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Social Security: Is Your Age a Retirement Numbers Game?

When preparing for your retirement, think about how much income you may need each year to fund the lifestyle you want. To help maintain your living standard, you may need to save enough money to supplement other sources of retirement income, such as a company pension and/or Social Security. It is also important to be aware of how your *age* factors into your retirement decisions. Here are some important age milestones to consider:

Age 55. If you take an early retirement, quit, or are otherwise terminated from employment, you can generally withdraw money from **401(k)**, **403(b)**, **SEP (Simplified Employee Pension)**, and **profit-sharing plans** without being subject to a 10% Federal income tax penalty for early withdrawals. To qualify (as specified in IRS *Publication 575*), you must reach age 55 by December 31 of the year you leave the workforce; money must be distributed to you from your employer's plan and cannot be transferred to an **Individual Retirement Account (IRA)**; early withdrawals are subject to the plan's provisions; and only money from your last employer's plan qualifies (not funds from previous employers). You

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Calculating Your Break-Even Point

Regardless of their specialties, all business owners have a common goal—profitability. But before you can turn a profit, you first have to break even. Spending more money than you are taking in to produce a product or provide a service can quickly deplete your company's capital. Even if your business has a financial cushion to allow you to operate in the red for a period of time, be conscious of the areas in which losses are occurring and have a plan for steering your company into the black.

As you may already know, the break-even point is the number that must be reached before an investment begins to generate a positive return. To analyze the success of your business, you need to identify the point at which revenues cover expenditures on each of the products and services you provide, as well as on your overall operations. Because these break-even points shift as conditions change, break-even analyses are most useful if performed regularly, such as on a quarterly basis.

Crunching the Numbers

While there are a number of methods for determining a break-even point, one fairly simple approach is to calculate how large the company's gross profit margin needs to be to cover its fixed costs.

To begin, add up all the fixed costs associated with your business operations, such as rent, payroll (including your own salary), debt payments, insurance, and similar overhead expenses. Next, calculate the gross profit margin on the products or services you sell. The gross profit margin is a financial metric used to determine the percentage of funds left over after deducting purchasing and production costs. The gross profit margin can be calculated on a per-unit basis or by subtracting variable costs

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Social Security: Is Your Age a Retirement Numbers Game?

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may take early distributions from a traditional IRA without penalty, provided you receive "substantially equal periodic payments." Since certain rules govern this provision, be sure to consult a qualified tax professional.

Age 59½. Generally, you can withdraw money from traditional IRAs and qualified retirement plans after the age of 59½ without being subject to the 10% tax penalty, if plan-specific qualifications are met. Ordinary income tax is due if your contributions were tax deductible. No income tax or penalty applies to distributions from a **Roth IRA**, provided you have reached age 59½ and have owned the account for at least five years.

Age 60. Widows and widowers may be eligible for Social Security benefits. For the most up-to-date information, visit the Social Security Administration's website at www.ssa.gov.

Age 62. Some companies may allow retirement at 62 with full pension plan benefits. This is also the earliest age for receiving regular Social Security benefits, but the benefit amount is permanently lower than its potential maximum.

Ages 62–64. For those who are working and collecting Social Security benefits while younger than full retirement age—the age at which an individual is eligible to receive full Social Security benefits—the earnings threshold is $15,480 for 2014. One dollar in benefits is withheld (a "give back") for every $2 earned above that amount. A portion of benefits may also be taxed as income based on a complex formula that includes wages and tax-exempt income.

Age 65. Many company pension plans provide full benefits at this age. However, the age may vary by the company plan. **Medicare** eligibility also generally begins at age 65.

Ages 65–67 (or the year in which full retirement age is attained). Traditionally, full retirement age was 65. However, for those born between 1938 and 1959, full retirement age has been rising incrementally, and for those born in 1960 or later, the age for receiving full benefits is 67. The lower earnings threshold amount still applies for years prior to full retirement age, *and* a second earnings threshold rule applies for the year in which full retirement age is attained.

