

Life Insurance and You

You typically need life insurance when you have family members who rely upon your income. How much life insurance you need depends on how well your family can live without your income. One rule of thumb is to buy life insurance that is equal to between five and seven times your annual gross income.

When you're younger, term insurance is the least expensive way to cover the financial needs of your



dependents in the event of your death. For your premium, you receive a predetermined amount of life insurance protection but usually no cash buildup (savings). You can buy term insurance with level premiums for one year, called annual renewable term (ART). Other term policies and specified time periods are five, 10,

15, or 20 years. At the end of these time periods, the term insurance usually is renewable at higher premium rates because you are older and more likely to die. Make sure your policy offers a guaranteed renewability feature, so you can continue your coverage without having a medical exam. However, companies limit the age (generally age 65 or 70) to which term policies may be renewed.

Permanent life policies combine insurance protection with a savings component that is tax-deferred. Permanent forms of life insurance, such as whole life, cost more than term insurance in the initial years. With whole-life policies your premiums remain stable as you get older, and cash value accrues in the contract. Whole-life policies are a good idea if your need for insurance continues over your lifetime (for example, if a disabled child or sibling or aging parent depends on your financial support).

Most people have insurance needs that change during their lifetime. It is important to remember that the main purpose of life insurance is financial protection.

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Photograph new items for your insurance inventory.

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Getting Your Kids Through College

Your children's education is one of the largest investments you will ever make. For this reason, you should arm yourself with enough information as soon as possible.

Begin by estimating the total cost of sending your children to college. Look into the variety of investment alternatives and strategies for long-term investments, and select those most appropriate for meeting future college costs. These may include: stocks,

mutual funds, savings bonds, certificates of deposit, and zero-coupon bonds.

Zero-coupon bonds are purchased at a discount from their face value, and the interest earned each year allows the bond to increase in value. You collect the principal plus the accrued interest at

maturity. The younger the child, the longer the maturity of the bond and the lower the price you'll initially pay. However, you may have to pay tax on the interest, unless you buy them through a custodial account.

With a custodial account, you are the custodian for the benefit of the child whose Social Security number is on the account. Therefore, the interest income is taxed at the child's rate, and money in the account becomes the child's when he or she reaches legal age. The first \$650 a child under 14 earns in interest or dividend income is tax-free; the second \$650 is taxed at the child's rate. Any interest income beyond that is taxed at the parents' higher rate until the child reaches 14. Then all the income is taxed at the child's rate. If your child is earning more than \$1,300 per year on a zero-coupon bond, you may want to place subsequent investments in municipal zero-coupon bonds, which pay less than the taxable bonds but are tax-free.

Whatever your strategy, start saving and investing early. Then you'll be able to take advantage of the longer-term growth investments.



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7 Labor Day

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21 Rosh Hashanah

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Is your disability insurance renewable and noncancelable?

Stocks and Bonds

Stocks represent a proportion of ownership in a company. They also may pay dividends (profits generated by the company and then distributed to shareholders).

Stock types include:

- Growth stocks typically represent expanding companies whose market values can appreciate quickly.

- Income-producing stocks are usually less volatile than growth stocks, but also tend to have solid dividend increases. They are for people who want a steady income combined with moderate growth.

- Blue Chip stocks are generally those of better-known companies with longer histories of revenue growth and dividend payouts.

- Emerging Growth stocks refer to new companies' stocks.

Bonds represent an IOU and require the issuer to pay you the principal plus interest over a stated period of time. Bond types include:

- Treasury Bills, Notes, and Bonds (treasury securities) are issued and backed by the full faith and credit of the U.S. government.

- Government Agency bonds are issued by federal government agencies but do not necessarily enjoy the full faith and credit of the United States.

- Municipal bonds are bonds issued by state and local governments. Interest is usually exempt from federal income tax and from some states' income taxes.

- Corporate bonds are issued by companies and often offer higher yields than government bonds.

- Convertible bonds pay a specified interest rate but also give you the right to convert your bonds into a given number of shares of common stock.

When interest rates go up, bond prices go down. The higher the interest rates, the less attractive stock dividends look by comparison, so people tend to sell stocks to buy bonds. Stock prices then fall until dividends look attractive again.



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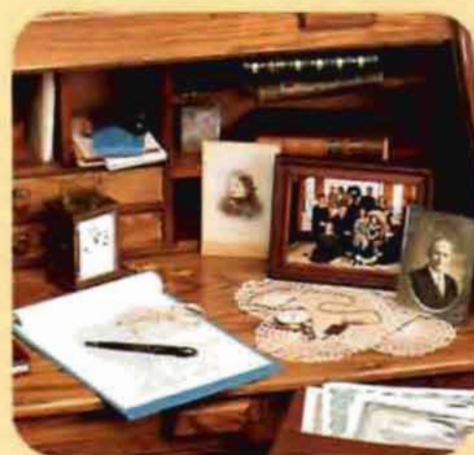
25 Daylight Saving Time Ends

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Looking Out for Your Loved Ones

No matter how old you are or how much you think you're worth, you still need to decide how you want your possessions distributed when you die. If you die intestate (without a will), the state government can legally appoint a guardian for your minor children and handle the distribution of your assets. And if your estate is worth more than \$600,000, the federal government can take a huge chunk in estate taxes.

