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# financial monitor



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Evaluate Your  
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## Life Cycle Planning with Life Insurance

Whether you are just starting your career, are in your peak earning years, or enjoying retirement, your insurance protection needs may change over time. **Life cycle planning** helps identify insurance needs that are common to particular stages of life. This can help individuals and families to examine their particular insurance requirements and plan for their unique needs.

### *Starting Out*

Between the ages of 25 and 35, many people are just starting out in life—getting married, establishing families, and building careers. During these years, the death of the primary breadwinner, or one partner in a dual-income couple, could seriously jeopardize a surviving spouse's or family's financial future. Young couples probably have not had time to accumulate significant assets. For those in this age group, **life insurance** can be used to help create an "instant estate." In the event of an unexpected death, a life insurance policy death benefit can provide funds to help cover a mortgage, pay for a child's college education, or maintain the family's standard of living.

### *The Peak Earning Years*

Between the ages of 35 and 55, a family's assets may increase, thus changing their life insurance needs. At this point, individuals owning **term policies** may want to convert to **permanent insurance**. Permanent insurance offers the potential for tax-deferred cash accumulation. The cash value can be accessed through a policy loan, free of taxes or penalties up to the amount paid into the policy. The loan interest rate generally is comparable to traditional lending rates. However, it is important to note that policy loans and/or withdrawals will reduce the cash surrender value and may reduce the policy's death benefit. Taking a policy loan can increase the chance the policy will lapse and could have adverse tax consequences if the policy terminates before the insured's death.

Another concern during this period is protecting one's ability to earn income. According to the Life and Health Insurance Foundation for Education (LIFE, 2011), before the age of 65, roughly one in three women

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## Evaluate Your Retirement Resources

When you envision retirement, do you picture yourself living in a warm climate, traveling to exotic places, or doing whatever suits you on any given day? It might surprise you to learn that, regardless of your age or circumstance, a “lifestyle plan” is an important part of retirement planning.

Knowing how you want to spend your retirement years, where you might like to live, and which activities you plan to pursue is necessary in determining the total amount of cash you’ll need. A general rule of thumb suggests that you may need 60% to 80% of your current income per year in order to maintain your current standard of living in retirement. If you find this figure surprising, you are not alone.

### Social Security

Many people think that Social Security will provide a large portion of their retirement income. However, Social Security was designed to be a *supplement* to retirement savings, rather than a primary source of income. To estimate your Social Security benefits, obtain a *Social Security Statement (SSS)* from the Social Security Administration (SSA) online at [www.ssa.gov](http://www.ssa.gov). Or call 1-800-772-1213 and ask for Form SSA-7004, *Request for Social Security Statement*. By obtaining a copy of your statement, you can check for errors that might affect your payout later, learn the amount of your expected payout, and determine the amount of income you may need to supplement your desired lifestyle.

Since Social Security provides only a portion of needed income, many people rely on savings to make up the difference. Yet, according

to the *2010 Retirement Confidence Survey* conducted by the Employee Benefit Research Institute (EBRI, 2010), only 60% of workers report that they or their spouse are currently saving for retirement. Moreover, less than half (46%) have tried to calculate how much savings they will require in retirement, and 54% report that the total value of their savings, excluding the value of their home and pension, is less than \$25,000. Only 29% of workers expressed confidence about the likelihood of having sufficient financial resources to pay for basic expenses during retirement.

With the decline of traditional pensions and the uncertain future of Social Security, individuals have become increasingly responsible for funding their own retirement, but according to these statistics, many have yet to take that important first step.

### Taking the First Step

Starting a retirement savings plan may be a lot easier than you think. In fact, the first step is often to accept “free” money in the form of your employer’s benefits. This may

include a traditional pension, also known as a **defined benefit plan**, that your employer contributes to on your behalf, which is then payable to you upon retirement.

Currently, a common benefit option is a **defined contribution plan**, such as a **401(k)**. Deducted from your paycheck before taxes, 401(k) contributions have the potential to grow tax deferred. Your employer may match your contributions up to a certain percentage of your salary. But first, you have to take some initiative. In order to fully benefit from the matching contribution, you must make contributions.

Because contributions are deducted from gross pay, they may have a relatively minor impact on your net income and can be of great benefit to your overall nest egg. For example, saving \$5,000 today, over a period of 15 years, at a hypothetical 5% rate of return, could amount to over \$10,569 in additional savings income.

### Individual Retirement Accounts

In addition to employer-sponsored plans, many people are contributing

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## Correcting Credit Card Billing Errors

If you were to discover a billing error on your credit card statement, the first thing you would probably do is call to notify the creditor of the error. But, to ensure that you won't be required to pay the maximum \$50 liability (in the case of a stolen or lost card), you must *write* to the issuer restating what you said over the telephone.

Even if it is only a straight billing error, be sure to follow the same steps. To be covered by the Fair Credit Billing Act, you must report the error in writing within 60 days of the postmark on your statement.

### Steps to Take

1. Phone the creditor immediately.
2. Write to the creditor and send the letter by certified mail to the address listed on your statement for billing inquiries (which may differ from where you send your payment) with a return receipt requested.
3. In the letter, include your name, account number, the amount and date of the error, and the reason why you believe it to be an error.
4. Include copies of sales slips or other documents that support your position.
5. Request evidence of the charge (often just a photocopy of the charge slip).
6. Keep copies of all documentation for yourself.