For those who are working and receiving Social Security benefits, there is a benefit give-back in 2014 of $1 for every $3 over $41,400 earned in the months prior to attaining full retirement. Once full retirement age is attained, the earnings threshold no longer applies, and a portion of benefits may be taxed as income based on a complex formula that includes wages and tax-exempt income.

Age 70½. Required minimum distributions (RMDs) from qualified retirement plans, such as a 401(k) or an IRA, must generally begin by April 1 of the calendar year following the year in which you reach age 70½. Roth IRAs, however, are not subject to the age 70½ mandatory distribution rules.

You have worked many decades to accumulate assets to prepare for enjoyable "golden years." Be sure to consult with qualified tax and financial professionals to help you stay on the track to achieving your retirement goals. $

Tactics for Home Financing in the New Mortgage Market

Given the fluctuations of Wall Street and the tight job market, today's economy is characterized by a degree of uncertainty. So how can prospective homeowners navigate the changing climate of buying and selling a house? It helps to understand the events of the recent past and the lingering effects on real estate values.

While multiple factors led to the economic downturn, the housing market continues to play an important role in our economy's health. A number of years back, some large lenders began to bundle mortgage debt into asset-backed securities, which were then sold as investment vehicles to Wall Street brokers. These were advantageous to both the mortgage lender, which made a profit from selling the bundled loans, and the investment firm, which received a portion of the fees.

As long as homeowners/borrowers were able to make payments on their mortgages, the securities made money. However, when consumer debt began to rise and borrowers failed to make payments, or defaulted on their home loans, these securities lost value. When a large number of mortgage-backed securities began to lose money, many investors sold to cut their losses, and the investment market as a whole suffered.

With increasing numbers of foreclosures and many adjustable-rate mortgages scheduled to adjust to higher payments, the mortgage-backed security is now seen as a high-risk investment. Large lenders no longer have a market for these securities, and they don't have the assets to keep and service the loans themselves.

As a result, smaller banks and lenders don't have large credit lines to fund mortgages and other loans, and lenders have been reverting to more conservative standards for extending credit. Without low teaser rates, no-money-down offers, and loose credit checks, potential homebuyers are now required to prove that they can truly afford their loan amount.

For those looking to buy a home, here are some tips to help facilitate the financing aspect of the sale:

1) **Conduct an informal analysis of your finances before approaching your lender.** You may avoid surprises by taking the time to assess your current financial situation. Be sure to collect full documentation about your income, debt, and credit report for scrutiny by your lender.

2) **Get prequalified.** Prequalification from an experienced lender is essential in the current real estate market: it demonstrates your seriousness. Consider seeking FHA-approved lending institutions.

3) **Do your homework if you're seeking a high-cost loan.** Jumbo loans require extensive documentation and generally carry a higher interest rate than conventional loans. Knowing the FHA loan limit in your locale can help you prescreen potential properties. The FHA provides this information at https://entp.hud.gov/idapp/html/hicostlook.cfm.

4) **Be prepared to move quickly after making an offer.** Gather documentation and complete the loan application as soon as possible after an offer is accepted, to lock in the loan and rate. Loan prequalification letters may be dated for a short time period, so act quickly.

5) **Factor in potential time delays.** The traditional timeline for underwriting and the response time from lenders has increased with tighter lending standards. It may take up to three weeks to finalize a loan application.

6) **Don't forget about private mortgage insurance (PMI).** Many lenders require borrowers to obtain PMI if the down payment on a house is less than 20% of the overall cost of the loan. Be sure to factor in the cost of PMI into your budget.

Although the real estate market may be uncertain, understanding the state of financing can help you better manage the purchase of your next home. $

Where Does the Money Go?

Do you ever wonder where all your money goes? Many people spend their money in small increments without realizing how it all adds up. Usually, it is not that mysterious if you take the time to write it all down. As you begin to track your income and expenses, you can craft a workable budget you can stick with, to help you manage your personal finances.

Creating and maintaining a household budgeting plan is an activity that can involve all family members. Since children affect the budget and are affected by it, they can participate in the process. When your children see that the family's income is not limitless, it may help them to better understand at an early age why finances are important.

