Courtesy of

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Money Planner

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Tips to Help Stretch Your Paycheck

Most people would like to have more money in their bank accounts, while working less. Although this may seem like a never-ending dilemma, there may be a solution. Think about it. The best way to stretch the money you make without working more hours is to *avoid* excess spending in the first place. Some people call this a budget, but you could just as easily call it a spending plan.

Here are 10 tips to help stretch your hard-earned cash:

1. **Create a spending plan.** Many people resist the idea of a budget because they associate it with hardship and sacrifice. But instead, you can create a monthly "spending plan" for your fixed and discretionary expenses. By planning your spending, you may find that you spend money more wisely because you're consciously taking control.

2. **Pay yourself first.** Put savings at the top of your spending plan. If you wait until the end of the month to save any leftover cash, you may find yourself without a cushion when you need it most. Be sure to set a savings goal. For example, strive to save at least 10% of your income before spending the rest.

3. **Track your spending.** Record your expenditures for a month. Be especially careful about keeping track of any small, optional items you purchase. You may be surprised to discover how quickly purchases costing only a few dollars can add up. At the end of the month, review your expenditures and adjust your spending plan accordingly. Once you see where your money is going, you may decide to make different choices about your spending habits.

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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.

Understanding the Importance of Insurance

An unexpected event such as a death, disability, or other personal loss is certainly not something you can easily plan for. Yet, the financial ramifications could be staggering—not only to you, but also to your family. Therefore, it is important to create a **risk management plan** as part of your overall financial strategy.

Insurance, in all its varied forms, is simply a method for managing risk. In order to plan an effective insurance program, consider what risks you and your family are exposed to and how financial loss would affect you. For each risk exposure, the key elements to consider are the severity and possibility of loss.

All Risks Are Not Created Equal

Some risks may be so small that you decide to accept full responsibility for any potential loss. In insurance language, you "self-insure" for such risks. For example, it is rarely cost-effective to carry collision coverage on a 10-year-old automobile. Collision coverage generally pays actual cash value, and since a 10-year-old car may have little current fair market value (FMV), it is common to self-insure in such cases. In making this choice, you assume full responsibility for any accidental damage you may cause to the vehicle.

In other situations, the risk may be so great (or the cost of a potential loss may be so great) that the best strategy is to try and avoid the risk entirely. You practice risk avoidance in your daily life when you say something is "not worth the risk."

Sometimes, risk can be reduced. For example, installing an automobile anti-theft device or home security system is a strategy to reduce the risk of loss.

Risk Transfer and Risk Sharing

Insurance is a method that allows you to transfer risk you cannot reasonably afford, or choose not to accept. Since you may be unable to afford to rebuild your home in the event of fire, for example, you may choose to transfer that risk to an insurer by purchasing a **homeowners policy**. Even in situations of risk transfer, it is common to share some risk. For example, the deductibles and premiums you pay for insurance are a form of risk sharing whereby you accept responsibility for a small portion of the risk, while transferring the larger portion of the risk to the insurer.

There are other important insurance options to consider, as well. Between the ages of 25 to 35, most married couples are just starting out in life and establishing families and careers. During these years, the death of one partner could seriously jeopardize the surviving spouse's or family's financial future. In such situations, **life insurance** can be used to help create an "instant estate." A life insurance policy death benefit can help provide a continuing source of income, pay off a mortgage, or fund a child's college education.

Additionally, many people give little thought to how they would handle financial responsibilities, such as mortgage payments, car payments, college tuition, and other expenses, if their income suddenly stopped because they were unable to work due to an illness or injury for an extended period of time. **Disability income insurance** pays benefits that can help replace a portion of income, should you experience a qualifying disability.

Taking a closer look at different types of risk that may affect your family can help you answer the following important questions: What should I insure? What type of insurance do I need? How much coverage should I purchase?

Remember, the fundamental rationale behind all forms of insurance is to assess what risks can be shared or transferred on a cost-effective basis. Be sure to consult with a qualified insurance professional to determine the amount of coverage that will best suit you and your family's needs.

Tips to Help Stretch Your Paycheck

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4. **Live within your means.** Many people feel as if they never have quite enough money to live on, yet they probably know people who successfully manage on less. If your expenses are less than your income, you are living within your means.

5. **Shop for value.** Look for opportunities to get more value from each dollar you spend. Join a warehouse or shopping club to buy items in bulk. Purchase clothing, furniture, and household goods on sale. Big-ticket items like cars and household appliances often depreciate substantially in the first one or two years. So, you may want to consider buying a certified, used car with reasonably low mileage or secondhand appliances in good condition for less.

6. **Minimize debt.** Keep your debt level low. By reducing debt, you also minimize interest and finance charges. When you are tempted to charge a purchase, remember that you are committing to pay for it from income you have not yet earned.

7. **Eat in.** Dining out can be expensive, since you are paying for the service, as well as the food. Meal taxes also add to the bill while liquor and desserts, which you may not ordinarily eat at home, boost the tab even higher. Therefore, reserve the fine dining for special occasions only.

8. **Reduce housing costs.** Housing is a major fixed expense. Consider reducing this cost by buying or renting a smaller place, or one with fewer amenities. If you rent and plan on staying in an area for more than a few years, consider buying. Owning a home is often more expensive than renting at first, but can be worthwhile in the long run.

9. **Trim transportation costs.** Many families now own multiple vehicles and have additional costs for insurance, repairs, fuel, and parking. Consider using public transportation or carpooling with others, whenever possible. The savings in vehicle-related expenses may offset any inconvenience.

10. **Create a cash reserve.** A cash reserve can help you stick to your spending plan and help keep you out of debt when emergencies, such as a major car repair or short-term disability, arise.

Cutting back on excess spending does not have to mean continually denying yourself life's simple pleasures. Instead, you may find that with living within your means and paying yourself first, your debts will decrease as your savings grow. A personalized spending plan can help provide that "extra" income and stretch your hard-earned paycheck a little further.