KELMAN LAZAROV
The human side of wealth management
July 2012

The 2012 Mid-Point

Looking Back, Moving Forward

Summer has arrived in full force in Memphis, with temperatures reaching triple digits, and with it comes the end of the second fiscal quarter and the mid-point of the year. Like the past few years, 2012 has proven to be a bit of a bumpy ride so far, as we face financial challenges both at home and abroad. Across the Atlantic, the European Union struggles to remain viable, and here at home, our lawmakers prepare to face a Catch-22, rather ominously termed a "fiscal cliff," at the end of the year. In this economic climate, exactly what challenges do investors face, and how are we at Kelman-Lazarov managing your portfolio in response?

Let's first turn our attention to our global neighbors, where one question seems to dominate: Will the European Union break up? This summer's headlines concerning the financial situation in Europe are eerily similar to the ones of the past two summers, leading to volatility in the stock market for a third year in a row. Words and phrases such as austerity, European Union (EU), European Central Bank, and International Monetary Fund (IMF) have become household terms, as the media focuses on the possible breakup of the Eurozone. The speculation on EU disintegration is mainly a result of Greece, Spain, and Italy resisting tough austerity measures backed by the IMF, as well as by the power duo of German Chancellor Angela Merkel and French President Nicolas Sarkozy, who demand belt-tightening in exchange for debt relief. Many question whether stronger economic nations such as Germany will continue to support debt-ridden countries. So, will the EU in fact break up – and if not, what obstacles must it overcome to remain sustainable?

To answer those questions, we must first examine why the euro exists as a single currency. In the United States, exchange rates have a relatively minor impact on our economy. We export around 10-15% of what we manufacture, and we import 10-15% of what we consume, so a modest change in the exchange rate will generally not affect our imports and exports enough to have a major impact in our economy. By contrast, some European countries export 70% of what they manufacture, and import 70% of what they consume. In an economy like that, a change in exchange rate can be a very good or a very bad thing. To decrease the exchange rate risk, the euro serves as a single currency to hold the exchange rate steady among the many countries that use it.

That sounds like a good plan; so why is the euro causing such trouble? Traditionally, an independent country such as Greece would be able to control its own monetary policy, increasing the money supply to meet debt obligations, deflating its currency, and inflating its way to economic growth. With the European Union, there are many economies to consider, and the European Central Bank (similar to the Federal Reserve in the U.S.) must consider many different financial impacts when making policy decisions. Unfortunately for Greece and other countries, nations with the strongest economies, such as Germany, drive the interest rates higher, leading to a deflationary bias and thereby increasing the chances of a recession.

There are a few other weaknesses of the euro. For example, the U.S. federal government collects taxes and can redistribute spending to prop up local economies when they struggle. Since the EU member states collect taxes, but very little tax money reaches the EU itself, the EU simply does not have the ability to help out in similar situations. In addition, language and cultural barriers inhibit people from traveling to another country to spend money, so supply and demand does not change much across the board. Otherwise, we might see more spending in areas where prices are depressed and less in areas where prices are higher, creating a healthier economic climate.

Now, a little positive information: despite the weaknesses of a single currency in the Eurozone, the euro remains the best alternative to a free-floating exchange rate for most members. It is in the best interest of major players such as Germany to keep the euro intact, as its currency would appreciate dramatically without it, leading to fewer exports and a weaker economy. Additionally, the euro is still in its infancy, and we expect policies to evolve to improve upon some of the current weaknesses. The U.S. dollar was developed in 1864, but didn't work exceptionally well as a single currency until the 1930's. For these reasons, we expect the euro to survive, but recognize the possibility that the EU could lose a small number of member states.

Now let's turn our attention closer to home. Many of you may have heard the term "fiscal cliff" and perhaps wondered if we were headed over one! At Kelman-Lazarov, we take a more optimistic view, although we expect volatility will continue at least until the elections in November.

Simply defined, the fiscal cliff is the dilemma American lawmakers will confront at the end of the year. Our government basically has two choices, both of which will have a huge impact on the economy. One, they can allow scheduled changes to go through as planned, including the end of Bush-era tax cuts and last year's payroll tax cuts; the beginning of taxes related to President Obama's health care law; and the beginning of federal spending cuts specified in the 2011 debt ceiling agreement. If this is the case, the deficit would be reduced significantly, but our gross domestic product is predicted to go down, resulting in another recession.

