

Achieving your financial goals
**PERSONAL FINANCIAL
PLANNING GUIDE**



ADIRONDACK
WEALTH MANAGEMENT





WHY FINANCIAL PLANNING?

Making sense of your finances is more important than ever in today's constantly changing economic environment. Having a plan for spending, saving, and investing your money can make a big difference in how well you'll be able to meet your financial needs and goals.

Like most people, you probably have numerous different financial goals — a new home, debt reduction, college, a dream vacation, your own business, a comfortable retirement, and others. Meeting those goals requires financial planning that considers all aspects of your financial life:

- **Spending and Budgeting**
- **Investment Planning**
- **Education Planning (if applicable)**
- **Retirement Planning**
- **Life Insurance and Disability Planning**
- **Estate Planning**



In this booklet, we look at all of these aspects and explain how to go about setting up your plan. Included are a number of worksheets that can help you along the way. We also discuss some specific planning strategies you may find worthwhile. However, this booklet is not intended to take the place of our professional advice. You'll want to consult with us before using any of the planning tools or strategies we discuss here.

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SETTING YOUR FINANCIAL GOALS

Your goals are the things you want to make the future brighter for you and your family. It's easy to come up with some general goals — “to be successful” ... “to be financially secure” ... “to live the good life,” and so on. But the easiest goals to work toward are those that are more specific.

A key element of financial planning, therefore, is to clearly define your goals and then prioritize them. With specific goals, you can estimate the time frame for realizing each goal. Some goals are long-term. Others are short-term goals you want to achieve in five years or less.



define



prioritize



achieve

A difficult problem for many people is that they have multiple goals. For example, you might want to save for retirement at the same time you want to finance your children's college education. You might feel that you have only so much money to go around and that one or the other goal may have to be abandoned.

Once you prioritize your goals, though, you can look for ways to make each of your major goals achievable. Yes, some trade-offs may be necessary. But getting the most you can from the resources available to you is only possible if your goals are spelled out in as much detail as possible.

Having specific goals also helps you determine the amount of money that you'll need to meet each goal. Then, you can plan for how you will obtain the necessary funds within your desired time frame. Our goal worksheet should help.



GOAL WORKSHEET



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GOAL	EXAMPLE	YOURS
	Down payment for a home	_____
Years until money is needed	10	_____
Total amount needed for goal in today's dollars	\$30,000	_____
Inflation factor (from Table 1; our example assumes 3% annual inflation)	x 1.35	x _____
Projected future value of amount needed	\$40,500	_____
Amount already saved toward goal	\$7,000	_____
Return factor (from Table 1; example assumes 6% return)	x 1.82	x _____
Projected future value of amount saved	\$12,740	_____
Additional money needed to reach goal (subtract #7 from #4)	\$27,760	_____
Annual savings factor (from Table 2; example assumes 6% return)	x 0.073	x _____
Annual savings needed	\$2,026	_____
	÷ 12 months	÷ 12 months
Monthly investment needed to reach goal	\$169	_____

TABLE 1: INFLATION/RETURN FACTORS

Annual Inflation Rate/ Investment Return	Goal Timeframe (Years)										
	1	2	3	4	5	10	15	20	25	30	40
3%	1.03	1.06	1.09	1.13	1.16	1.35	1.57	1.82	2.12	2.46	3.32
4%	1.04	1.08	1.13	1.17	1.22	1.49	1.82	2.22	2.71	3.31	4.94
5%	1.05	1.10	1.16	1.22	1.28	1.65	2.11	2.71	3.48	4.47	7.36
6%	1.06	1.15	1.23	1.32	1.42	2.01	2.85	4.04	5.73	8.12	16.31
7%	1.07	1.15	1.23	1.32	1.42	2.01	2.85	4.04	5.73	8.12	16.31
8%	1.08	1.17	1.27	1.38	1.49	2.22	3.31	4.93	7.34	10.94	24.27
9%	1.09	1.20	1.31	1.43	1.57	2.45	3.84	6.01	9.41	14.73	36.11
10%	1.10	1.22	1.35	1.49	1.65	2.71	4.45	7.33	12.06	19.84	53.70

Table 2: ANNUAL SAVINGS FACTOR

Average Annual Return	Goal Timeframe (Years)										
	1	2	3	4	5	10	15	20	25	30	40
4%	.982	.481	.314	.231	.181	.081	.049	.033	.023	.017	.010
5%	.977	.476	.310	.226	.176	.077	.045	.029	.020	.014	.008
6%	.973	.472	.305	.222	.172	.073	.041	.026	.017	.012	.006
7%	.968	.467	.301	.217	.168	.069	.038	.023	.015	.010	.005
8%	.964	.463	.296	.213	.163	.066	.035	.020	.013	.008	.003
9%	.959	.458	.292	.209	.159	.062	.032	.018	.011	.007	.003
10%	.955	.454	.287	.204	.155	.059	.029	.016	.009	.005	.002

The returns shown above do not represent the actual results of any particular investment. The factors assume monthly compounding. If inflation is higher or your returns are lower, you will need to invest more to reach your goal.

Source: DST

EVALUATING YOUR CURRENT SITUATION



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Another first step in the financial planning process is determining where you stand today in terms of your finances. Completing the accompanying worksheet will give you a “snapshot” of your current financial situation. It will help you determine your net worth (your assets minus your liabilities) and what resources you can apply to meeting your goals.

