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An economic and investment update

THE FINANCIAL INSIDER

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When Your Spouse Dies: Taking the Helm

One of the most difficult experiences in life is the loss of a spouse. In addition to grieving the loss of your partner, you may also feel overwhelmed by the need to make important financial decisions that could have a lasting impact on your financial future. While no one can ever be completely prepared to deal with loss, especially when compounded by legal and financial concerns, there are steps you can take to ease the burden of additional stressors that you may encounter at this time.

Seeking Support

It is important to realize that grief affects everyone differently. Depending on your relationship with your spouse, whether you have children, your life experiences, your belief system, and many other factors, the grieving process can vary considerably from one person to another. There is no "right" way to grieve, and there is no time frame for recovery.

Some people find solace among others who have experienced a similar loss, such as a bereavement support group through a local hospital, place of worship, or community center. Others may find comfort and relief through work, exercise, a new hobby, or time spent with good friends. Reach out to those who have offered to help you. Whatever you do during this time, remember to take care of yourself and know that you are not alone.

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Understanding the Basics of Economic Forecasting

When weather forecasts are inaccurate, we can usually change our plans with little consequence in the greater scheme of things. When economic forecasts are inaccurate, however, the consequences may be more significant. While making financial decisions does involve some guesswork, an educated guess—even with elements of uncertainty—may be better than making a decision with no forecast at all.

Unfortunately, economic forecasting, like weather forecasting, is far from an exact science. Even professional economists may strongly disagree on the direction of the economy at any given point in time, based on their interpretations of conflicting economic indicators. Although many factors are pivotal in assessing the economy, let's focus on two key points that may help you better understand where our economy currently stands, and where it may be headed in the near future.

Consumer Spending

Economic forecasters are always searching for storm clouds that might signal an economic downturn. Since consumer spending has historically accounted for about two-thirds of the economy, according to the U.S. Bureau of Economic Analysis (BEA), many observers have looked to "pocketbook" issues in search of primary clues about the direction of the economy.

Consumer cutbacks on spending are not usually the primary cause of a recession. Rather, consumers may buy more on credit, which leads to greater monthly payments. But at some point, consumers can spend only what

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Are You Planning an Early Retirement?

As your 62nd birthday approaches, the dream of early retirement may seem like a possibility. From that day on, you may qualify for Social Security retirement benefits. While you may be lured by monthly Social Security checks, seriously consider your financial position to be sure you can afford to walk away from the nine-to-five routine.

As you imagine your retirement, it is essential to incorporate accurate Social Security figures into your financial equation. Keep in mind that Social Security benefits paid at an early retirement age will be less than the benefits paid at full retirement age (65–67, depending on your date of birth). To get an estimate of what you can expect to receive from Social Security, you can go to the Social Security Administration's website at www.ssa.gov and use the agency's online calculator.

Go Beyond Social Security

Beyond your Social Security benefits, however, are other important factors, such as your overall financial situation, prospects for future income, and satisfaction with your job. If early retirement seems a reasonable goal, determine how much income you can count on from savings to supplement your Social Security benefits. Remember to include income from company retirement plans, **Individual Retirement Accounts (IRAs)**, or **annuities**.

Pension benefits may be tied to Social Security benefit amounts, so check carefully regarding the possible effects of early retirement on these sources of income. Your company's human resource manager may be able to provide you with the pertinent facts and figures about your retirement plan. Once you have determined the benefits you will receive upon retirement, add up your current living expenses and determine a rough estimate of how much income you may need during retirement. It is possible that you may live on less than your pre-retirement income, depending on your lifestyle.

Other Considerations

Another critical point to consider is whether retiring from your job would leave you without **life** and **health insurance** or other necessary benefits. You may want to investigate the cost of private health coverage until you may be eligible for **Medicare**.

If you find that your total retirement income will be insufficient, explore the possibilities of downsizing your home, moving to an area with a lower cost of living, or finding part-time employment where compensation is within allowable Social Security limits to avoid benefit reduction. If you are working and collecting Social Security benefits while under full retirement age, there is a $1 loss (a "give-back") in benefits for every $2 earned above $15,720 in 2016. If you attain full retirement age in 2016, there is a benefit loss of $1 for every $3 over $41,880 earned in months prior to attainment. Once full retirement age is attained, these earnings thresholds no longer apply. Many health professionals encourage part-time employment or volunteer opportunities during retirement for the social aspects, sense of purpose, and community involvement.