The 2012 Mid-Point (Continued)

Alternatively, the lawmakers can rescind all or some of the tax increases and spending cuts. However, in this case, the United States faces both an increased deficit and an increased chance of undergoing a debt crisis like the one in Europe. In addition, just the prospect of the cliff can weaken the economy before 2013, as businesses and households may put the brakes on spending in anticipation.
Without co-operation in Congress, the fiscal cliff is inevitable, but the partisan spirit that drives this predicament doesn't help the situation. Both parties agree on one thing – they want to avoid the cliff, but they disagree strongly on how to accomplish it. Democrats are pushing for a combination of spending cuts and tax increases; Republicans are for cutting expenditures, but want to avoid a raise in taxes. Complicating the matter, it is an election year, so both Republicans and Democrats want to be seen as "taking a stand," making a compromise less likely, at least until after the November election.

We at Kelman-Lazarov are of course concerned about the ramifications if Congress were to do nothing to ameliorate the fiscal cliff we face, but we are realists in understanding that very little is likely to be done before the November elections, even though there is a bi-partisan Congressional group meeting this summer. We can only hope that this group is putting together a framework that will incorporate the good work that the Bowles-Simpson group proposed, which was unfortunately ignored by the President and both parties. We believe the importance of a resolution will be so clear that a compromise will be reached either in the lame duck period or in the first quarter of 2013. Hopefully the bi-partisan group will develop a reasonable plan to keep some of the tax cuts and begin rational budget cutting, including entitlement spending. Therefore, we think the uncertainty that causes volatility will dissipate as we get through the election.
We see some opportunities arising from the volatility related to the European crisis. We have begun adding modest positions in funds that hold large, multinational, non-discretionary European companies that have taken severe hits, along with most European stocks. At around eight times the average earnings over the past five years, we think these companies will prove to be a good value over the longer term.

In other words, no matter what ups and downs the market experiences, your experience with us will remain rock steady. We will always be on the lookout for ways to better your personal financial situation, and as always, we are available to answer any questions you have about the contents of this newsletter, or any other concerns you may have. We look forward to hearing from you!

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Tips of the Trade

Medicare 101: To "B" or Not to "B"

Whenever a client calls with a question that may be relevant to more of you, we like to share it with you. A few weeks ago, a client needed some information about Medicare. Although she has a few years before she becomes eligible, she wanted to get a jump on preparing for her retirement years. As with many of us, she is familiar with the basics of Medicare, but needed more precise information about her options. Like her, it may be time for you to start thinking about Medicare, or you might be helping your parents plan their road to retirement. Either way, we are here to help. We will cover some of the basics in this issue, and go in-depth in a later newsletter. And of course, you can call us anytime with questions or concerns about how Medicare fits in to your specific situation.

To recap briefly, Part A helps cover inpatient hospital stays. It is free beginning at age 65 if you have worked for 10 years or more. Part B helps with outpatient care. Treatment covered may include outpatient care in a clinic, laboratory and diagnostic tests, and doctor visits. Part C or Medicare Advantage combines Parts A and B and may include prescription drug coverage, vision and hearing exams, and preventative care. Part D helps cover the cost of prescription drugs.

Our client's question concerned whether or not she would need Medicare Part B. Part B is optional and costs a minimum of $99.90 a month; however, the cost may increase depending on your income.* The decision about whether or when to opt for Part B depends on a few personal factors. Basically, you should opt for Part B if:

- You have retiree insurance through a former employer; that coverage becomes secondary to Medicare when you turn 65
- You are covered by your current employer, and the employer has less than 20 workers; again, that coverage becomes secondary to Medicare at age 65
- You have a coverage plan purchased from a private insurance company. Individual coverage typically does not continue after age 65, or it also becomes secondary to Medicare

You can wait to enroll in Part B if you are presently working, and your company employs more than 20 workers. In that case, your employer remains the primary insurer even after age 65, so you don't need Part B until your current coverage ends.
Always keep in mind that individual needs vary, and we stand ready to help you sift through your Medicare options with your personal circumstances in mind to make the choices that are right for you.
* www.medicare.gov/cost

