw on three main sources of income during retirement: **Social Security, employer-sponsored plans, and personal retirement savings.** Each offers important resources that will add to your overall retirement plan.

Social Security

Social Security offers a retirement benefit to workers and their spouses. You can start receiving benefits as early as age 62 (considered early retirement) or wait until you reach **full retirement age**

of 65 to 67 (depending upon your year of birth). The benefits you receive are based on the income you have earned over the course of your life, subject to a maximum amount. You can find out how much you can expect to receive by contacting the Social Security Administration (SSA) or visiting their website at www.ssa.gov. However, these benefits will most likely fall short of meeting all of your retirement needs. Most people opt for a well-rounded plan that includes additional sources of income.

For most people, Social Security provides only a base level of income. The maximum benefit for a person who retires in 2007 at full retirement age is

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Taking Annual Gifts to Another Level

If you're like most individuals, you've probably worked a lifetime to build your own American dream—an adequate nest egg, a comfortable home, and an array of other assets. Then, at one point or another, you may realize your financial goals face unfavorable estate tax consequences. So, you take care of the compulsory legal documents—wills, trusts, etc.—and learn along the way that giving away assets may help reduce the size of your taxable estate. Even though many individuals make occasional gifts to their children or other

family members, few actually take advantage of the benefits offered by a *regular gifting program.*

Gifting Made Simple

Current tax laws allow you to give away \$12,000 (\$24,000 if married) in 2007 to as many people as you wish *without* incurring any gift taxes. This \$12,000 **annual gift tax exclusion** can be an effective means for gradually passing wealth to future generations. In fact, the

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Taking Annual Gifts to Another Level

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systematic use of making such a gift can create a rather sizable long-term result.

Consider this hypothetical example: Suppose Joseph Smith (age 60) starts a gifting program for his newborn grandson Alex. Each year, Joseph makes a gift of \$12,000. After 25 years, Alex will have accumulated \$300,000, assuming 0% growth. In addition, suppose Joseph's wife Helen (age 60) also chooses to make a \$12,000 gift to Alex, bringing the total annual gift to \$24,000. In this case, Alex will have accumulated \$600,000 in 25 years (assuming 0% growth). With this win-win scenario, the Smiths help Alex accrue a nest egg, while, at the same time, lowering the value of their estate. This strategy will help the Smiths minimize their estate tax liabilities.

One Step Beyond

Using the annual gift tax exclusion to fund a **life insurance** policy creates the potential to leverage gifts into a substantial death benefit. For instance, take another look at Joseph Smith. Suppose Joseph (the donor) sets up an **irrevocable life insurance trust (ILIT)** for the benefit of Alex. The ILIT then purchases life insurance on the life of Joseph. Upon Joseph's death, the life insurance death benefit proceeds are payable to the ILIT. Since the policy is owned by and payable to the ILIT, there are no **transfer tax** consequences to Joseph's estate.

Life insurance may provide an ideal mechanism for leveraging annual gifts. In the short term, it offers an immediate death

benefit that generally outweighs the total premium outlay (gifts). While over the long term, life insurance offers individuals a unique opportunity to potentially leverage annual gifts into a significant benefit for selected beneficiaries. This can be achieved by taking advantage of the tax-deferred buildup of policy values, which in some cases may indirectly increase the life insurance policy's death benefit over time.

The use of a regular gifting program may be advantageous to individuals seeking to gradually reduce the size of their estates. In addition, it affords these individuals the opportunity to pass wealth to children, family members, and others with reduced tax consequences. \$

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\$2,116 per month; the benefit for a nonworking spouse is considerably less.

Employer-Sponsored Plans

Employer-sponsored plans are a staple of retirement income for most individuals. Many employers offer benefit packages that include retirement savings options, such as defined benefit plans, 401(k) plans, 403(b) plans (for nonprofit organizations), and Savings Incentive Match Plans for

Employees (SIMPLEs). Here's how the plans work:

With a **defined benefit plan** (traditional pension), retirement benefits are generally based on a variety of factors, including salary, length of service, and a benefit formula that averages the employee's earnings over a prescribed period of years. In some instances, an employee may make additional contributions. To receive benefits, you generally must wait to reach the normal

retirement age (NRA), typically age 65, and be employed for a certain number of years. Upon retiring, you may have options as to *how* and *when* you collect your benefits, such as in monthly payments or in one lump sum. Although the prevalence of pension plans has decreased with the rise in popularity of the 401(k) plan, they can still play an important part in funding for retirement.

A **401(k) plan**, offered by many private employers,

Estate Planning—A Quick Look at the Basics

If you have a growing family and are just starting your journey on the road to financial success, you probably think estate planning is something you'll only have to contend with in the years ahead. Did you know that estate planning is an important part of solidifying and protecting your family's financial future? Here's a quick look at some estate planning steps you should take *now*.