Here are some steps to help you design an overall budget regardless of your situation:

1) **Track income and spending.** To start, tally all your sources of income and track your spending for a few weeks or months. An easy way to do this is to keep receipts for all expenditures over one dollar. You may also refer to credit- and debit-card statements, monthly-bill statements, and check stubs.

2) **Categorize expenses**. Expenses fall into two basic categories: fixed—not optional—which includes mortgage or rent, insurance, and utilities; and discretionary—optional—which includes clothes (beyond the basic necessities), movies, sporting events, and dining out.

3) **Set goals and prioritize.** When you begin to see how much money comes in and how much goes out, you can prioritize your future financial goals. Do you want to buy a house or a new car? Are you saving for your retirement or your children's college education? Are you paying down your debt? Once you establish your priorities, you can begin working toward achieving your objectives.

4) **Prepare the budget.** Now that you have an idea of your current monthly income and expenses and have established some priorities, you are ready to prepare a budget. Remember to keep it simple. The less complicated your budget is, the easier it will be to maintain. For instance, to estimate monthly tax bills or insurance premiums, simply calculate the annual expense and divide by 12. It may take several attempts before you finalize your budget; however, you will eventually be able to zero in on which expenses need to be cut to reach your financial goals.

5) **Stick to it.** Review your budget on a regular basis with your family, so that everyone is reminded that the budget is effective only if everyone sticks to it.

6) **Conduct an annual review.** Be sure to review your budget at the end of each year. By totaling what you spent and comparing it to your projected budget, you may identify areas to focus on during the coming year.

"Rainy Day" Reminders

After your household budget is created, remember to work toward setting aside emergency savings for that "rainy day"—when something unforeseen occurs, such as a job loss or unexpected damage to your house requiring a major repair. An emergency savings fund typically covers up to six months' worth of living expenses. You can put money into this fund either weekly or monthly. Also, closely monitor your credit card use. Because a credit card is so easy to use, many consumers buy merchandise they don't really need, which, in the end, costs more when interest charges are added to the monthly payments.

A household budget is a money management tool that both individuals and families can use to keep track of their personal finances, to reach their financial objectives. A spending plan may even serve to teach children to establish positive spending and saving habits early on. $

How to Fund a College Education

College tuition costs continue to rise with no obvious end in sight. Including tuition, fees, and room and board, the average cost of private colleges and universities tops $40,000 per year (source: *Trends in College Pricing—2013*, The College Board). With this in mind, the projected cost of educating a newborn is staggering.

Consequently, whether you are considering a public or private college education for your child, it is essential that your planning begin as *early* as possible. Many parents procrastinate because they feel the task is overwhelming, or they think that saving the required amount of money will force them to compromise their current lifestyle. While both of these concerns are legitimate, they need not stand in the way of establishing and maintaining an effective college funding plan.

The starting point for developing a plan is to learn about available funding options. Let's take a look at some:

Scholarships. There is no way to predict whether your child will qualify for a much-sought-after scholarship. Counting on scholarship money is similar to counting on lottery winnings; there are far more applicants than winners.

Financial aid. Usually in the form of loans and grants, financial aid rarely covers total college costs. Even if you qualify on a "needs" basis, there is no assurance that the college of your choice will be able to help all those in need.

Personal income. Some parents expect to fund college expenses from their current income. Ask yourself this question: would you be able to pay the current cost for one year of school out of your present income?

Personal loans. While generally available, they could prove costly over the long run when total interest charges are considered.

Personal savings. This is one funding option that you have complete control over. While it may not be easy for a young family to save, even small amounts can grow substantially through the effects of time and **compounding**.

Because of the uncertainty of all funding options *except* savings, it is critical to make personal savings the cornerstone of your college funding program. However, even a well-conceived savings plan has its drawbacks. In the event of your death, your savings plan could come to an end.