Spring Cleaning

Several years ago, a prediction was reported in news outlets and repeated word of mouth that a major earthquake was going to strike Memphis on a specific day in December. Naturally, most people of common sense took this with a grain of salt, but it did engender a spate of emergency preparedness across the city. People discovered how many gallons of water they needed to survive, and companies reviewed their safety procedures. Today Memphis still stands without so much as a large tremor to cause alarm, but we all know that the unpredictable – a natural disaster, a prolonged medical emergency, an unexpected death – can strike anytime, and it is best to be prepared financially as well as physically. To make sure your financial house is cleaned up and ready for any situation, we offer a few suggestions:

Pass on your passwords: Keep a list of usernames and passwords associated with all your existing financial accounts. Make certain you include information about any online accounts you have, whether banking, bill-paying, or personal accounts such as email, Netflix, social media sites and travel accounts. This is especially important for your spouse, executor and/or heirs to have in the event of your death.

Make paper copies of your plastic: Have copies of all your credit and debit cards, both front and back. Verify that you have all account numbers, expiration dates, and customer service numbers.

Be prepared for your bank: Also copy information for other accounts such as checking and savings accounts, money market accounts and home equity lines. And in the event of a death, make sure you and your spouse know how a joint account will be affected when the time comes to move it into one name. Some banks may place a hold on deposits or withdrawals, and in some cases, a bank requires a surviving spouse to close a joint account and open a new one, which can result in the loss of established online banking, which includes automatic bill payments and direct deposits.

Ensure your insurance: In the event of a natural disaster or a death, you will need to contact your insurer. Once again, the photocopier is your best friend. Keep a copy of ALL your insurance cards – life, property, auto, medical, dental and disability – as well as direct contact information for your provider and the 24-hour line to the main or claims office of the insurance company.

Keep in contact: If you are faced with a lengthy medical emergency, contact information for your doctor(s), preferred hospital, and pharmacy is an enormous help to your family members, may reduce the chance of medical expenses that are not covered by your insurance, and ensures that you are treated by a doctor you know and trust. In addition, if you are unable to work during a medical crisis or natural disaster, you will need to get in touch with your employer, so it is a good idea to have that contact information available.

Identify your investments: Make copies of all financial documents that verify your investment accounts, and be sure to include K-L contact information as well. Keep any rules pertaining to rolling over investments such as an IRA in hard copy form, and plan ahead for rollovers into a survivor's account if a death occurs. And remember, the time to make sure all investments – including retirement accounts, real estate, savings bonds, and stocks and paper stock certificates – are owned jointly is now, before a disaster or death.

Reveal your will: Have available a copy of your will or directions on how to get it (i.e., your lawyer's contact information). If a family member has power of attorney, let other relatives know.

Store your information safely: The goal is to have the information easily accessible, to you in the event of a natural disaster or other emergency, and to your spouse or other heir at your death. We suggest keeping all hard copies listed above as a "kit" in one secure place such as a safety deposit box (of course making sure your spouse/heir has access) – and a second copy of the kit in a trusted family member's home (ideally a home that is not close to yours, in case of a city- or county-wide disaster).

An unexpected event such as a disaster or death causes shock, distress, sadness and even fear. But the roller-coaster ride of emotions can be slowed if you have taken the time to plan beforehand. At K-L, we are here to help you prepare for the future, whatever it may hold! Please give us a call anytime if you want to review, update, or make any changes to your financial package.

Tips of the Trade: Focus on the FAFSA

Summer is in full swing, along with the plans of high school graduates to attend freshman orientation at college, decorate their dorm rooms, and register for exciting new classes. Their enthusiasm is contagious, but we parents and grandparents know the hard work that is necessary to save the money needed to pay for those college plans. But with the costs of higher education soaring higher each year, financial aid is sometimes needed.

The path to obtaining federal, state, and institutional financial aid for college, as well as some scholarships and non-need based loans, is the Free Application for Federal Student Aid. This is referred to as FAFSA by those "in the know" and is used to calculate a family's "expected contribution." In other words it is used to determine how much the family should have to pay towards the cost of college, and conversely, how much they should be eligible for in terms of financial aid. It is calculated this way because the amount the family can contribute is a constant, whereas the actual amount of financial aid needed will be dependent upon the costs of attending the specific college. What even many savvy people do not realize is that planning to present their financial situation in the best possible light needs to begin well in advance of their child's starting college. There are ways to improve eligibility for financial aid, but they are time sensitive.

