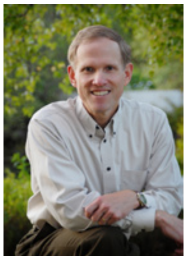
FOCUSING ON FINANCIAL, TAX AND MONEY MATTERS



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PERSONAL FINANCIAL REVIEW

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Curb Your Runaway Expenses

AND STILL HAVE FUN

In the ever-changing game of life, expenses are a constant. For most of us, the prices of everyday goods and services seem to have risen faster than our income. In some cases, it may be more than just costs that have risen; it may be that our *consumption* has grown, as well. If you are looking for ways to reduce your expenses and curb consumption while still having fun, consider the following suggestions:

Saving Begins at Home

If you are in the market for a new home, shop around for the best rates available for your mortgage and any equity loans. Also, make sure you are deducting what is allowable under current Internal Revenue Service (IRS) rules.

Review your home heating and utility consumption for the last 12–24 months (or as long as you have owned or rented the property. Check to see if your utility companies offer a budget plan that divides your annual energy costs into equal payments to help equalize your monthly bill amounts throughout the year. Remember during winter months to take another degree off the thermostat to help save on your heating bill.

Contact your local electric and water departments for free conservation programs and tips. Expect their rates to continue rising, and adjust your lifestyle accordingly. When using air conditioning, remember to adjust the thermostat.

Cable and phone service providers have competitive bundled packages for customers that include a flat rate for voice, Internet, and cable TV services. Review your separate cable, phone, or Internet bills periodically to see if you can save money by combining your services.

Shopping By the Numbers

Going to the grocery store? Make a shopping list ahead of time to avoid impulse buying, get a store card for specials, clip coupons, and grab a supermarket circular for weekly deals. These efforts may reduce your weekly food bill by up to 20%. Also, consider joining a warehouse club and buying in bulk.

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Why a Home May Still Be YOUR BEST INVESTMENT

While everyone's situation is different, buying a home that you plan to live in for many years may still be one of the best investments you can make. An uncertain market should not necessarily deter prospective buyers, but rather prompt them to develop a more realistic perspective on homeownership.

Instead of viewing real estate primarily as an investment vehicle for the short term, potential buyers can recognize homeownership for what it really represents: a long-term financial commitment that can provide a secure, comfortable place to live for many years.

Buying a home can provide a sense of stability because you are no longer subject to the uncertainty of the rental market. Paying a mortgage each month can be likened to a forced savings account. As the mortgage principal shrinks, you accumulate more equity in the home and, eventually, you will own the asset outright.

When you buy and live in a home, you can reap the benefits of what is known as "net imputed rent." Basically, the money you would have paid on rent contributes to the equity you accumulate over time, after maintenance and taxes. The U.S. Department of Commerce calculates this at approximately 6% per year, which is better than any savings account or CD available today.

Finally, homeowners have the opportunity to minimize their tax liability by taking a tax deduction for any mortgage interest paid for their primary residence.

Although there is no guarantee that your home will increase in value or even hold its value in the short term, it can provide a place for you and your family to live that you can continue to afford and to enjoy for many years to come.

Providing New Opportunities

Even in an unpredictable economy, the real estate market can provide opportunities for those with good credit and the funds for a down payment. With relatively reasonable real estate prices and mortgage rates, this may still be a good time to buy a home.

Experts project that the demand for housing may increase in the years ahead. Although new home construction has slowed, the U.S. Census Bureau projects that the number of American households will increase each year by 1 to 1.5 million. Eventually, demand may realign with the supply of new houses.

No one knows what's in store for today's real estate market. However, it does present opportunities for those with a long-term plan to buy a home that will provide a stable lifestyle for years to come. **20/20**

Dividing Your Estate: A PRACTICAL APPROACH

When planning the division of your assets, you may believe in a policy of "share and share alike." This is perhaps the easiest method to avoid conflicts or complaints of favoritism. But does *equality* necessarily equate with *fairness*? Especially when you consider such factors as age, talents, skills, interests, needs, and degrees of material success.

An alternate approach to estate equalization is a division of assets that recognizes and supports the uniqueness and differences in the abilities and needs of your children, even at the risk of creating conflict. Through your estate plan, you have a chance to provide a degree of thoughtful and calculated support that your children may not otherwise experience.

Let's look at the following scenarios:

1. **Disparity in Age:** Assume you have two children, ages 22 and 14. Should you split your estate in half, even though your 22-year-old son has a private school education and college degree, while your 14-year-old son has just started high school?
2. **Income and Net Worth:** Your daughter becomes a partner in an investment banking firm and quickly builds up significant assets, while your son becomes an artist who is dependent on the sale of his artwork to make a living. Should you leave your estate in equal parts to your son and daughter?

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Customizing Life Insurance

WITH POLICY RIDERS

When most people think of life insurance, the first question that usually comes to mind is, "How much do I need?" However, there are other aspects of life insurance policies that provide important benefits and are worthy of consideration.