Retirement Needs Checklist

To begin preparation for retirement, read each of the following statements. If you have given careful consideration to the task, give yourself a check. The remaining items will require your attention soon, even if your retirement is still some years off.

- ❑ I have completed an assessment of my current financial situation, including income, expenses, assets, and liabilities.
- ❑ I have determined which of my expenses may be lower after I retire and which may be higher.
- ❑ I have determined how much I can expect from Social Security, veterans benefits, and pension plans.
- ❑ I have estimated how much I expect to receive from interest on my savings, real estate rentals, etc.
- ❑ I have reviewed my insurance policies to ensure that they meet my present and future needs.
- ❑ I have organized a strategy to pay off my large bills and debt before retirement.

Final Assessment

If you have any doubts about being able to make ends meet, working for a while longer may improve your financial situation. If, however, income from savings, rents, royalties, or other non-employment sources, combined with your projected Social Security income, is enough to meet your retirement expenses, you may want to focus on making your dream of an early retirement a reality. $

When Your Spouse Dies: Taking the Helm

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Of course, certain matters will require your immediate attention, such as notifying family and friends; making funeral arrangements; and contacting your attorney to review the will and handle the legal aspects of your spouse's estate. Let your family, closest friends, and trusted advisors help you with these details and short-term decisions, but proceed cautiously with major financial decisions, such as selling your home, borrowing or lending money, investing, making major purchases, or career changes. Consider the following financial checklist:

- Obtain several certified copies of the death certificate. They will be needed when claiming death benefits from insurance companies, as well as from Social Security.
- Consult immediately with the family attorney, who will guide you through many of the legal and tax issues.
- File for death benefits. Call your local Social Security office, life insurance professional, and, if applicable, the Veterans Administration or the employee benefits manager at your spouse's employer.
- Find out about medical coverage. If you depend on your spouse's insurance, contact his or her employer and exercise your right to keep that policy in force. Learn the options for either converting or acquiring new coverage.
- Keep detailed records, tracking all of the money that comes in and goes out in the first month or two. This information will be needed to create a budget.
- Manage assets wisely. Postpone some financial decisions that are less important and can wait. Later, you may be in a better frame of mind to make additional decisions.
- Start with short-term financial goals, and then tackle the more complex decisions, such as whether or not to sell the home and how to manage assets over the long term.

Taking Charge of Your Finances

If your spouse was the primary breadwinner and managed the family finances, it may take time to assess your financial situation. Your attorney, financial professional, or even a family member or friend can help you sort through important papers and documents and create a financial strategy that will work for you. During the first few months, pay the outstanding bills and monitor cash flow and liquidity. Keep a running list of financial questions as they arise, and be sure to seek guidance and support.

As you begin to make decisions, there will be important issues that need to be addressed, such as determining your income needs, managing money on your own, re-evaluating insurance coverage, and continuing to meet the needs of your children. Some of your decisions will come easily, especially if they are based on financial need. Others may be based on what you feel is best for you and your family. Will you want or need to work? If you are currently employed, will you stay in the same position? If you have not worked for some time, will you need to acquire more education or enhance your technical skills? It may take time to feel comfortable making major decisions on your own, but you can consult with professionals for help determining the next steps you need to take.

Ideally, a family will have their financial affairs in order before a sudden loss occurs. However, life is unpredictable. Therefore, be sure to organize and safely file important papers, such as marriage and birth certificates, tax returns, retirement account records, insurance policies, investment and bank statements, and estate planning documentation. Should such circumstances arise, you or your loved ones will be better prepared. $

Protecting Your Financial Information Online

More consumers are conducting financial transactions online and may become vulnerable to tracking, hacking, identity theft, phishing scams, and other cyberspace risks. While nothing can guarantee *complete* safety on the Internet, understanding how to protect your privacy can help minimize your exposure to risk.

Here are some ways to safeguard your information:

Read privacy policies. Before conducting any financial transactions online, carefully read the privacy policies of each institution that you plan to do business with to find out how secure your financial information is. If you do not understand the legal jargon, email or call customer service to request a simplified explanation of the privacy policy.

Avoid using weak PINS and passwords. When deciding PINS, passwords, and other log-in information, avoid using your mother's maiden name, your birth date, the last four digits of your Social Security number, or your phone number. Avoid other obvious choices, like a series of consecutive numbers or your home town. Also, do not use the same PINS and passwords on multiple sites.