A good starting point is to become familiar with the official FAFSA website: www.fafsa.ed.gov. This contains a great deal of useful information and is where you will go to complete the online application. The U.S. Department of Education begins accepting the applications on January 1st of each year. You apply in advance of your child's college start date and each year thereafter through the year that precedes his or her graduation.

Planning to present your financial situation so as to maximize eligibility for aid needs to start well in advance. If your student will begin college in the Fall of 2013, the application will look at your assets as of the date of your application (so timing can be important), but it will also look at income from January 1, 2012 to December 31, 2012, which is referred to as the base year. Keep in mind that since you will be reapplying annually, you need to be cognizant of how you position your assets and income over a multi-year period.

When you are new to the FAFSA application process, you may not be aware that some assets negatively impact financial aid eligibility (counted assets), while others do not (non-counted assets). It is important to evaluate opportunities to convert counted assets to non-counted assets. Non-counted assets include:

1) Life insurance
2) Qualified retirement plans: Consider maximizing your contributions. The assets in the plan are non-counted assets, but it is worth noting that the contributions each year are still factored in as untaxed income for purposes of calculating income.
3) Primary personal residences: If you are thinking about purchasing a larger home, you may want to do so prior to the FAFSA application process. If you are planning to stay in your current home, you may want to pay down your mortgage.
4) Personal property (cars, electronics, clothing, furniture, etc.): You can spend down your assets by making planned major purchases prior to the base year. It is also helpful to pay down credit card debt and car loans.

One mistake some people make with regard to positioning their assets is saving assets in each child's name, which can backfire. Only a percentage of assets are included in the aid calculation, and the percentage of a child's assets that is counted is much larger. In addition, parents have a certain portion of their assets that are "protected." Protected assets are not included, and children have no protected assets. And before you think about setting up a trust for your child to remove assets, know that the FAFSA may still count the trust as the student's asset, even if the trust restricts the use of principal. A 529 college savings plan with the parent as owner continues to be a good planning tool, as it has little effect on the financial aid calculation.

With regard to income planning, it is important to know that capital gains are counted as income during the base year. Plan to take any capital gains before the base year, or wait until after the spring of your child's junior year in college. Be sure not to overstate your income; for example by reporting gross income instead of adjusted gross income. You may also deduct the amount you pay for health insurance premiums. And if you work in a family run business, you may want to consider taking a lower salary or postponing bonuses during this time.

If you are a grandparent who wishes to help with college expenses, it may be best to gift the money after college graduation so it will not hurt financial aid elilgibility. Your gift can still be used to defray the cost of college if your grandchild uses it to help pay off student loans. We hope this overview helps if you are planning for higher education for your child or grandchild, and if not, please feel free to pass it along to someone who is. Be sure to keep in mind that the rules may change prior to your child entering college. As always, if you have any questions about ways to start saving for college, please let us know.

Mark Kantrowitz, Maximizing Your Aid Eligibility, http://www.finaid.org/fafsa/maximize.phtml (2013)

For What It's Worth: Teaching Your Kids the Value of Money

When is a child ready to start learning about money? At Kelman-Lazarov, we've gotten that question from different clients over the years, from brand new parents to grandparents preparing to help the next generation head to college. We were reminded of it again in the past year when our own Keith Schmitt became a dad for the first time to son Nicolas, who recently celebrated his first birthday. At this age, Nicolas is more likely to play with a dollar than try to understand what it's worth, but there are many ways parents can begin giving their children a solid foundation in the basics of money at an early age. And as your children grow, they can build on that foundation to grasp more complex financial strategies, paving the way to financial independence as an adult.

Just having conversations about money is a good first step with children of all ages. You can look for opportunities to incorporate financial lessons as you go about daily life. This can be as simple as helping a first grader count out enough change for a candy bar, or as detailed as having your high school senior plan a financial strategy for attending college. You can talk about how to prepare and stick to a budget in the car on the way to buy gas, in the grocery store, or around the dinner table when you discuss plans for a family vacation. Of course, you will want to keep the discussions age-appropriate – your six- year-old will not understand what an interest rate is, but your teenager definitely needs to know before he is allowed to get a credit card. Family discussions are a great way to begin the educational process.