HOW MUCH ARE YOU WORTH?	
ASSETS	CURRENT VALUE
Personal bank accounts (<i>checking, savings, money market deposit accounts</i>).....	\$ _____
Certificates of deposit	_____
Other income investments (<i>bonds, bond mutual funds, money market mutual funds</i>)	_____
Stocks and stock mutual funds	_____
Real estate investments	_____
Business interests (<i>proprietorships, partnerships, company stock</i>)	_____
Retirement plan investments	
Individual retirement accounts (IRAs).....	_____
401(k) or 403(b) plans	_____
SEP or SIMPLE plan.....	_____
Profit-sharing plan	_____
Pension plan	_____
Market value of home(s).....	_____
Cash value of life insurance	_____
Personal property (<i>jewelry, collectibles, cars, furniture</i>)*	_____
Miscellaneous (<i>trust interests, inheritances</i>).....	_____
TOTAL ASSETS	\$ _____
LIABILITIES	CURRENT VALUE
Mortgages	\$ _____
Car loans.....	_____
Credit cards	_____
Student loans	_____
Other loans.....	_____
Outstanding bills and obligations	_____
TOTAL LIABILITIES	\$ _____
NET WORTH	(Subtract Liabilities from assets)
Assets	\$ _____
Liabilities	- _____
YOUR NET WORTH.....	\$ _____

* While items such as jewelry and collectibles may have a high retail value, their true net worth is closer to wholesale value.

Net worth is the Key

Rick is a millionaire — at least, when it comes to the things he owns. When the value of his home, retirement plan, investments, personal assets, and architectural practice are added together, the sum is well into seven figures.

But the other side of the ledger — the debts Rick owes — gives a different picture. His home mortgage, business and personal loans, and credit-card debt amount to just a little bit less than the value of his assets.

In fact, his true net worth is in the neighborhood of \$75,000. So, while Rick's assets may indicate high wealth, his low net worth tells the real story.



Increase net worth



increase assets



reduce debt

Net worth is the main measurement of wealth. If your net worth is small (say, due to your having large debts outstanding), you'll want to concentrate on increasing it. The most straightforward ways to increase your net worth are to increase your assets and reduce your debts.

SPENDING AND BUDGETING

Many people find they are spending more than they bring in. It's difficult to increase your net worth — and meet your financial goals — if you are constantly falling behind on the income front.

Try using our Monthly Budget Worksheet on page 7 to track your expenses for a few months. It will tell you where your current income comes from and where it goes. This information can help you better budget your spending and determine how much money you can set aside for meeting future needs and goals.

After reviewing the information you entered on the Monthly Budget Worksheet, you might have to ask some hard questions.



For example:

- **Are you spending more on entertainment or other nonessential expenses than your income supports?**
- **Or are you spending more than you have to for necessities such as housing, an automobile, clothing, or other similar items?**
- **What about payments on credit cards and other debts?**
- **Are they making it difficult to save?**

If so, you need to look at ways you can reduce your debt burden so you can move ahead toward your financial goals.

Most causes of overspending can be addressed through the use of a budget. Simply going through the process of putting together an annual budget can help you prioritize expenses and uncover areas where you may be able to free up more money to use for savings and investments.

Many people find that they can develop the discipline needed to put money aside on a regular basis by budgeting for savings and investments the same way they do for other expenses. A good way to make sure your budgeted amounts actually go into savings and investments is to set up an automatic saving/investing plan with a bank or mutual fund company.

MONTHLY BUDGET WORKSHEET



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MONTHLY EXPENDITURES	
Food	\$ _____
Rent or mortgage payment	_____
Childcare	_____
Utilities	_____
Household maintenance	_____
Saving/investing	_____
Retirement savings plan contribution	_____
Auto loan payment	_____
Auto maintenance	_____
Transportation (gas, fares)	_____
Income and Social Security taxes	_____
Property taxes	_____
Clothing	_____
Insurance	_____
Credit-card payments	_____
Contributions	_____
Entertainment	_____
Dues	_____
Other	_____
TOTAL MONTHLY EXPENDITURES	\$ _____
MONTHLY RECEIPTS	
Wages or salary	\$ _____
Interest (CDs, savings account, etc.)	_____
Dividends (mutual funds, stocks, etc.)	_____
Other	_____
TOTAL MONTHLY RECEIPTS	\$ _____
NET CASH FLOW	
Total monthly receipts	\$ _____
Total monthly expenditures	- _____
MONTHLY NET CASH FLOW*	\$ _____

* A positive net monthly cash flow means you have additional money available for saving and investing. If the figure is negative, you need to find ways to trim your monthly expenses, or you won't be able to achieve your financial goals.

INVESTMENT PLANNING

Good investment planning can turn your goals from dreams into realities. This planning involves more than trying to pick the “right” investments. How you allocate your money among different types of investments can have a greater effect on your investment success than the individual investments you choose.

Understanding Risk and Return

A successful investment plan must be based on an understanding of the relationship between investment risk and return. In planning to meet each of your goals, you need to look at your investment time frame (the amount of time you have to meet your goal) and determine how much risk you are prepared to tolerate during that period in order to earn the return needed to reach your target amount.

money in a very conservative low-risk, low-return investment is the prudent thing to do.

However, this strategy could be inappropriate if you are investing for a long-term goal — for example, a retirement that is 30 years away. Investing too conservatively might leave you without the money you need for a secure retirement. Properly balancing the need for higher returns with your “risk tolerance” is one of the more important decisions you will have as an investor.

The general rule about risk and return is simple:

- Investments with higher risks have more potential for earning higher returns.
- Lower risk investments generally offer the likelihood of lower returns.



Many investors don't want to risk losing any of the money they have invested. So they decide to be conservative and put their money only in what they feel are “safe” investments. They choose investments with little chance of losing any of their invested principal. This strategy might be appropriate for a very short-term goal. For example, suppose you want to buy a new home in two months and you have accumulated the money for the down payment. Investing that

Basic Investment Types

You can invest in many different assets — undeveloped land, residential rental property, business property, commodities and commodities futures, gold and other precious metals, art, your family's business... However, investing is often about owning publicly traded securities like stocks and bonds (or mutual funds that hold such investments).

Investing in **stocks** gives you an ownership interest in the corporation issuing the stock. If the corporation does well, your investment should do well. If not, you could lose some (or all) of your money. Stock values can swing widely within short periods. The upside of this volatility is that stocks have the potential for higher returns over time than those offered by most other investments and returns that historically have outpaced inflation. Both of these potential advantages make stock investments an appropriate part of a portfolio designed to pursue long-term investment goals.

