Pathway Financial Services

Footsteps

News To Help You Along Your Pathway of Life

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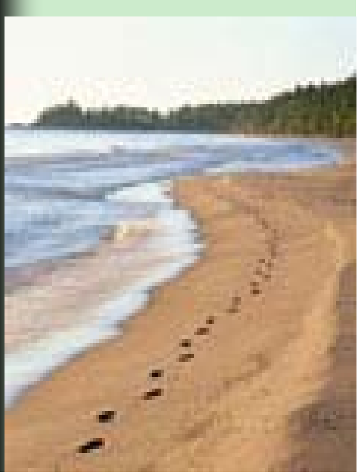

Periodic Review of Your Estate Plan

An estate plan is a map that explains how you want your personal and financial affairs to be handled in the event of your incapacity or death. It allows you to control what happens to your property if you die or become incapacitated. An estate plan should be reviewed periodically.

When should you review your estate plan?

Although there's no hard-and-fast rule about when you should review your estate plan, the following suggestions may be of some help:

• You should review your estate plan immediately after a major life event

• You'll probably want to do a quick review each year because changes in the economy and in the tax code often occur on a yearly Basis

• You'll want to do a more thorough review every five years

Reviewing your estate plan will alert you to any changes that need to be addressed.

There will be times when you'll need to make changes to your plan to ensure that it still meets all of your goals. For example, an executor, trustee, or guardian may die or change his or her mind about serving in that capacity, and you'll need to name someone else.

Events that should trigger a periodic review include:

• There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren

• There has been an addition to your family through birth, adoption, or marriage (stepchildren)

• Your spouse or a family member has died, has become ill, or is incapacitated

• Your spouse, your parents, or other family member has become dependent on you

• There has been a substantial change in the value of your assets or in your plans for their use

• You have received a sizable inheritance or gift

• Your income level or requirements have changed

• You are retiring

• You have made (or are considering making) a change to any part of your estate plan

Some things to review

Here are some things to consider while doing a periodic review of your estate plan.

• Who are your family members and friends? How do you feel about them?

• Do you have a valid will? Does it reflect your current goals and objectives about who receives what after you die? Does your choice of an executor or a guardian for your minor children remain appropriate?

• In the event you become incapacitated, do you have a living will, durable power of attorney for health care, or Do Not Resuscitate order to manage medical decisions?

• In the event you become incapacitated, do you have a living trust, durable power of attorney, or joint ownership to manage your property?

• What property do you own and how is it titled (e.g., outright or jointly with right of survivorship)? Property owned jointly with right of survivorship passes automatically to the surviving owner(s) at your death.

• Have you reviewed your beneficiary designations for your retirement plans and life insurance policies? These types of property pass automatically to the designated beneficiary at your death.

• Do you have any trusts, living or testamentary? Property held in trust passes to beneficiaries according to the terms of the trust.

• Do you plan to make any lifetime gifts to family members or friends?

• Do you have any plans for charitable gifts or bequests?

• If you own or co-own a business, have provisions been made to transfer your business interest? Is there a buy-sell agreement with adequate funding? Would lifetime gifts be appropriate?

• Do you own sufficient life insurance to meet your needs at death? Have those needs been evaluated?

• Have you considered the impact of gift, estate, generation-skipping, and income taxes, both federal and state?

This is just a brief overview of some ideas for a periodic review of your estate plan. Each person's situation is unique. An estate planning attorney may be able to assist you with this process.

Charles Cheryl Matt

Six Life Insurance Beneficiary Mistakes to Avoid

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. Naming your policy's beneficiaries should be a relatively simple task. However, there are a number of situations that can easily lead to unintended and adverse consequences. Here are six life insurance beneficiary traps you may want to avoid.

Not naming a beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together, or that your named beneficiary may die before you. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

Death benefit paid to your estate

If your life insurance is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payment to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming primary, secondary, and final beneficiaries may avoid having the proceeds ultimately paid to your estate. If the primary beneficiary dies before you do, then the secondary or alternate beneficiaries receive the proceeds. And if the secondary beneficiaries are unavailable to receive the death benefit, you can name a final beneficiary, such as a charity, to receive the insurance proceeds.