Look for secured web pages. Use only secure browsers when shopping online to safeguard your transactions during transmission. There are two general indicators of a secured web page. First, check that the web page url begins with "https." Most urls begin with "http;" the "s" at the end indicates that the site password will be encrypted before being sent to a third-party server. Second, look for a "lock" icon in the window of the browser. (It will not be in the web page display area.) You can double-click on this icon to read details of the site's security policy. Be cautious about providing your financial information to websites that are unfamiliar. Larger companies and well-known websites have developed policies to protect the rights and financial information of their customers. So, resist the temptation of providing personal information to unknown companies.

Keep your operating system up-to-date. High-priority updates are critical to the security and reliability of your computer, and offer the latest protection against malicious online activities. When your computer prompts you to conduct an update, do it as soon as possible.

Update antivirus software and spyware. Keep both your antivirus and your spyware programs updated regularly.

Keep your firewall turned on. A firewall helps protect your computer from hackers who might try to delete information, crash your computer, or steal your passwords or credit card numbers. Make sure your firewall is *always* on.

Do your homework. To learn more tips for securing your computer and protecting your private information when conducting financial transactions online, visit www.getnetwise.org, www.onguardonline.gov, or www.wiredsafety.org.

In addition, the Federal Trade Commission (FTC) works on behalf of consumers to prevent fraudulent, deceptive, and unfair practices in the marketplace. To file a complaint or to obtain more information, visit www.ftc.gov or call 1-877-FTC-HELP (1-877-382-4357).

As the Internet continues to evolve, new risks, along with additional protective measures, will be revealed. However, it is up to *you* to safeguard your financial information online through education and awareness. $

The Spending Plan with Built-In Rewards

When it comes to personal finances, the only way to increase your savings in the long run is to spend less than you earn, or if that is too difficult, increase your income to exceed your expenses—easier said than done. In fact, it may seem that there is never enough to pay the bills and still provide for all that you and your family members want or need.

If you find yourself in this situation, there is a way to manage your financial predicament. You can monitor *where* your money actually goes and plan ways to spend it more *wisely*, or in other words, prepare and adhere to a budget.

However, if the mere thought of a budget makes you feel deprived, call it a personal spending plan instead. Rather than focusing on what you should *not* spend, a personal spending plan can help you wisely redirect the money you *do* spend.

The reward comes in paying yourself first by labeling the budget's top line as "savings." Even if you start with zero dollars on this line, with patience and persistence, you may be able to find ways to reallocate your money over time and see your savings grow.

Here are some steps to help you get started:

Track your expenses for one month. Record your daily expenses in a small notebook or enter details on an e-calendar for at least one month. Categorize your expenses as fixed, variable, or discretionary. *Fixed* expenses include those for which the cost remains the same every month, such as your mortgage or rent, car payment, and insurance premiums. *Variable* expenses are those you pay on a regular basis, but with varying amounts, such as food, utilities, child care, travel expenses, and credit card purchases or debt. *Discretionary* expenses are those you could forgo if necessary, such as dining out, frivolous shopping, and entertainment. After tracking your expenses for one month, you can begin to see exactly where your cash is going.

Calculate each expense as a percentage of your income. This exercise helps identify how each expense relates to your total income. For example, if you lease a new sport utility vehicle for $320 per month and your monthly income is $3,200, you are spending 10% of your income on your vehicle. Aim to trim these percentages wherever possible. It may be possible to make large gains in savings by reducing many expenses by small percentages.

Prioritize your expenses. Rank each expense as "important," "moderately important," or "unimportant." Carefully scrutinize each item, starting with the "unimportant" ones. Eliminate those items you can do without. You will probably find the most wiggle room with discretionary expenses. The savings you generate may be enough to begin a modest savings program. Then, look for opportunities to trim expenses that fall into the "moderately important" and "important" categories. For example, you may be able to find a less expensive cable TV/Internet/phone bundling plan if you shop around. Or, perhaps you could manage with a less expensive vehicle when your auto lease is up.

Pay yourself first. After successfully crafting a budget and identifying savings where you can, write yourself a check for the amount you saved and pay yourself first. *How* you manage your money depends on how much you have and your future goals. So if you plan on sending a child to college, you might develop an education funding plan. You could also consider contributing on a regular basis to an **Individual Retirement Account (IRA)** or employer-sponsored **401(k) plan** for retirement income.