Bonds and other fixed income investments pay a set income over a set term. At the end of the term, the amount you have invested is returned to you. Fixed income investments traditionally have offered a steady income stream and historically less volatile price fluctuations than stock investments.

But fixed income investments aren't without risk. Sometimes a bond issuer, for example, can run into financial difficulties, default on its bonds, and not be able to return the face amount of the bonds to investors. Also, bond prices move up and down, largely in reaction to interest-rate swings. Thus, investors in bond mutual funds, as well as investors in individual bonds who don't plan on holding them until maturity, face the possible risk of losing principal.

Like fixed income investments, **money market** (cash equivalent) investments historically have paid a defined income over a set term. The income may be fixed or variable. The advantage of money market investments is that many of them are backed by the U.S. government or insured by the Federal Deposit Insurance Corporation (FDIC), so return of your principal is practically guaranteed. This makes money market investments an attractive choice for investors with short-term goals.

But be aware that a money market **fund** is neither insured nor guaranteed by the U.S. government, and there can be no assurance that money market funds will be able to maintain a stable net asset value of \$1 per share. The major disadvantage of this investment class is that the investments historically have not produced returns much greater than the inflation rate.

When choosing investments, it is important to consider all of the fees and charges associated with each type of investment you are looking at before you add the investment to your portfolio.

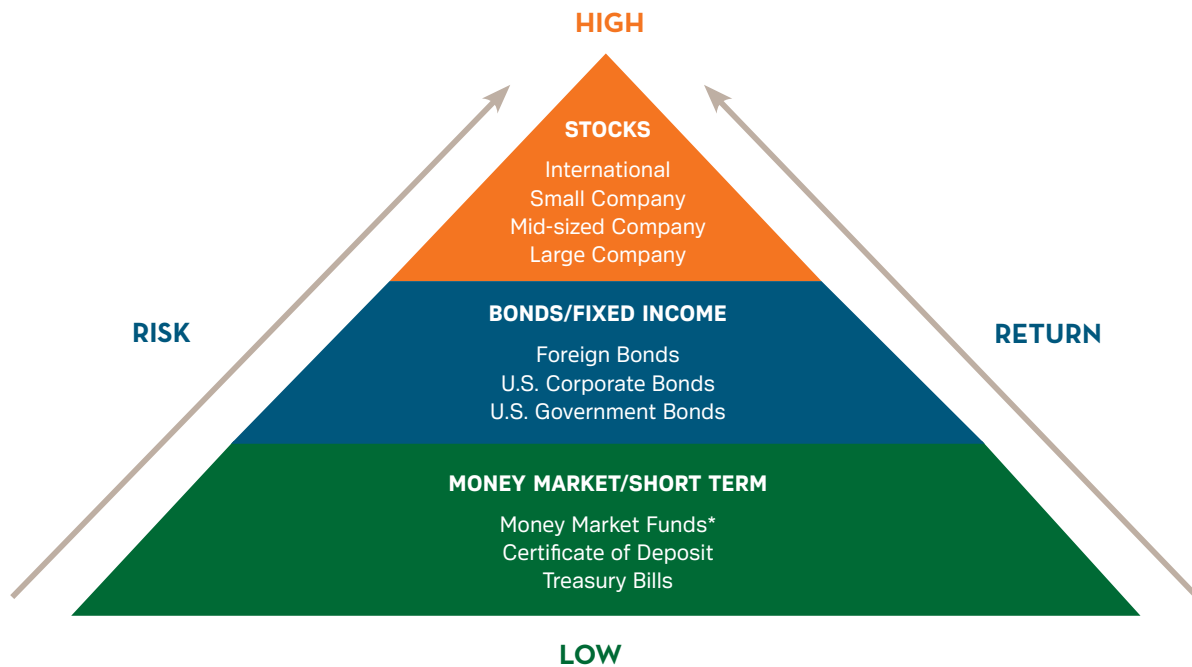
Mutual Funds

Mutual funds are one of the most popular ways to invest. With a mutual fund, your money is pooled with that of other investors to purchase a variety of securities. The fund is professionally managed as a single investment account. When you buy shares in a stock mutual fund, for example, you are actually buying an investment in the stocks of many different companies. If one company or industry has a problem, the fund will be less likely to suffer a major loss because it is diversified.

You can choose from thousands of stock, bond, balanced (stocks and bonds), and money market mutual funds. Each fund is managed toward a particular investment objective, such as growth, income, or asset preservation. The mutual fund's prospectus will explain the fund's investment objective and tell you what types of securities the fund can hold.

Mutual funds are sold by prospectus. You should carefully consider the fund's investment objectives, risks, and charges and expenses before investing. The prospectus contains this and other information about the fund. For a current prospectus, contact your registered representative. Read the prospectus carefully before investing.

RELATIVE RISKS OF DIFFERENT INVESTMENTS



* An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the fund.

Source: DST

The Importance of Diversification

The idea that an investor should own different investments to manage risk is a basic investment principle called **diversification**. If you have all your investment money in one company's stock and the price plunges, most of your investment money would be gone if you sold the stock. That generally would not happen if you invested equally in 10 stocks. Only a fraction of your total investment would be gone if the same company had the same setback and the other nine companies did well. Therefore, if you invest in stocks, you can diversify your investments among many different stocks (as mutual funds do) to potentially reduce the overall risk from price fluctuations of individual stocks. *But be aware that diversification does not ensure a profit or protect against loss in a declining market.*

If you are a bond investor, you can vary your holdings to include bonds with different maturities to potentially lower your interest-rate risk. In the past, the prices of short-term bonds often have been less volatile than the prices of intermediate-term bonds, and intermediate bond prices, in turn, have been less volatile than long-term bonds. A mix of maturities, similar to diversifying a stock portfolio, offers the potential to protect investments against a downturn in the bond market.