To protect against this uncertainty, **life insurance** can help assure the completion of a funding plan. In addition to the protection that insurance offers, the *tax-deferred* buildup of **cash values** can be part of your college savings plan, though not without impacting the policy. Distributions under a policy (including cash dividends and partial/full surrenders) are generally not subject to taxation up to the amount paid into the policy (cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Note that the cash values of life insurance are excluded from the **needs analysis formula** for financial aid used by government agencies and most schools. This means that you can build an asset without being penalized when applying for financial aid.

All potential funding sources should be considered when developing a college funding program. However, a regular savings plan along with life insurance may be the best way to help ensure that your child will have the necessary funds to attend college. Let time be your ally by getting going on your savings program now. $

Focusing on Your Finances

Two financial "snapshots" you can take at any time to help view your financial landscape are a **balance sheet** (or **net worth statement**) and a **cash flow statement**. These tools demonstrate where you are today, and they can also help you make important financial comparisons in the future. Although various software programs are designed to help with budgeting, it can be easy and helpful to create your own worksheets on paper.

Assessing Your Net Worth

To create a balance sheet, simply draw a line down the center of a blank piece of paper. Label one column "Assets" and the other column "Liabilities." Assets are everything you own, and liabilities are everything you owe.

You can add structure by grouping your assets into three categories: 1) cash or cash alternatives—checking and savings accounts, money market funds, and certificates of deposit (CDs); 2) investments—stocks, bonds, mutual fund accounts, and retirement accounts; and 3) personal property—your house, home furnishings, autos, boats, and other personal items.

Liabilities can be labeled as follows: 1) short-term—auto loans, most personal loans, and credit card debt; or 2) long-term—home mortgages, some home equity loans, and some educational loans.

Enter all of the relevant numbers and add up the two columns. We'll examine the outcome later.

How Fluid Is Your Cash Flow?

Next, create a cash flow statement. Draw a line down the center of another blank sheet of paper, and label one column "Cash Inflow" and the other "Cash Outflow." On the inflow side of the ledger, list monthly or yearly income from all sources, such as wages, self-employment, rental properties, and investments (including interest and dividends).

On the outflow side, list all monthly or yearly expenditures, separating fixed expenses (mortgage payments, other periodic loan payments, and insurance premiums) and variable or discretionary expenses (utilities, food, clothing, entertainment, vacations, hobbies, and personal care). You may choose to put taxes (Federal, state, FICA) in a separate category. Again, fill in the relevant numbers and total the columns.

The Results

If your balance sheet shows your assets exceeding your liabilities, you have a healthy net worth, especially if your cash flow statement shows more inflow than outflow. This picture shows that you are solvent and spending within your means. The degree of your financial health depends on the amount of your surplus.

Your financial picture may look somewhat different if your balance sheet shows your liabilities exceeding your assets and/or your cash flow statement shows more outflow than inflow. This indicates that you are spending beyond your means. It may be time to assess areas in which you can decrease your liabilities.

Each year, strive to increase your net worth and keep your expenditures under control. If your financial picture is a little out of focus, taking action now to sharpen the view may help you create a more promising snapshot in the future. $

What You Need to Know about Will Restrictions

As you may already know, it is important to have a written **will**, to control the disposition of your assets after your death. While you may be generally free to distribute your assets as you wish, there are some restrictions that may vary from state to state, including the following:

Spousal rights: If you are married, your spouse is typically entitled to receive a share of your estate. If your spouse does *not* receive the amount mandated by law, almost every state allows him or her to take an **election** against your will.

Children's rights: Unless you intentionally **disinherit** them, some states allow your children to receive *at least* the share they would have been legally entitled to if you had died **intestate** (without a will). Also, if you have or adopt a child *after* your will is executed—unless you have provided for that child in your will, or he or she has received a share of your estate through lifetime gifts—some states entitle the child to receive the share he or she would have received had there been no will.

Gifts to friends: Perhaps you are single and would like to leave your estate to a cherished friend. Your will may be contested by biological relatives who may have benefited if you had died intestate. To help guard against this situation, you may need to specifically disinherit family members.