Naming a minor child as beneficiary

Unintended consequences may arise if your named beneficiary is a minor. Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian--a potentially costly and time-consuming process--to handle the proceeds until the minor beneficiary reaches the age of majority according to state law. If you want the life insurance proceeds to be paid for the benefit of a minor, you may consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

Per stirpes or per capita

It's not uncommon to name multiple beneficiaries to share in the life insurance proceeds. But what happens if one of the beneficiaries dies before you do? Do you want the share of the deceased beneficiary to be added to the shares of the surviving beneficiaries, or do you want the share to pass to the deceased beneficiary's children? That's the difference between per stirpes and per capita.

You don't have to use the legal terms in directing what is to happen if a beneficiary dies before you do, but it's important to indicate on the insurance beneficiary designation form how you want the share to pass if a beneficiary predeceases you. Per stirpes (by branch) means the share of a deceased beneficiary passes to the next generation in line. Per capita (by head) provides that the share of the deceased beneficiary is added to the shares of the surviving beneficiaries so that each receives an equal share.

Disqualifying the beneficiary from government assistance

A beneficiary you name to receive your life insurance may be receiving or is eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to the government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

Taxes

Generally, life insurance death proceeds are not taxed when they're paid. However, there are exceptions to this rule, and the most common situation involves having three different people as policy owner, insured, and beneficiary. Typically, the policy owner and the insured are one in the same person. But sometimes the owner is not the insured or the beneficiary. For example, mom may be the policy owner on the life of dad for the benefit of their children. In this situation, mom is effectively creating a gift of the insurance proceeds to her children/beneficiaries. As the donor, mom may be subject to gift tax. Consult a financial or tax professional to figure out the best way to structure the policy.

Note: As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Note: While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.

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Three Smart Moves for Young Adults

Your 20s is a time for exploration and new experiences, but also a time of emerging personal financial responsibility. And though times are certainly different now for young adults compared to 10 or 20 years ago (for example, more college students graduate with significant student loans and many return home to live with their parents), some advice never goes out of style.

1. Live within your means

It may sound boring when the world is finally at your fingertips, but living within your means, even below your means, is one of the best things you can do to create a solid financial foundation. Your "means" is the income you have coming in. Living within your means involves not spending more than you have. This can be difficult for young adults when temptation often lurks around every corner--technology gadgets, gym memberships, free shipping and instant streaming services, daily coffee and smoothie runs, new clothes, outings with friends, traveling...you get the idea.

The key is to distinguish between your needs and wants. You need food, but you want to try that new restaurant downtown, and the other one across town, and the one that just opened right near your apartment. If your wants are leaving you broke, you need to curtail them.

Everyone's income and expenses are different. At one end of the spectrum is someone living on her own paying 100% of rent and utilities, while at the other end is someone living at home with his parents and not paying any of those expenses. Analyze what you have coming in (income) each month and what you have going out (expenses), and keep track of where your money goes.

2. Save, save, save

Living within your means doesn't entail breaking even each month. It means making room for savings, too. If you have a job, sign up for direct deposit so your paycheck will be automatically funneled into your checking account. Then re-route some of that money on payday to a linked savings account. You'll start to build a savings fund, but you'll still have access to the money if you need it. Any savings method you can put on autopilot is ideal because it's one less thing you'll need to remember to do and one less dollar you'll miss or otherwise be tempted to spend.

Once you make it a habit to save regularly, you'll want to think ahead. Sure, retirement is a long way off. But when you start saving at a young age, you can benefit tremendously from compounding, which is when your dollars earn returns that are then reinvested back into your account, potentially earning returns themselves. Over time, the process can snowball. For example, a 22-year-old who saves $200 per month and earns a 4% annual return will have $274,115 at age 65. By comparison, a 32-year-old who saves and earns the same amount will have $164,113 at age 65, and a 42-year-old will have $90,327. (Note that this is a hypothetical example of mathematical compounding and does not represent the performance of any specific investment; all investing involves risk, including the possibility of loss.)

3. Borrow wisely

Looking to buy a car or a condo, or attend graduate school? These things typically involve debt, and debt is not your friend. Before you sign on the dotted line for a major purchase, ask yourself whether you're overextending yourself, whether you're getting the best possible deal, and whether borrowing is the only way to achieve your goals.

If you have student loans, make sure you've explored all your repayment options. Federal (but not private) student loans are eligible for the government's Income-Based Repayment (IBR) plan, in which monthly payments are capped at 10% of your discretionary income (15% for loans made prior to July 1, 2014). If you don't qualify for IBR, you might benefit from another income-sensitive repayment option or loan consolidation.

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