Holding only a mixture of stocks will probably not protect you if the stock market as a whole declines in value. Similarly, if you hold only bonds, you risk losses from a general bond market drop if you are not in a position to hold the bonds until maturity. That's why, to further reduce risk, you might consider diversifying your investments among the various types of securities.

Different Strokes

Everyone has different investment goals requiring different asset allocations.



For example, Michele is investing for retirement 30 years from now. Because her goal is long-term, she can afford more risk. Her investments have time to recover from short-term price declines. Michele has allocated 70% of her money to stocks, 20% to bonds, and 10% to money market investments.

These allocations are for example only. The proper allocation for you will depend on your personal situation.



Frank, on the other hand, is putting money away to buy a home in five years. He can't afford to take on much risk because of his short timeframe. So, Frank has allocated his money 40% to a U.S. Treasury bond mutual fund, 30% to a money market fund, and 30% to certificates of deposit.

Asset Allocation

Historically, not all investment types have lost value at the same time or to the same extent. At times, for example, bonds have held steady or gained while stocks declined or made minimal gains. And sometimes the situation has been reversed. Therefore, owning a mix of different asset types may offer you the potential to reduce risk. How security types within an investment portfolio are mixed is called your **asset allocation**. Studies by investment analysts have shown that how you allocate your investment assets can have a major impact on your portfolio returns.

Evaluating Performance

Investment markets change every day, but you don't necessarily need to change your investments. Often, it is wiser to react to trends instead of short-term fluctuations. Be realistic about the performance you expect from your investments. Remember, too, that overall market performance will probably strongly influence the returns of your investments. It's a good idea to compare the performance of your investments to one or more comparable market indexes. In a year,

for example, when overall stock market performance is lackluster, you should not be surprised if your stock investments turn in similar results. If you do not do as well as the market, you may want to examine whether you need to make changes in your portfolio.

Rebalancing

As you track your investment results, it is also a good idea to periodically compare your current asset allocation to your original plan. Different types of assets usually do not gain or lose the same amount of value each year. So, gains or losses in one type of asset may change your allocation. As a result, you may be exposed to more or less risk than you had intended. Stocks, for example, may rise 10%, while bond values increase only 5%. With more of your total portfolio value now committed to stocks, the overall risk of your portfolio may be higher than it was with your original allocation. You can easily restore your original risk level by adjusting your current allocation back to your original asset mix. This is called **rebalancing**. However, keep in mind that rebalancing may have tax consequences.

EDUCATION PLANNING

When should you start planning for a child's college education?

Ideally, as soon as the child is born.

The cost of four years at a private college or university currently averages about \$191,300. The average four-year cost for a public college is about \$96,200. If the rate of college-cost inflation averages 5% — it may be higher — a child born today could need approximately \$250,000 to attend a public college for four years and nearly twice the amount — \$496,000 — for a four-year stint at a private college.

Don't become alarmed if you haven't started planning for your child's college education. No matter what the child's age, strategies are available to help you come up with the necessary funds.

For preliminary goal setting, the accompanying graph estimates the monthly amounts you would have to invest, starting at various ages, to meet the future costs of sending a child to college. We can give you a more definite personal projection based on your individual situation. Our analysis

takes into account the number of children you have, when each child will begin college, and the types of colleges they may attend, your current and planned education investing program, and your financial goals. And we can help you devise a plan to meet those projected costs.

Section 529 Plans

For many families, Section 529 college savings plans are an attractive planning option. Section 529 plans are tax-favored college investment programs sponsored by the states and the District of Columbia.

You can contribute to a Section 529 plan regardless of your annual income or age. You are not limited to the plan sponsored by your state — most state plans are open to nonresidents as well as residents. Currently, each state sets its own maximum limit for lifetime contributions.

IF YOU START TODAY

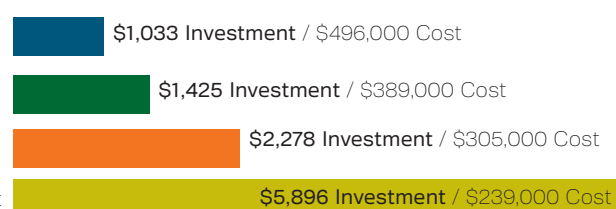
MONTHLY INVESTMENT TO MEET TOTAL COST

■ Newborn ■ 5 years old ■ 10 years old ■ 15 years old

Public College



Private College



The graph assumes that, on average, college costs will increase 5% a year between now and when your child starts college. The calculations assume an average annual return of 8% on your investments compounded monthly. This is a hypothetical illustration, and the performance shown does not represent the performance of any particular investment. Your investment returns and savings balance will be different.

Source: DST

The money you invest in a Section 529 college savings plan grows free of federal income tax and, often, state income tax. Some states allow state income-tax deductions for investments in Section 529 plans, up to certain annual limits. Note that out-of-state residents may not qualify for state tax advantages. When the account beneficiary reaches college age, the funds in the account can be used to pay qualified education expenses, such as tuition, fees, reasonable room and board, books, supplies, and certain equipment. Withdrawals for qualified expenses are not subject to federal income tax. The income-tax benefits of a Section 529 savings plan can make a significant difference in the actual amount available to pay your child's college expenses.

A Section 529 prepaid tuition plan offers the same tax planning benefits as the Section 529 college savings plan. However, it works quite differently. A state prepaid tuition plan promises to cover the cost of tuition and fees at a state college or university — in effect locking in today's tuition cost. Money in prepaid plans also can be used to pay tuition at many private colleges and universities and out-of-state public schools, but there is no assurance that the full cost of the tuition will be met. Private educational institutions also may sponsor Section 529 prepaid tuition programs that feature tax-free withdrawals.