By treating your savings as a weekly or monthly expense, you may be a lot more likely to set aside money for your future. As you watch your funds accumulate, you may find that putting yourself first has become its own reward. $

Identity Theft: Protection and Prevention

Identity theft occurs when someone uses your personal identifying information, such as your name, Social Security number, or credit card number) without your permission to commit fraud or other types of crime. According to the Bureau of Justice and Statistics (BJS), as many as 17.6 million Americans are affected annually.

Consider the following steps to help keep your name and credit protected:

- If you must give out personal information while making a purchase, be aware of your surroundings and do it discreetly.
- Order a copy of your credit report and check it for accuracy. Remember to do this at least once a year to stay informed of any significant changes in your credit history. You can contact any of the three major credit bureaus (listed below) for a copy. Under Federal law, you may request one free copy per year.

Experian:
888-EXPERIAN (888-397-3742)
Fraud Department: 888-EXPERIAN
www.experian.com

Equifax:
800-685-1111
Fraud Department: 800-525-6285
www.equifax.com

Transunion:
800-888-4213
Fraud Department: 800-680-7289
www.transunion.com

- Do not give out personal information over the phone unless *you* have made the call yourself. This will help ensure that only the people and businesses you have chosen to contact have access to your information.
- Purchase a paper shredder to destroy any documents, receipts, or mail that contain information an identity thief might find useful, such as bank statements or credit card pre-approval forms.
- Avoid using your Social Security number unless absolutely necessary. This includes replacing it with another number on your driver's license. Most states now offer the option of choosing an alternate number.
- Secure your personal computer using firewall programs, anti-virus software, and secure browsers. Minimizing online access to your personal information can help thwart uninvited guests.

It Happened—What Do I Do?

Even after taking precautions, you may still be vulnerable to identity theft. If you have become a victim of identity theft, here are some ways to facilitate the process of clearing your name:

1) Contact the Federal Trade Commission's Identity Theft Hotline 1-877-IDTHEFT (877-438-4338).
2) Create a list of all the creditors whom you suspect have received fraudulent information. Keep records of all communications, including phone conversations and written or electronic correspondence.
3) Inform the fraud departments of the three major credit bureaus (numbers listed above) and ask that a "fraud alert" be attached to your file. Although the credit bureaus are not required to attach "fraud alerts," they generally will do so. This temporarily alerts a creditor that fraudulent activity may have been conducted on your accounts.
4) Terminate any accounts you were not responsible for opening and any existing accounts that were fraudulently used.
5) Report any relevant information you have to the police, and be sure to provide copies of all relevant documents.

Depending on the type of fraud that has been committed, you may need to take some additional steps. For example, if your Social Security number was used under false pretenses, contact your local Social Security office. Or, if an identity thief created a cellular phone account with your billing information, contact the Federal Communications Commission (FCC).

Education and Reaction

Educating yourself on how to *avoid* becoming a victim and how to *react* should you become a victim are the first steps in the fight to stop identity theft. Visit the Federal Trade Commission at www.ftc.gov to learn more about identity theft and ways to protect yourself. $

Understanding the Basics of Economic Forecasting

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their incomes will allow. When consumer debt rises, it becomes particularly important because of the impact of total consumer spending on our economy. It may also be helpful to understand the Federal decisions that lay the foundation for our overall economic climate.

The Role of the Federal Reserve Bank (the Fed)

Even the casual observer of business news knows that "Fed watching" is a serious activity in the financial and business sectors. You may be wondering, what it is that makes the Fed so important.

While consumers can affect the economy by spending according to their own situations and financial pressures, Federal policy decisions, such as fiscal and monetary measures, also have an effect on the economy. Fiscal policy, enacted by Congress in the form of tax and/or spending legislation, is the result of the political process and the prevailing political climate. In contrast, monetary policy is the responsibility of the Fed, whose role is to evaluate all factors influencing the economy (individual, market, and government) and take action in attempts to keep the economy on an even keel.