We've come across other practical tips for raising money-savvy kids for you parents and grandparents (and aunts, uncles, and family friends). No matter what age child or grandchild you have, we hope these tips are helpful, and as always, please feel free to pass them on.

Elementary School: Show Me the Money
This age child is often curious and inquiring, and it is a great age to introduce them to money. You can start with coins, explaining the value of each, and work your way up to bills. It is also a good time to start an allowance. You may want to tie the allowance to chores, so the child can see that money is earned rather than just given out. Children this age are ready for some basic concepts:

- Wise spending: Help them see where their money is going, and talk about the difference between needs and wants. Let them make decisions about how their allowance is spent – and let them make mistakes! They will learn at an early age the importance of wise money management.

- Savings: Encourage them to save a portion of their allowance. This will help them see that money accumulates, and can be used later for a larger purchase. A piggy bank with separate slots for "spending" and "saving" is a good tool.

- Giving back: Introduce this idea by talking about your own volunteer work, and why it is important to you. You can help them pick out a charity that fits in with their interests – a pet shelter for animal lovers, for instance – and let them decide on an amount they would like to give, and how often.

Middle School: Money Talks
Children aged 11 – 13 are ready for more complex conversations and more responsibility. Your talks with them can introduce a higher level of financial planning:

- Budgeting: Clearly define what you expect your child to manage out of her allowance. Some items you can consider including are school lunches, clothes, books, gifts, and entertainment. Teach them to comparison shop for good values, and help them create a manageable budget. As they get older, you may want to increase their allowance, but once you fix an amount, stick to it. To determine an adequate allowance, you can keep track of your spending on your child for a month or two, then decide what portion of the expenses you want him to cover.

- Savings: Build on what they have started, and go a little deeper. Teach them that saving helps you avoid debt and prepare for emergencies, as well as enable you to purchase more expensive treats. Begin talking about long-term and short-term financial goals, and help them see that savings is an important part of wise money management. Start a savings account for your child, and help them make saving a habit. To encourage your children, consider matching all or a portion of what they deposit. This is a great time to introduce the concept of interest – and note that the more they save, the more they will earn.

For What It's Worth: Teaching Your Kids the Value of Money (Continued)

High School: Men (and Women) At Work

The high school years are so exciting for teenagers – and can be so scary for parents and grandparents. You have only a few years left before your children are on their own, so take advantage of their growing maturity to introduce them to greater financial responsibilities so they will be ready to make the decisions that lead to independence.

- Earnings: Encourage your teen to get a job. Even working just a few hours a week or during the summer gives kids practical experience in earning and managing money – and a very valuable opportunity to learn about taxes. Now is a good time to help them open a checking account, and teach them stay on top of their balance. Most banks have the convenience of online banking, but be sure your child knows the basics of balancing a checkbook.

- Debt: Explain to your child how debt works. You can show them a credit card statement, for example, and use it to teach them how to use credit wisely. Kids this age are often very interested in having their own car, which can lead to an informative discussion on car loans and other types of borrowing, including a description of how banks charge interest on all loans and credit lines.

- Investing: As your child learns more about money, introduce the concept of investing. Talk about setting long-term goals, and the differences in savings accounts and investment vehicles. You may even want to allow your child to do some investing – some mutual fund shares have low initial payments and can be a good place to start. Work together to find a good first investment for your child, and help her monitor its performance.

The best advice we ran across? Practice what you preach! Be sure to model good financial habits, and let your children take part in some financial discussions and decisions (again, age of the child will factor in). The media and their peers may have an influence on your children, but the bottom line is, what you do will be the biggest influence of all. As you talk about the value of money with your children, please feel free to contact us if we can help you in any way!

K E L M A N L A Z A R O V

The human side of wealth management

January 2014

Thoughts for the New Year

You've eaten the last bite of turkey, written that final thank-you note for gifts, and sipped the last drop of champagne. Now that the holidays are over, it may be time to get back into your usual routine and set in motion the plans you've made for the New Year. Here are a few items we thought would help when you start preparing for tax season, need to check your accounts online, or may be of interest to you. As always, feel free to pass the information along to friends and family.