The law requires the creditor to investigate your error claim, and inform you in writing that they are doing so, within 30 days. The creditor must resolve the matter within two billing cycles or a maximum of 90 days of receiving your notification of the error. While the investigation is in progress, you do not have to pay the amount in question or any interest on it. However, be sure to continue paying any remaining charges. The disputed amount cannot be reported to a credit agency as delinquent.

### In Case of a Dispute

If the merchant who has billed the amount in question argues that it is a valid charge, you can continue to dispute the charge by requesting documents to support the merchant's claim of validity

and making your case to the issuer again. If the creditor rules that the merchant's assertion is valid, they must provide a reason. The charge will then be put back on the statement, at which time you will have 10 days (or your normal grace period) to either pay the charge or protest in a written statement.

At this point, if you haven't paid the disputed amount, the charge can be reported to credit agencies as delinquent. However, you can request that a notation be added to your credit reports that there is an ongoing dispute. You have the right to request information about who has received notification of the delinquency. When the dispute is finally resolved, all who have been previously notified of the delinquency must be notified of the resolution.

The Federal Trade Commission (FTC) works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to learn more about consumer issues, visit [www.ftc.gov](http://www.ftc.gov) or call toll-free, 1-877-FTC-HELP. ■

## evaluate your retirement resources

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to **Individual Retirement Accounts (IRAs)** to save for retirement. **Traditional** and **Roth IRAs** allow for annual contributions of \$5,000 for 2011. In addition, for those age 50 and older, annual "catch up" contributions of \$1,000 are allowed. Funds in both accounts are subject to a 10% Federal income tax penalty if distributions are taken before age 59½. However, certain exceptions may apply.

Depending on your income and participation in an employer-sponsored plan, contributions to a traditional IRA may be tax deductible, and earnings have the potential to grow tax deferred until you retire. Contributions to a Roth IRA are made after taxes, but withdrawals are tax free in retirement, provided you are age 59½ or older and have owned

the account for at least five years. Saving as much as you can each year can have a significant impact on your ability to reach your retirement goals.

You can achieve your retirement goals and live the lifestyle you desire, if you develop a game plan. Take time now to evaluate your resources, set retirement goals, and take the necessary steps to reach them. ■

## life cycle planning with life insurance

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and one in four men will sustain a disability that lasts three months or longer. What's more, nearly one in seven Americans will be disabled for five or more years before retirement. Since even one year of disability could easily wipe out many years of savings, it is important to plan ahead with **individual disability income insurance**. Disability income insurance provides a benefit to replace a percentage of the insured's income, in the event of a qualifying disability.

To address disability concerns, some life insurance policies offer a rider called a **waiver of premium**, which may be available at an additional cost. With this additional coverage, if the insured becomes totally disabled, the insurer picks up the cost of the premiums with no repayment required. Thus, the insured's life insurance coverage won't be affected by a disability.

### Nearing Retirement

As retirement approaches, individuals may begin to prepare strategies to minimize potential estate taxes. Life insurance offers a practical and affordable means of creating liquidity at death to help pay estate taxes. One approach is to establish an **irrevocable life insurance trust (ILIT)**. When properly executed, the trust is used to purchase a life insurance policy in an amount at least equal to the projected estate taxes. The policy premiums are paid with gifts from the insured to the trust. At the insured's death, the

trust provides tax-free funds to help cover the estate tax liability. Individuals involved in the estate planning process should work with an estate planning team, including tax and legal advisors.



### The Retirement Years

Upon retirement, new concerns may arise. Personal assets that have taken years to accumulate could be quickly depleted should an individual or loved one require long-term care (LTC). Most people are unaware of the actual costs associated with long-term care. According to a survey of Americans age 45 and older by the American Association of Retired Persons (AARP),<sup>1</sup> only 8% of respondents could estimate the cost of a nursing home stay within 20% of the national average; 17% did not know the cost; and 63% thought it

would cost less than it actually does. Furthermore, only 17% of respondents could accurately estimate the average monthly cost for assisted living.

Although Medicare coverage generally begins at age 65, it does not cover most long-term care services. Medicaid is the government program designed to help those in financial need. Individuals must "spend down" their personal assets and meet the Federal poverty guidelines before qualifying for assistance. Once an individual has depleted his or her savings and assets have been reduced, he or she may qualify for nursing home care under Medicaid. **Long-term care (LTC) insurance** is one option that can help cover long-term care expenses before an individual becomes eligible for Medicaid. Long-term care insurance may help preserve assets, while also alleviating the financial and caregiving burden on family members.

### Securing the Future

An appropriate insurance protection strategy can help provide peace of mind throughout life's key stages. By understanding the concerns that are common at each life stage, individuals and families may be in a better position to anticipate their needs and plan accordingly. ■

<sup>1</sup>AARP, "The Costs of Long-Term Care: Public Perceptions Versus Reality in 2006," [http://assets.aarp.org/rgcenter/health/ltc\\_costs\\_2006.pdf](http://assets.aarp.org/rgcenter/health/ltc_costs_2006.pdf) (accessed February 2011).

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