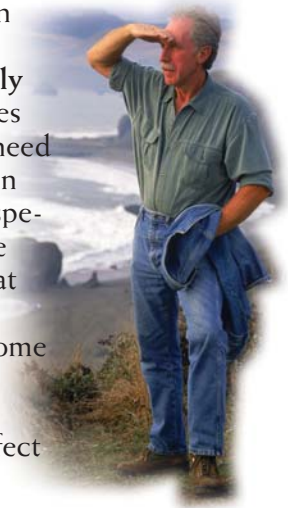
1. Draft a Will. A formal legal document directing the settlement of your estate provides for the distribution of your assets according to *your* wishes. Without a will, the laws of your state will determine estate distribution. Qualified legal assistance and proper witnessing should always be sought. Only through a will can you designate your own **executor**, **guardians** for minor children, and other **fiduciaries**.

2. Title Assets Properly. One of the simplest and least expensive estate planning techniques for married couples is to take title to assets as "**joint tenants with rights of survivorship**." At the death of one joint owner, such titled property automatically passes to the survivor without having to go through **probate**. Bear in mind, there are other forms of titling that may be appropriate depending on circumstances and individual state laws.

3. Review Your Life Insurance Plan. Life insurance has long been recognized as a relatively affordable method for ensuring a surviving spouse will meet key financial obligations without delay. Regular reviews with an insurance professional can help ensure you have adequate protection and your plan is up-to-date.

4. Plan for the Unexpected. First, analyze your **disability insurance** coverage. Second, consider granting a **durable power of attorney** for financial matters, and a **living will** and **health care proxy** for health matters. These **directives** enable the designated individual (usually your spouse, a relative, or close friend) to make important decisions on your behalf should you be mentally or physically unable to do so as a result of an accident or illness.

5. Keep Your Family Informed. Many families subscribe to a limited "need to know" policy between parents and children, especially while children are growing up. However, at some point, all family members should gain some awareness of financial, medical, and estate arrangements that can affect the entire family. \$



provides you with the opportunity to contribute part of your salary, with restrictions, into a retirement account. Your employer may match your contributions, up to a pre-determined percentage and subject to a maximum. For example, if your employer matches your contributions by 50%, for every dollar you put into the fund, your employer will add \$.50. In 2007, you can contribute up to \$15,500, and those age 50 and over can contribute an

additional \$5,000. Your contributions are pre-tax and any earnings are tax deferred, so payment of taxes will not commence until you begin taking distributions. If you withdraw money from your 401(k) before age 59½, you will incur a 10% federal income tax penalty, except under certain circumstances (such as hardship, purchase of your first home, or educational expenses).

A **403(b)** plan is similar to a 401(k) plan, but it is

designed for employees of certain educational and nonprofit organizations. Your contributions are pre-tax, and earnings grow tax deferred. The contribution limit in 2007 is \$15,500 with catch-up contributions of up to \$5,000 allowed for those age 50 and older.

At retirement, you pay ordinary income tax on your distributions. You are not taxed until you begin receiving payments.

Roth 401(k)s, a savings option created by EGTRRA

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and available for the first time in 2006 by participating employers, incorporate elements of both traditional 401(k) plans and Roth IRAs. Employees contribute after-tax dollars, earnings grow tax free, and distributions at retirement are tax free, provided the employee is at least age 59½ and has owned the account for five years. An employee may



contribute a maximum of \$15,500 per year (\$20,000 for those age 50 and older), including any contributions to a traditional 401(k) account. Matching contributions made by an employer must be invested in a traditional 401(k) account, not a Roth. Some 403(b) plans may also offer a Roth option.

SIMPLEs are used by small businesses with 100 or fewer employees. A SIMPLE plan allows participants to contribute up to \$10,500 to a SIMPLE IRA or SIMPLE 401(k) in 2007. Those age 50 and older may contribute an additional \$2,500. Employer contributions, which are

mandatory, can be either in the form of a 2% contribution to all eligible participants or in the form of a matching contribution that is generally 100% of the first 3% of compensation. Your contributions are pre-tax, and you defer payment of taxes until you begin taking withdrawals.

Because retirement savings options are often

unique to the employer, it is important for you to understand the specifics of *your* company's benefits package. Contact

your employer's benefits coordinator for more information.

Personal Retirement Savings

Personal retirement savings may be the key to achieving your financial goals. Common complements to Social Security and employer-sponsored plans include the following:



Traditional IRAs allow you to set money aside in a tax-deferred account. Depending on your income and whether or not you participate in an employer-sponsored retirement plan, you may be eligible to take an income tax deduction.

The maximum deduction is \$4,000 in 2007 and will be \$5,000 in 2008. In 2007, those age 50 and older can contribute an additional \$1,000. Even if you don't qualify for a deduction, your contributions have the potential to grow tax deferred; you pay taxes upon withdrawal, avoiding penalties if you do so after the age of 59½.

Roth IRAs permit earnings to grow tax free and distributions to be taken tax free, provided you have owned the account for five years and are at least age 59½. However, your initial contributions are not tax deductible. The contribution limits are the same as with traditional IRAs, including the guidelines for "catch-up" contributions. Currently, only taxpayers whose adjusted gross income (AGI) falls below certain levels (\$114,000 a year for single filers and \$166,000 for joint filers) are eligible to contribute after-tax dollars to a Roth IRA.

With a sound assessment of your income resources, you can begin to plan for the retirement you desire. You have a great deal of control as to how much money you can accumulate—the choices you make *today* will invariably influence your financial comfort in your later years. Starting now puts time on your side. \$

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