IRS Updates

- In 2013, itemized deductions were phased out at the adjusted gross income of $300,000 for married joint filers and $250,000 for single filers. The AGI amount for the deductions increases slightly in 2014 to $305,050 and $254,200, respectively.
- The annual gift exclusion for 2014 remains unchanged at $14,000. However, the lifetime gift and estate tax exclusion amount has increased from $5,250,000 in 2013 to $5,340,000 in 2014. The increase provides a wonderful opportunity for high net-worth clients to transfer larger amounts out of their estates this year.
- IRA deduction limits and Roth IRA contribution limits have changed slightly from 2013. Please contact your CPA for the exact amounts.
- Some things do remain the same. The maximum 401(k) deferral limit remains unchanged at $17,500, and the maximum IRA limit is unchanged at $5,500. Both the 401(k) catch-up contribution and IRA catch-up contribution stay the same at $5,500 and $1,000, respectively.

Fee Update

- In 2014, the annual fee charged by Cetera for holding an IRA and reporting the information to the IRS will increase by $5, from $35 to $40 per year.

Online Access

- We are happy to announce a new website designed to improve your online experience when you want to access your accounts. Beginning in February when you log in to view your accounts, you will be redirected to a new site. No changes to your login information are needed – just use your same password and online ID. If you wish, you can go to the site directly at www.netxinvestor.com. If you have any questions about the new site, please give us a call.

As you look forward to 2014, take a few minutes to review your existing financial documents, including your Will and insurance policies. If the past year held changes for you, such as a new marriage, the birth or adoption of a child or grandchild, or more sadly the death of a loved one, please remember to update your beneficiaries. It is also a good idea to make sure a trusted family member has all your password information and knows where important documents can be found. Your insurance agent can help you with your life and health policies, and contact your CPA if you have questions regarding your IRA or any IRS issues. And we at Kelman-Lazarov look forward to hearing from you if you have any questions or ideas regarding your investment portfolio. Have a Happy New Year!

Questions You Don't Know You Have

In this newsletter, we've spent time thinking about all sorts of questions. Before we close, we want to touch on what can often be the greatest challenge when it comes to questions: when we don't know enough to know what questions to ask. When it comes to your finances, there is almost always a question lurking below the surface. Every large decision or life event involves many moving pieces, and it's a near certainty that some of those pieces will present pitfalls and opportunities regarding your financial security, whether you know it or not.

When you are considering...	You might want to think about...
•Marriage	New estate planning documents; income tax considerations related to timing and filing status; whether a prenuptial agreement makes sense
•Divorce	Reevaluating budget and retirement strategies and goals; reviewing beneficiaries; confirming health insurance coverage
•Retirement	Selecting single life pension income vs. joint life; coordinating distribution from qualified assets vs. non-qualified assets; company stock option strategies; Social Security strategies
•A Job or Career Change	Evaluating benefits packages; rolling over a retirement plan from your previous employer; reevaluating your budget relative to changes in income and living costs associated with a new job
•The Birth or Adoption of a Child or Grandchild	Reviewing estate planning documents; college funding vehicles; life insurance needs
•Higher Education	Funding mechanisms and financial aid (positioning of income and assets); evaluating optimal funding strategies (529 vs. ESA vs. Custodial)
•Charitable Giving	Evaluating whether to give cash vs. appreciated assets; optimizing timing for when to give; whether to give outright or through a trust or Charitable Gift Account