A **rider** is a provision that can be added to an insurance policy, generally at an additional cost, to alter or expand the policy's conditions or terms of coverage. Riders essentially allow policyowners to obtain extra protection in certain situations for themselves and their **beneficiaries**. Examples of life insurance riders include the option to purchase additional insurance without having to provide evidence of insurability; the accelerated death benefit, which allows the insured, under certain circumstances, to receive the policy proceeds before death; and the accidental death benefit, which provides an additional benefit if the insured dies by accident.

Another common rider is the **waiver of premium rider**. This provides protection in the event that the insured becomes totally disabled and can no longer afford to pay the insurance premiums. With this provision added to a policy, the insurance company pays the premiums according to the terms of the contract if the insured sustains a disability. If the insured owns a **whole life policy**, the policy's **cash value** generally continues to accumulate. This growth in policy values can be a ready source of income to help pay expenses if the insured can no longer work and can be accessed through loans or surrenders. However, access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance that the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Like an applicant's insurability, eligibility for the waiver of premium rider may be determined by certain risk factors, such as general health and medical history. Typically, policies contain a specific waiting period before the waiver of premium rider will take effect. Some policies apply waiver of premium coverage differently for a disability that occurs prior to age 60, compared to one that occurs between the ages of 60 and 65. Under many policies, the waiver of premium provision terminates at age 65. While a waiver of premium rider on term and whole life policies will usually cover the entire premium, in other policies, it may only cover the cost of insurance, not the cost for the cash value or investment options.

When considering a waiver of premium rider, the definition of "disability" in your policy is crucial.

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DIVIDING YOUR ESTATE: A PRACTICAL APPROACH

3. **Previous Giving:** You have given your 24-year-old daughter $100,000 worth of stock in your business as an inducement for her to work with you. You have not, however, given your 18-year-old daughter a similar gift. Should you still divide the assets in your estate equally?
4. **Investments Given to Children:** You have given one child stock in Company ABC that has risen in value to $300,000, and another child stock in Company XYZ, which has gone bankrupt. How should you then allocate the balance of your assets?

In all of the above examples, an equal division of property has the potential to create or perpetuate unequal results. Of course, you may choose to divide your assets equally; however, it's important to be aware of all your options in estate planning.

Listen First

There are ways for you to achieve more equitable results. First, communicate with your children. You may choose to speak with each child individually or hold a family meeting. (You may serve as proxy for your young children.) Help them to express their hopes, dreams, and expectations, as well as their concerns and frustrations. By listening, you may gain the valuable insight needed to divide your estate without causing undue conflict or resentment. The decisions may be difficult, but in the long run, your estate plan may provide a certain degree of thoughtful support for your children. **20/20**

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CURB YOUR RUNAWAY EXPENSES AND STILL HAVE FUN

Clothing prices may seem sky high, but you have the power to bring them down to earth. By learning to shop for quality at retail outlets, waiting for end-of-season sales, and venturing out to explore upscale consignment shops, you can avoid paying designer clothing and accessory prices.

Overall Fitness

A regular fitness program can lead to better health and fewer visits to the doctor or chiropractor. Talk to your health care provider about inexpensive ways to incorporate physical activity into your daily routine, such as walking, without having to pay for a fitness center membership. In addition, if your health care provider agrees, choose generic medications over brand names, and look for pharmacies that offer discounted rates.

Alternatives to Screen Time

Assess your TV-watching habit to see if all those "must-have" channels are really necessary. It may be time for fewer channels and more trips to the library.

The cost of an afternoon or evening at the movies is another runaway expense. Enjoy Friday nights at home with the family making pizza and watching DVDs, which you can get for a nominal fee from your local library. Family game nights are another economical option.

Dining out may not always be a luxury. There are times when busy schedules make eating out a necessity. But, there are "two-for-one" specials and "kids eat free" offers at many restaurants for those times when you don't feel like preparing a meal.

All the hidden expenses like bank fees, online and print subscriptions, hair and nail care, pet care, and lottery tickets, among others can creep up gradually. So, be sure to analyze all these expenses to see which are truly necessary.

Finally, credit cards, with their associated annual fees and finance charges, will sap your savings unless used wisely. High interest, long-term credit card debt is expensive, so develop a plan to transfer balances to cards with a lower rate that extends beyond the introductory period until you are debt free.

We may not be able to control rising prices, but we are not powerless to change our spending habits. If you have fallen prey to runaway spending and increased consumption, you are not alone. Develop a workable budget today to help minimize your monthly expenses, so you can look forward to a more comfortable and secure future. **20/20**

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CUSTOMIZING LIFE INSURANCE WITH POLICY RIDERS

It will determine *when* your obligation to pay premiums ends. While some policies consider disability to mean that the insured is no longer able to work in his or her profession due to an illness or injury, other policies may contain a clause that states the insured must be unable to perform *any* type of work.

Policy riders are often overlooked when purchasing insurance because the initial focus is on how much coverage is necessary to provide adequate protection. However, part of the process involves taking full advantage of the opportunities to customize your life insurance policy to meet your needs. **20/20**