Prepaid tuition plans generally do not cover other expenses, such as books and room and board, which may be as costly as tuition. Although they are less flexible than Section 529 savings plans, a prepaid plan may have a place in your college savings program. Prepaid plans tend to have advantages when the investment markets are doing poorly (since losses won't affect your tuition guarantee). One strategy you might want to consider is to invest in a prepaid plan to cover tuition and use other investments, such as a Section 529 savings plan, to meet non-tuition expenses.

Certain 529 plan benefits may not be available unless specific requirements (e.g., residency) are met. There also may be restrictions on the timing of distributions and how they may be used. Before investing, consider the investment objectives, risks, and charges and expenses associated with municipal fund securities. The issuer's official statement contains more information about municipal fund securities, and you should read it carefully before investing.



Coverdell Education Savings Accounts (ESAs)

If you are eligible, you may want to consider using an ESA to help fund your child's or grandchild's higher education. An ESA lets you contribute toward a child's future education expenses until the child turns 18. (An age exception applies to special-needs beneficiaries.) Your contributions and the account earnings generally can be withdrawn from the ESA tax free to pay qualifying education expenses of the child. Annual ESA contributions for a beneficiary are subject to a dollar limit, and an income-based phaseout applies. See us for more information on the eligibility rules.

Financial Aid

The majority of college students receive some sort of financial aid. So, even if the financial aid application process seems confusing and burdensome and you have doubts about your student

qualifying, it is usually worth the effort to apply — especially if you have more than one child in college.

Student financial aid comes primarily from three sources: the federal government, state government, and the college. Financial aid packages can include “gift” aid, which neither the student nor the parent has to work for or repay.

Some examples of gift aid are:

- **Merit scholarships awarded for academic achievements or excellence in sports, music, drama, or art**
- **Scholarships based on need**
- **Grants**

The other type of assistance your student may receive is “self-help” aid, such as:

- **ROTC**
- **Cooperative and other federal and college-sponsored work-study programs**
- **Loans — a variety of government-subsidized and -unsubsidized education loans are available to students and parents. Interest paid on qualifying student loans is tax deductible, within limits.**

In addition to applying for regular financial aid, you should check to see if your or your student’s employer offers any tuition assistance and seek private scholarships and grants.

Other Loan Sources

A home equity loan is another strategy for meeting college expenses used by many parents. With a home equity loan, the interest you pay on the loan also may be tax-deductible.

You also might consider a loan from your employer-sponsored retirement savings plan. Or you may be able to take penalty-free withdrawals from your individual retirement account (IRA) to pay for qualified higher education expenses incurred by you, your spouse, your children, or your grandchildren. Be aware, though, that you may have to pay federal income tax on some or all of the money withdrawn from your IRA. And use caution when borrowing or withdrawing money from any retirement account. You don’t want to shortchange your retirement.

Many life insurance policies offer an investment component along with the insurance component. If you choose such a policy, you will have access to the policy’s cash value as it accumulates. When your child is ready for college, you can borrow against the cash value to pay education expenses. Be aware, though, that some policy investments could lose money, and the loan may result in a taxable event. Also, the policy’s death benefit will be reduced by any withdrawal amount or loan balance outstanding at your death. Having adequate life insurance on both your and your spouse’s lives can ensure your children will have the needed funds for college should something happen to either one of you.

Rental Property — Another Strategy

Juan has found another strategy to help meet his daughter Lucinda’s college expenses. He bought a house in the town where Lucinda attends college, which he rents out to other students. Lucinda lives in the house and manages it for her father.

In turn, Juan pays Lucinda a reasonable salary for the required management duties. Within tax law limits, Juan can deduct Lucinda’s salary, the building maintenance expenses, mortgage interest, and taxes. After Lucinda graduates, Juan plans to sell the property — potentially at a profit.



RETIREMENT PLANNING

The “good old days” when a worker stayed with one employer and retired with a pension and Social Security seem to be gone, maybe for good. Today, you need to take charge and plan for your own retirement security. Relying on Social Security for the bulk of your retirement income is an iffy proposition at best. And many companies today don’t have traditional pension plans.

How much income should you plan on needing when you retire? A financial planning rule of thumb is to figure on needing 70% to 80% of your preretirement income.



That income is the income you’ll be earning at the time you retire, not the amount you’re earning now. In doing your projections, be sure to consider the dramatic effect inflation can have on earnings and expenses.

You can use the worksheet on page 16 to estimate what your retirement income needs might be and how much money you should be investing now so that you can meet those needs when you retire.

401(k) and 403(b) Plans

A smart way to invest for retirement is to take advantage of various opportunities to defer or avoid federal income tax on retirement investment earnings. Employer-sponsored 401(k) and 403(b) retirement plans allow you to defer taxes as you build savings for retirement. If your employer matches any of your contributions, this is an added benefit.

When you participate in a 401(k) or 403(b) plan, you contribute part of your pay to a plan account set up just for you. You don’t pay taxes on the amount you contribute or on the investment earnings in your plan account until you withdraw funds from the plan, usually at retirement. Then, all withdrawals are taxed as ordinary income. Any withdrawals you make before age 59½ may be subject to a 10% early withdrawal penalty in addition to income tax.

Some 401(k) and 403(b) plans allow participants to make after-tax Roth contributions. Distributions of these contributions — plus related investment earnings — are tax-free if you meet tax law requirements. We can help you decide whether Roth contributions would make sense for you.