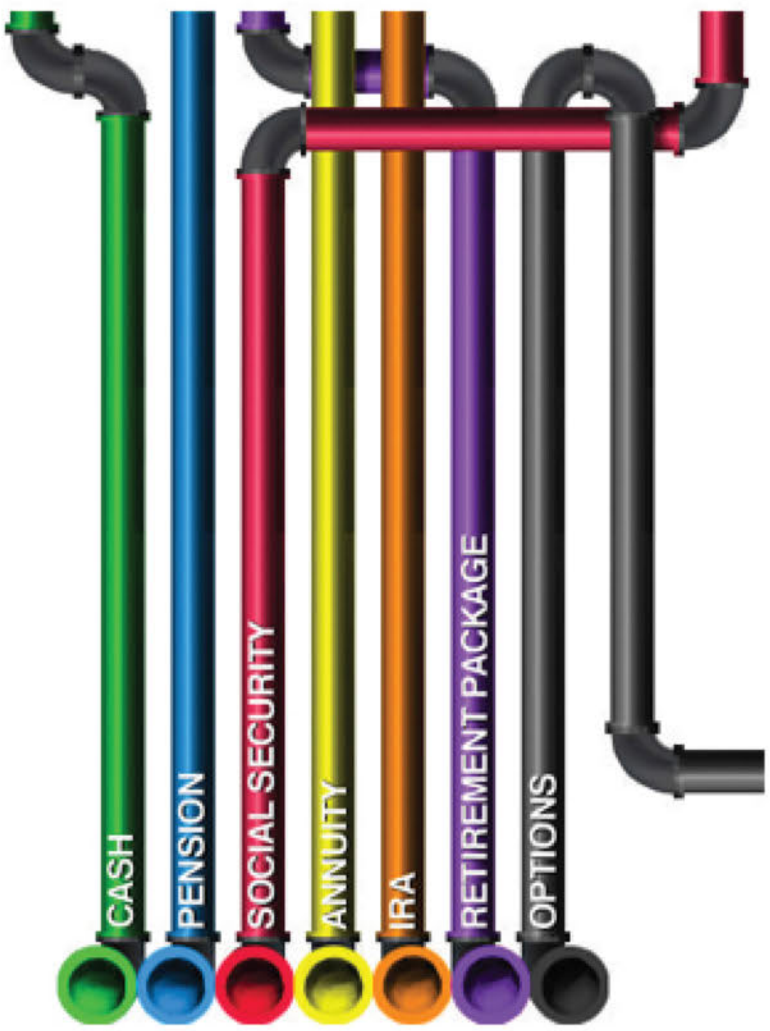
We are here to ask the right questions and help you work through the answers, so that you can spend your time enjoying life's celebrations and handling its issues. Whenever there is something new in your life, let us know, and we will let you know if there are financial decisions where we can assist. Even when there aren't, we love to hear what's going on with you and your family! Whatever the circumstances, there is one question we hope you'll always think to ask: What's the number for K-L?

Planning for Retirement: Where Will My Check Come From?

When we help a client plan for retirement, one of the questions we hear frequently is, "Where exactly will my money come from after I stop working?" A simple question, but one that requires a complex answer – and often the answer does not become apparent until after our holistic planning process is complete, which can take several years in most cases. For many retirees, the answer to "where does my check come from?" may not be fully realized on a consistent basis until after age 70, when Social Security benefits are maximized, and 70 ½, when Required Minimum Distributions (RMDs) must start. In fact, our longer-tenured K-L clients know that their one simple question often leads us to ask what seems like a never-ending stream of more questions and to end up with a flexible plan that changes over time to match varying factors and needs.

When answering any question, it is always important to understand all of the variables involved, recognizing that many are not mutually exclusive. In the case of retirement planning, a good starting point is identifying the potential sources of income or money that could be used to satisfy your monthly needs:

- Cash
- Individual/Joint Non-Qualified Account
- IRA
- Roth IRA
- Severance/Retirement Package
- Business Buyout
- Alimony
- Annuities
- Social Security
- Pensions
- Deferred Compensation
- Options
- Restricted Stock



We begin here, but the first layer of complexity comes with the realization that not all income sources are created equal. Our goal is to create a flexible strategy that maximizes your best sources of income, taking into account taxes, inflation, health, time horizon, risk tolerance, current economic environment, and other considerations. As one example, let's take a look at Social Security.

Social Security by itself can impact the timing and distribution strategy of your entire retirement plan by several years. For instance, early benefits can be taken as soon as age 62, or you can opt for maximum benefits at age 70. Some clients, concerned about perhaps having a shorter life span, like the idea of taking Social Security as early as possible to make sure they are able to get payouts. However, this can be a very short-term view when you consider factors like longevity, inflation, and spousal benefits. In addition, maximizing one income source like Social Security may enable you to better utilize other resources for goals such as legacy planning for your family.

When to receive pension benefits is another major decision. The election is typically irrevocable (no mulligan for you golfers), so it is important to understand your choices. When companies present the available pension options, they usually lead with life-only. This typically offers the highest monthly benefit, prompting some to choose it without understanding how a pension can complement other retirement income sources. For married couples, the decision is even more critical – a surviving spouse may be left with hugely reduced benefits or even none at all, depending on the option you choose. We always recommend calling K-L before making a decision about pension distributions, as it may be difficult to plan around an option choice after the fact.