For most people, a properly drawn simple will provides adequate instructions as to who gets what and designates who handles the distribution of your



assets. However, a will does not protect your assets if you should become incapacitated due to illness or injury.

Legally granting a power of attorney to a trusted relative or friend can be a great help to you and your family under those circumstances.

If you are more affluent, trusts can help shelter your assets from estate taxes. By setting up a trust, you can also avoid probate (a costly court procedure). A trust keeps your financial affairs private and simplifies distribution of your assets to your beneficiaries. Testamentary trusts are those you create by will; they become effective at your death. Living trusts go to work during your lifetime. In a revocable living trust, you can transfer any assets to the trust; but by naming yourself trustee, you can retain control over them during your lifetime. And you can revoke the trust at any time.

Another valuable estate planning technique is gift-giving. If your estate is worth more than \$600,000, you can reduce your estate and the taxes on it by making tax-free gifts of up to \$10,000 to any number of individuals annually.

Seek professional legal help on any of these issues.

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Check your Social Security record before retiring.

Does your health coverage meet your current needs?

Taking Charge of Your Spending

The first step in creating a budget is to figure out your net worth. To do this, add up everything you own and then subtract everything you owe. If you owe more than you own, you have a negative net worth and should use some of your assets (such as your savings) to reduce your debt.



To figure your monthly expenses, write down your fixed expenses—such as rent/mortgage, utilities, insurance, car, groceries, medical, and taxes—and your flexible expenses—such as entertainment, vacation, clothing, etc. The idea is to spend less than you earn each year, get out of debt, and build a secure future.

If you have a history of bad spending habits, you already may have damaged your credit rating. People with bad credit can be denied credit cards, home loans, auto loans, and even employment.

To increase your odds of obtaining credit and maintaining a good credit rating, follow these basic rules:

- Pay your bills on time.
- Make regular payments on your debts.
- Don't take on more credit than you can afford.
- Don't spend up to your credit limit.
- Ask the credit agencies for a copy of your report every year or two, and correct any errors immediately.

If you've been denied credit for any reason, you can get a free copy of your report within 60 days. For more information on credit repair, write for a free FTC booklet, "Getting Back in the Black," from:

FTC's Public Reference Branch, Room 130
Sixth Street and Pennsylvania Ave., NW
Washington, DC 20580

Or check their Web site at www.ftc.gov

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21 *First Day of Winter*

Plan now for late winter/early spring travel.

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Getting Ready for Tax Time

Every taxpayer is allowed to take a fixed standard deduction. The standard deduction amounts vary according to filing status and other factors, and are adjusted each year for inflation. If your total itemized deductions exceed your standard deduction, you'll save money by itemizing. The amount of itemized deductions you can use is reduced if your adjusted gross income—or AGI—is above a threshold. Like the standard deduction, that amount is indexed each year for inflation. A worksheet in the 1040 instruction booklet will help you figure out what's best for you. Some examples of what is deductible include:

• State and Local Taxes

You may deduct the income and real-estate taxes you pay to your state and local governments. You may also deduct the annual personal-property taxes that some states levy on the value of items such as a car. Don't forget to deduct payments to state disability and unemployment funds that were withheld from your pay.

• Charitable Contributions

You may deduct gifts to qualified religious organizations, schools, hospitals, and other non-profit organizations. For gifts of \$250 or more, the charitable organization must give you a receipt for your gift.

• Education

You may take a miscellaneous deduction for your own spending on education—but only if the education is required by your employer or the law to keep your present job or maintain or

improve skills needed in it. You can't deduct courses that prepare you for a different kind of work.

• Home Office Deductions

You can deduct expenses for business use of your home, including such costs as a home computer. It is up to you to prove that the equipment and the space to house that equipment are used only for business purposes.

• Medical and Dental Costs

The tax law allows you to deduct only the amount of your total unreimbursed expenses that exceeds 7.5 percent of your adjusted gross income. You may include health-insurance premiums you paid yourself and the costs of transportation to get to medical care.

• Casualty and Theft Losses

This includes any damage to a car, home, or other kinds of property. If the property is insured and you file an insurance claim, any insurance payment you receive reduces the amount you can deduct. A theft must also be reported to the police.

• Interest Payments

You may deduct interest on home mortgages, home-equity loans, and money borrowed for investment or business purposes.

• Meals, Travel, Entertainment, etc.

You may deduct car, travel, and other kinds of job expenses that are not reimbursed by your employer. Be careful of the restrictions. After totaling your miscellaneous items, you must then subtract 2 percent of your AGI. You can deduct only the remainder.

Here is a list of items and records you should have on hand as you prepare for tax time:

- W-2s (payroll deductions)
- 1099s (dividend and interest income)
- Cash donations
- Non-cash donations, such as works of art or used clothing
- Capital gains and losses
- Tax-free interest on state and local bonds
- Home-office expenses
- Self-employed income and expenses
- Withheld and estimated taxes already paid
- Interest on mortgages and home-equity loans
- Home purchase price and improvement costs
- Job-related expenses
- Tip income
- Casualty and theft losses
- Medical and dental expenses
- Alimony paid or received
- Safe-deposit-box fees
- Purchase prices of uniforms and work tools
- Union dues

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