RETIREMENT INCOME WORKSHEET



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ESTIMATED RETIREMENT INCOME WORKSHEET	EXAMPLE	YOURS
Current annual income	\$70,000	\$ _____
Percentage of preretirement	x 80%	x _____ %
Income needed for retirement	\$56,000	_____
Minus Social Security (for an estimate of your benefits, go to www.ssa.gov and access Your Social Security Statement)	- \$26,000	- _____
	\$30,000	_____
Inflation factor (from below; example assumes 20 years until retirement)	x 1.81	x _____
	\$54,300	_____
Minus projected annual income from pensions	- \$7,000	- _____
Estimate of retirement income needed (in addition to Social Security, pensions, etc.)	\$47,300	_____
Savings necessary to produce needed income (multiply needed income by a payout factor from below; example assumes a 20-year retirement, so the payout factor would be 13.59)	\$642,807	_____
Value of current assets (savings, investments, etc.)	\$80,000	_____
Growth factor (from below; assumes 20 years until retirement).....	x 3.87	x _____
Estimated future value of assets.....	\$309,600	_____
Total amount you need to save (subtract the estimated future value of assets from savings necessary to produce needed income; example \$642,807 - \$309,600)	\$333,207	_____
Annual amount you need to save (divide the total amount by the savings factor below: example \$333,207 ÷ 41.00)	\$8,127	\$ _____

NUMBER OF YEARS UNTIL RETIREMENT:	5	10	15	20	25	30	35
Inflation factor (3% inflation)	1.16	1.34	1.56	1.81	2.09	2.43	2.81
Growth factor (7% return)	1.40	1.97	2.76	3.87	5.43	7.61	10.68
Savings factor (7% return)	5.75	13.82	25.13	41.00	63.25	94.46	138.24

NUMBER OF YEARS IN RETIREMENT:	10	15	20	25	30
Payout factor (7% return; 3% inflation)	8.11	11.12	13.59	15.63	17.30

This worksheet only provides a rough estimate of your needs and savings contributions. You may need to save more (or less) than this estimate. The rates of return used are hypothetical, for illustrative purposes only, and do not represent the rate of return for any particular investment. Actual rates of return will vary over time, particularly for long-term investments.

Source: DST

Individual Retirement Accounts

Retirement investors also have the option of contributing to an IRA. Depending on your individual circumstances, you may be able to deduct part or all of your contributions to a traditional IRA on your federal income-tax return. All investment earnings in a traditional IRA compound on a tax-deferred basis. You pay tax on your earnings and any deductible contributions when you withdraw the money from your account. Any withdrawals you make before age 59½ may be subject to a 10% early withdrawal penalty in addition to income tax.

A Roth IRA is a variation of the traditional IRA that offers an opportunity for tax-free, rather than tax-deferred, investment earnings. Roth IRAs are subject to the same contribution limits as traditional IRAs, and an income-based phase-out applies to annual contributions. Contributions are not deductible, but you generally have access to them at any time. After you've had a Roth IRA for at least five years, you can withdraw investment earnings tax-free if: (1) you are at least 59½, (2) you make the withdrawal in a year you pay qualified first-time home-buying expenses up to \$10,000 (lifetime cap), or (3) you become disabled. After the five-year waiting period has been met, distributions from the account to your beneficiaries or estate after your death also would be income-tax free.

The IRS adjusts the IRA contribution limit periodically for inflation. Married couples can contribute twice as much as singles, even if one spouse isn't employed outside the home. The law also allows individuals who have reached age 50 to make additional catch-up contributions. A traditional IRA can be converted to a Roth IRA. See us for more information about IRAs.

Annuities

Annuities are another tax-deferred way to save for retirement. While contributions to annuities are not deductible, the annual earnings on the annuity's investments are tax deferred.

When you buy an annuity, you enter into a contract with a life insurance company. The company agrees to make payments to you and/or your beneficiary over your lifetime(s) or a set period, usually beginning at retirement. If you die before payout begins, a death benefit is payable to your beneficiary.*

As with most other tax-deferred savings plans, you will have to pay federal income tax on any earnings you withdraw from the annuity during retirement or before, and withdrawals before age 59½ may be subject to a 10% early withdrawal penalty.



Self-employed Plans

If you are self-employed, you have other alternatives for building a tax-deferred retirement fund, such as a Solo 401(k), a Simplified Employee Pension (SEP), or a SIMPLE (Savings Incentive Match Plan for Employees). Contributions to these plans (within tax law limits) and any earnings on the plan investments are not taxed until distributed from the plan. Your plan

* Death benefit payments are subject to the claims-paying ability of the insurance company. An annuity may impose charges, including but not limited to surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses, and feature charges that can reduce the value of your account and the return on your investment.

also must cover any eligible employees you may have. Other tax law restrictions apply. Check with us for more details.

Strategies for the Future

When it comes time to retire, you'll want to have a plan in place for managing the savings you've accumulated over the years. If you've been participating in an employer's retirement plan, choosing a distribution option will likely be one of your first decisions.

Taking a payout of your entire account balance might appeal to you. But first consider the tax consequences. You'd have to pay income taxes on the full taxable amount of the distribution in the year you receive it, leaving you with significantly less money to spend and reinvest. If you instead roll the distribution into an IRA, you'll delay income taxes until you withdraw money from

your IRA. You can avoid federal income-tax withholding on your retirement plan distribution by asking for a direct — or trustee-to-trustee — transfer of the funds to your IRA.

You want to enjoy your retirement. But you also want to be cautious about withdrawing too much from your savings early in your retirement years because that could put you at risk of outliving your financial resources.

You can refer to the chart below for an idea of how long your retirement savings would last given various withdrawal percentages and rates of return. Keep in mind, however, that the timing of withdrawals and variations in investment returns over the years can have a significant impact. When you are ready to retire, we can help you develop an investment and withdrawal plan that suits your personal situation.

MAKING YOUR RETIREMENT ASSETS LAST									
If your assets annually earn	and you annually withdraw								
	10%	9%	8%	7%	6%	5%	4%	3%	2%
2%	9	10	11	13	15	18	22	28	40
3%	10	11	12	14	16	20	25	33	50
4%	10	11	13	15	18	22	28	39	
5%	10	12	14	16	19	24	33	52	
6%	11	13	15	18	22	29	42		
7%	12	14	16	20	25	36			
8%	13	15	18	22	31	54			
9%	14	16	20	27	44				
your assets will last for this number of years									

The withdrawal percentages shown refer to a percentage of the initial value of the retirement assets. The table assumes payments are increased 3% annually and are made at the beginning of each year. Actual earnings would vary from year to year.