The Fed can manipulate the flow of money in order to obtain a desired effect over time. However, the Fed's most effective short-term policy decisions that can manipulate the economy involve short-term interest rates. Consequently, the Fed can realistically have only one target: inflation. If the Fed perceives that prevailing forces will increase inflation, it can attempt to slow the economy by raising short-term interest rates. It does this based on the assumption that an increase in the cost of borrowing is likely to dampen both personal and business spending. Conversely, if the Fed perceives that the economy has slowed too much, it can attempt to stimulate growth by lowering short-term interest rates, the theory being that lower costs for borrowing may stimulate more spending.

The Fed walks a fine line in trying to maintain this balancing act. If it doesn't tighten the reins soon enough by raising interest rates, it runs the risk of uncontrolled inflation. If it fails to loosen them soon enough by lowering interest rates, the economy could plunge into a recession. An argument could be made that the primary goal of the Fed is to keep inflation low enough that it does not affect business decisions.

Personal Debt

By observing your own spending and debt burden, and that of your friends, relatives, and business associates, you may gain some insight into the short-term future of the economy. While by no means the whole story, this small segment comprises a significant chapter since it is the one factor that consumers exercise the greatest control over. When combined with a little judicious Fed watching (e.g., several interest-rate moves in the same direction may be an indication that the Fed is on a mission), you may have a fairly good basis for general economic forecasting and appropriate financial decisions. $

Entrepreneurship and the New Retiree

For many people who are nearing retirement or recently left their job, retirement signals not the end of a career, but rather the beginning of a new phase—entrepreneurship. Baby Boomers, in particular, may view retirement as an opportunity to start a new chapter in life, and hope to use their hard-earned skills and knowledge to create their own independent businesses.

Regardless of personal motivation, there are many advantages that those age 50 and older possess when starting their own business ventures. By retirement, mortgages have often been paid and children have graduated, or are soon to finish college. With fewer financial obligations—and perhaps a cushion from a lifetime of saving—the new retiree may have the opportunity to take his or her time in developing a strong business plan. Retirees also have the ability to utilize the many business contacts and skills garnered over their working years to further product development, marketing, and sales. This can prove extremely useful for those who wish to use their experiences in a particular field to strike out on their own.

Many retirees find the opportunities of their dreams during their "golden years." The chance to be one's own boss, experience the payoff of hard work, and take advantage of the limitless financial and personal growth potential, all combine to make entrepreneurship an exciting and educational adventure. $

Customizing Life Insurance with Policy Riders

When most people think of life insurance, the first question that usually comes to mind is, "How much do I need?" However, there are other aspects of life insurance policies that provide important benefits and are worthy of consideration.

A **rider** is a provision that can be added to an insurance policy, generally at an additional cost, to alter or expand the policy's conditions or terms of coverage. Riders essentially allow policyowners to obtain extra protection in certain situations for themselves and their **beneficiaries**. Examples of life insurance riders include the option to purchase additional insurance without having to provide evidence of insurability; the accelerated death benefit, which allows the insured, under certain circumstances, to receive the policy proceeds before death; and the accidental death benefit, which provides an additional benefit if the insured dies by accident.

Another common rider is the **waiver of premium rider**. This provides protection in the event that the insured becomes totally disabled and can no longer afford to pay the insurance premiums. With this provision added to a policy, the insurance company pays the premiums according to the terms of the contract if the insured sustains a disability. If the insured owns a **whole life policy**, the policy's **cash value** generally continues to accumulate. This growth in policy values can be a ready source of income to help pay expenses if the insured can no longer work and can be accessed through loans or surrenders. However, access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can 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.

Like an applicant's insurability, eligibility for the waiver of premium rider may be determined by certain risk factors, such as general health and medical history. Typically, policies contain a specific waiting period before the waiver of premium rider will take effect. Some policies apply waiver of premium coverage differently for a disability that occurs prior to age 60, compared to one that occurs between the ages of 60 and 65. Under many policies, the waiver of premium provision terminates at age 65. While a waiver of premium rider on term and whole life policies will usually cover the entire premium, in other policies, it may only cover the cost of insurance, not the cost for the cash value or investment options.

When considering a waiver of premium rider, the definition of "disability" in your policy is crucial. It will determine *when* your obligation to pay premiums ends. While some policies consider disability to mean that the insured is no longer able to work in his or her profession due to an illness or injury, other policies may contain a clause that states the insured must be unable to perform *any* type of work.

Policy riders are often overlooked when purchasing insurance because the initial focus is on how much coverage is necessary to provide adequate protection. However, part of the process involves taking full advantage of the opportunities to customize your life insurance policy to meet your needs. $

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