Next quarter, we will present a follow-up article to further illustrate the concepts and ideas we shared today using some real life case studies, with some not-so-real names of course. The studies will emphasize the importance of making sound decisions that take the present into account while planning for the future using fair and conservative forecasting assumptions. In the meantime, there is one "simple" answer that applies to any of your questions, whether about retirement or another financial need: ask K-L for help! We are always glad to hear from you.

Protecting Your Legacy: Successful Estate Planning

Hollywood legend Bob Hope lived to the ripe old age of 100 and was a comedian to the very end. According to his grandson, Hope got his last laugh just before he died when his wife asked where he would like to be buried. Hope replied, "Surprise me." While stories like this bring a smile to our face, in reality surprises are the last thing anyone wants when dealing with the death of a loved one. Developing a well-thought-out estate plan is one of the most important gifts you can give your family and usually falls under a few main categories:

Get Organized

We recently heard from a colleague after the loss of his father, who told us that a lack of organization added emotional stress during his family's grieving process. "An itemized list of every asset, liability, insurance policy, and investment account is a useful starting place," he recommended. "Professional relationships help if an advisor knows the decedent well and can assist the survivors. Many clients find that later in life they want to rely on one trusted relationship to take care of loved ones, especially those that are less financially savvy."

It is important to organize key documents and make copies of each, especially legal documents such as driver's licenses, social security cards, wills, trusts, birth certificates, marriage licenses, and passports. Consider storing the originals in a safe deposit box at the bank or fireproof safe in your home.

Make a list of your passwords and login information for your email and social media accounts and the location of all banking and investment accounts. Be sure to include contact information for your insurance provider, accountant, and K-L. You may want to create one place where all of your financial information is kept.

Above all, make sure your heirs know exactly where everything is located.

Create a Will

Questions about who gets what after you are gone may seem unpleasant, which may be why only between 35%-45% of Americans have a will, according to Money Magazine. But without a will, the state decides who gets your assets – without regard to the needs of your heirs or your own wishes.

A will is crucial for parents of minor children to specify their choice of guardian. It also allows you to name your executor, who will be in charge of distributing your property, filing tax returns on behalf of your estate, and processing claims from creditors.

It's a good idea to review your will periodically, especially after a major life change, and at the same time, make sure your beneficiaries on your insurance policies and other accounts are up-to-date. A client once told us about an older life insurance policy of her mother's that benefited her grandmother – who had been gone for over 10 years.

Plan for Incapacity

Anyone can be left incapacitated at any age with no warning. Without a clear directive in place, it will be difficult and possibly expensive for your caregivers to make financial and healthcare decisions for you. Advance healthcare directives (or living wills) give specific instructions for your health care when you are unable to speak for yourself, spelling out your wishes for treatment options in advance, including such measures as life support.

"We knew from my father's will that he wished to die a natural death," a client recently told us. "He also told us he did not want to go on a respirator if he would never come off it. What we did not know is, did he want to be revived? If so, how many times, and under what scenarios? We did not know how he felt about pain medication. An advance directive would have been so helpful."

You may also want to consider a medical durable power of attorney (POA), which empowers an individual to make medical decisions for you if you are unable to make your wishes known and to make decisions not covered by your living will. A medical POA is different from a power of attorney authorizing someone to make financial transactions for you. A financial power of attorney, when durable, allows the person selected by you to step in to pay your bills, manage your property, and make financial decisions on your behalf.

Communicate, Communicate, Communicate

Parents – and even spouses – are sometimes reluctant to share their estate plans. Some may truly feel it is a private matter, while others want to avoid any conflict over their intentions. However, explaining your decisions now will avert surprises later and make it more likely that your decisions will be accepted without acrimony.

Holding a family meeting is a good way to give a general explanation of what you have planned in the event of your disability or death. If you are setting up trusts, you can explain why and how they will be used. If charitable giving is part of your plan, let your loved ones know how this fits with your values. Now is a good time to discuss the roles trustees, powers of attorney, and executors will play. And of course, let your family know where all your financial information is kept.

This is an excellent time to allow the K-L team to meet members of your family, if we haven't already done so. We are always happy to help explain how your financial decisions will work for your family and answer any questions.