Source: DST

LIFE INSURANCE AND DISABILITY PLANNING

Insurance is a piece of the financial planning puzzle that is sometimes overlooked. Too often, people underestimate its importance. However, for most people, having appropriate levels of insurance coverage is critical to financial security.

When you're healthy, it's hard to imagine life being any other way. Unfortunately, life can change — sometimes very rapidly.



Disability insurance helps cover the financial gap that would result should you be unable to work due to an illness or accident.

Life insurance can provide your family with the financial means to go on if you die prematurely. And it can serve several business-planning purposes. Many people start thinking about life insurance when they marry or have children. But, even if you aren't married, you may have someone else, such as a parent or sibling, who depends on you for financial support. The longer your dependents will need support, the greater your need for coverage.

How Much is Enough?

With insurance planning, the first question is always, "How much is enough?" Whether you need life insurance at all and, if you do, the best

amount of insurance coverage to have depend on your particular circumstances. Our worksheet will help you figure out how much additional coverage you need, if any. Start by estimating the income your spouse and/or dependents will continue to receive after your death. Then, estimate their annual expenses. (Use the figures on the Budget Worksheet on page 7 as a frame of reference.) Any shortfall between the expenses and expected income is the amount of income your insurance proceeds will need to replace.

One method financial professionals use to calculate the amount of life-insurance coverage a person should have is to figure \$100,000 of coverage for each \$5,000 of additional income needed. For a more accurate estimate of your life-insurance needs, contact us.

INSURANCE WORKSHEET



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WEALTH MANAGEMENT

HOUSEHOLD INCOME WITHOUT YOUR EARNINGS	LIFE	DISABILITY
Spouse's (dependent's) earnings	\$ _____	\$ _____
Social Security benefits	_____	_____
Retirement plan benefits	_____	_____
Investment portfolio income.....	_____	_____
Income from investing the proceeds of any existing life insurance policies on your life	_____	NA
Income from any current disability coverages you have	NA	_____
Total annual income	\$ _____	\$ _____
Annual expenses	- _____	- _____
Additional annual income needed from life and/or disability insurance	\$ _____	\$ _____
	÷ \$5,000 x \$100,000	
Additional life insurance needed*	\$ _____	

* Note that this calculation doesn't consider that your family could also spend down the insurance proceeds over time, a factor which would lower your coverage needs.

Like life insurance, the amount of disability insurance you should have depends on your particular circumstances. Completing the disability portion of our worksheet should help you determine if you need additional coverage to protect your family, should you become temporarily or permanently disabled.

Term or Permanent Life Insurance?

If you discover you need additional life insurance coverage and you are still relatively young, term life insurance is generally the least expensive way to go because it provides “pure coverage”; you build no cash value in the policy. (Note that the cost of term insurance goes up as you grow older.) Term insurance provides protection for a specific number of years, with the death benefit paid to your beneficiaries if you die during the policy’s term. When the term ends, so does your coverage, unless you renew the policy.

You may want to consider term insurance when:

- **Your need for insurance is temporary, such as when you have dependent children or a home mortgage you would want the proceeds to pay off.**
- **You want to supplement cash value coverage by attaching term riders to your policy.**

Permanent insurance is often referred to as cash value insurance because part of the premium you pay goes toward building equity (cash value). Cash value insurance provides protection over your entire life. For younger people, cash value insurance is more expensive than term. But the premiums generally are fixed, so as the years go by, it can become less expensive. Cash values and interest accumulate in these policies tax deferred, and you can borrow from the cash value. Policy loans and withdrawals reduce the policy’s cash

value and death benefit and may result in a taxable event.

While all life insurance policies are designed to provide a measure of financial security for your family if you die prematurely, cash value policies may be appropriate for other financial planning needs as well.

You may want to consider cash value insurance when:

- **You want to have a life insurance policy in force throughout your lifetime.**
- **The savings element appeals to you.**

Life Insurance Trust

If you have a substantial amount of life insurance, you may want to create an irrevocable life insurance trust to own and be the beneficiary of your policy. At your death, your trustee (a person or institution you name when you set up the trust) will collect the proceeds and manage them for the benefit of the trust beneficiaries, usually your family.

Why is this useful?

- **A life insurance trust gives beneficiaries who are not used to handling large sums of money the help they need. Most trustees are chosen because they are skilled at managing money.**
- **The trust can be set up to provide support for a child, grandchild, or other relative with special needs.**
- **A life insurance trust can potentially reduce estate taxes. As long as the trust is properly structured and implemented, the insurance proceeds won’t be included in your estate for federal estate-tax purposes.**

Equalizing Inheritances

It's not unusual for parents to own a business, farm, home, or another specific asset that they want one or more of their children to have, but not all their children. For example, one child might be involved in day-to-day operations of the family business and another might work in another profession and not be interested in the business at all. If the parents want their children to share equally in their estates, leaving the business to one child and not the other wouldn't work. In this type of situation, life insurance might be used to equalize inheritances among heirs.

Long-term Care Insurance

Many people assume that, when they reach age 65, they'll be able to rely on Medicare and Medicaid to cover the cost of nursing home stays or long-term care in their own homes. In reality, Medicare pays very little of these expenses. And Medicaid pays only after most of your personal assets are gone.

Long-term care insurance can help preserve your assets for your family in the event you suffer a prolonged illness. A long-term care policy can protect against the high costs you'll face if you are unable to live without help due to a physical or mental condition. Insurance is available that covers care received in a nursing home, an assisted-living residence, an adult-care center, or your home. Because long-term care policies and premiums differ among insurance companies, sometimes greatly, you'll want to be sure you carefully compare policies and benefits.

Other Protections

Disability and long-term care insurance aren't the only aspects of disability planning. You also need to think about who will manage your assets if you

become incapacitated and can no longer handle this responsibility yourself. A power of attorney may be a good solution. With a power of attorney, you choose someone to make financial decisions for you if you are unable to do so yourself.