Charitable gifts: If you plan to bequeath a portion of your wealth to charity, be sure you understand any limitations that may apply in your state, as some states limit the amount you may leave to charitable organizations at the expense of close family members.

To see that your assets are distributed according to your wishes, be aware of restrictions that could obstruct the process. Be sure to consult a qualified legal professional to ensure that your will is properly prepared. $

Calculating Your Break-Even Point

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from the sales price. The break-even point can then be calculated by dividing your fixed costs by your gross profit margin.

For example, imagine you have calculated your expenses and determined that your monthly fixed costs amount to $50,000. Then, assume your business consists of manufacturing gadgets at $3 per unit and selling them at $10 per unit, giving you a gross profit margin of $7 per unit, or 70%. When your fixed costs of $50,000 are divided by your gross profit margin of 70%, the resulting figure is approximately $71,429. This means you would have to sell 7,143 gadgets in a given month to break even. If sales dip below 7,143 units per month, your business is losing money, whereas any sales above this threshold represent profit.

However, the calculations can become more complicated when multiple product lines are involved or when expenses change frequently. In addition, there are other factors that can affect the financial health of a business over time, such as projected changes in market conditions. Therefore, a break-even analysis can be seen as a basic tool that provides an indication of where a business stands at a given point in time, and it may be best used in conjunction with other financial measures.

Evaluating the Figure

A break-even analysis can provide important preliminary information about the status of your business. If the results of the analysis reveal that your sales are not sufficient to cover expenses, or that your profit margin is smaller than anticipated, there may be ways to lower your break-even point.

Begin by investigating ways to reduce the cost of purchasing or producing your products, or providing your services. Is there another supplier that could provide raw materials at a lower cost? Are there options for production that are more affordable?

Next, think about ways to trim overhead expenses without compromising your operations. Finally, consider raising prices. Small, incremental price increases are likely to be tolerated by your customers, especially if you offer consistently superior quality and service. Implementing small changes in one or more of these areas may enable you to reset your business's break-even point and move your company toward greater profitability. $

Living Value: The Other Side of Life Insurance

Many of us think of **life insurance** as a means of providing funds to cover financial obligations, such as a mortgage, or to replace income in the event of the death of a family breadwinner. In general, the **death benefit** under a life insurance policy is often the most-well-understood feature.

However, not all policies are the same. A **permanent life insurance** policy contains a cash value feature that allows cash to accumulate, which may be used to help supplement important financial goals, such as funding a child's college education. So, permanent life insurance has a "living value" in addition to the traditional death benefit feature. Let's take a closer look.

Cash Value

The cash value in this type of life insurance policy accumulates on a tax-deferred basis in the same way that money does in an Individual Retirement Account (IRA). Because of this tax-deferred accumulation, there may be some income taxes due upon withdrawal. But you are usually only taxed on amounts that exceed the *total* amount of premium payments you have made over the course of the policy.

One of the key benefits of permanent life insurance is that you can access the accumulated cash values through policy loans. Typically, the loan interest rate is stated in the policy and is comparable to traditional lending rates. Keep in mind that borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance that the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Another key feature of a permanent life insurance policy is that, unlike a traditional IRA or another qualified plan, you may make premium payments after age 70½, and there are no rules that stipulate required withdrawals of cash values by age 70½. This feature may provide an opportunity to continue making premium payments while receiving the benefits of tax-deferred accumulation.

With a life insurance policy, there are few rules that limit the amount of premium payments. Therefore, the higher the death benefit, the higher the premium will be. Some forms of permanent life insurance allow you to make premium payments in addition to what is specified under the terms of the policy. This may increase the cash value, but could lead to adverse tax consequences. Normally, policies are written to help avoid this possibility.

Dual Purpose Protection

Life insurance can serve many purposes. Through its death benefit, life insurance helps to protect and secure your family's future in the event of your death. At the same time, life insurance with a cash value may provide you with the opportunity to use the benefits of your policy during your lifetime.

Be sure to review your options with the help of a qualified insurance professional to see how permanent life insurance can help meet your overall financial objectives. $

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