Also consider creating a living will and/or a durable power of attorney for health care to help ensure your wishes concerning the care you receive are carried out if you are unable to make health care decisions yourself. A living will generally is used to express the desire not to receive extraordinary medical treatment. You determine the kind of medical care you want under the circumstances you describe. You should express your wishes in as much detail as possible.



A durable power of attorney for health care — sometimes called a “health care proxy” — designates someone else to make decisions for you. The scope of a durable power of attorney generally goes beyond that of a living will. A durable power of attorney can address nearly any health-care decision. Your attorney can advise you concerning applicable law and draft the relevant documents for you.

ESTATE PLANNING

Estate planning starts with a Will. If you die without a Will, you lose the privilege of choosing how your assets will be distributed. Instead, your state's intestacy law will decide to whom your assets will be distributed and the amount each person will receive.

You also give up the right to choose a guardian for your children and an executor (or personal representative) to settle your estate. A state court will choose a guardian and administrator for you. And, without a Will, you can't take advantage of certain planning opportunities that can reduce taxes and protect your assets for your family.

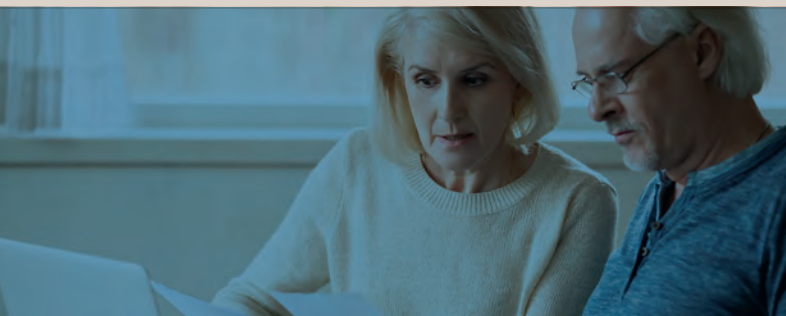
Married people often think that a simple Will that leaves all of their assets to their spouses is an adequate estate plan. Usually, it's not. A simple Will can't address concerns you may have about how well your heirs will be able to manage your assets or what may happen to your business after your death. So, in addition to a Will, you may want to include other planning strategies in your estate plan.



reduce taxes



protect family assets



Plan ahead

Testamentary Trusts

A trust established in your Will can provide asset management for your family after your death. You also may be able to use a testamentary trust to give your spouse income for life, while ensuring your children will receive your assets at your spouse's subsequent death.

Lifetime Gifts

A well-planned program of lifetime gifts to family and friends can save potential estate and gift taxes, preserve more of your assets for your family and other heirs, and ensure your property goes to the people you want to have it. Each year, you can give any number of people up to \$15,000 each in assets (\$30,000 if your spouse joins in the gift) without triggering any gift- or estate-tax consequences. This annual exclusion is adjusted for inflation. Making gifts of appreciating property to family members now may significantly reduce the amount of assets subject to estate tax later.

Capital Gains

On the other hand, if you are unlikely to have a federally taxable estate, the better strategy may be to hold on to a large asset, such as a house, to allow it to pass through your estate. Because the federal estate-tax exemption is currently set so high (\$11.70 million in 2021) and is portable between spouses, very few estates are taxable under existing law. Therefore, individuals may prefer to *include* property in their estates to take advantage of the tax law's basis "step-up" rules.

These rules allow the recipient of inherited property to “step up” the original cost basis to its value at the time of death. That way, any capital gain taxes on a subsequent sale will be measured by the difference between the stepped-up basis and the sale price. In contrast, when a person makes a gift during his or her lifetime, the gift recipient must generally take the donor’s cost basis.

Charitable Trusts

Gifts to qualified charities can provide income-, gift-, and estate-tax savings, as well as help further the work of organizations in which you believe in. For example, establishing a charitable remainder trust can give you a current income-tax deduction in addition to removing assets from your taxable estate, thus reducing estate taxes.

With a charitable remainder trust, you (or another noncharitable beneficiary) receive an income from the trust for life or a specified number of years. At the end of the trust’s term, the charity you’ve named as the remainder beneficiary receives the trust property.

Perhaps you are hesitant to make a large gift to charity because doing so would diminish the amount your children will eventually inherit from you. You could purchase insurance on your life in an amount equal to the value of the property and name your children as policy beneficiaries. That way, you could establish the trust secure in the knowledge that your children will receive the insurance proceeds upon your death.

Keeping Assets in the Family

Today’s “blended” families can cause estate planning concerns. Consider Brian and Sara, for instance. Brian has two children from a former marriage. While he wants Sara to continue to enjoy their current lifestyle should he die first, he also wants his children to eventually receive what he feels is their fair share of his estate.

A good planning strategy for Brian may be to create a special type of trust in his Will called a qualified terminable interest property (QTIP) trust. With a QTIP trust, Brian can give Sara a lifetime of income and still ensure that his children will receive the property in the trust at Sara’s death. And, if all conditions are met, the property in the QTIP trust will qualify for estate-tax benefits in Brian’s estate.



MONITORING YOUR PLAN

Financial planning is an ongoing process. At different stages of your life, you'll have different financial needs and goals. As you achieve one goal, another will take its place. Consequently, you may want to review your financial plan annually — or more frequently if a major change occurs in your circumstances.



By looking at your plan each year, you can see where you stand, check the progress you've made toward your goals, and decide if you need to revise any of your current goals or set new ones.

Contact Us

We would be happy to help you with such a review. Or, if you don't already have a financial plan in place, contact us for help getting started. Our financial professionals can assist you in designing and implementing a plan to reach your goals. Call us today at (518) 584-5844 to schedule your complementary consultation. Remember, the sooner you begin planning, the sooner the pieces of your financial life will begin falling into place.



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NOTES

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