Financing Your Retirement Future

December 2008

# Providing for Children of a Previous Marriage

For many married couples, when one spouse dies, all marital property passes to the surviving spouse. This means that the surviving spouse has sole responsibility for deciding what happens to that property when he or she dies. In the traditional family, this is rarely a concern. But, more and more often, the so-called traditional family is the exception, not the rule.

Remarriage can create unique estate planning concerns, especially if you want to provide for both your current spouse and your children from a previous marriage. In many cases, remarriage creates a situation of "yours, mine, and ours." Your spouse may not have developed a close relationship with the children from your previous marriage, and may feel very little responsibility toward them. If this describes your family situation, you need to take positive steps now to ensure that your estate is ultimately distributed according to your wishes.

**Why the logical solution may not be the best solution**

A logical plan would be to leave all your property to a trust, allowing your spouse to live in your home rent free and live on the income from trust assets for the rest of his or her life. Then, when he or she dies, the property would pass to your children. This plan, however, could result in conflict between your surviving spouse and your children because:

- Your children's investment objectives may not match your spouse's
- Your children may watch every penny your spouse spends
- Your children may essentially be waiting for your spouse to die

Fortunately, there are other solutions that sever the money connection that is the source of the conflict described above.

**Use life insurance**

Life insurance can be a particularly effective method of providing for children from a previous marriage, and you have several options. First, you can make your children beneficiaries of a life insurance policy that you own. Second, your children can purchase insurance policies on your life, and you can gift funds to pay the premiums. Third, you can establish an irrevocable trust to hold life insurance purchased for their benefit. This third option is especially appropriate if you have minor children.

In any case, your children are the beneficiaries of the life insurance policy, and you are guaranteed they will receive a certain amount of money when you die.

**Name your children as beneficiaries of your retirement plan**

Making your children the beneficiaries of your IRA or employer retirement plan is another way to provide for their needs after your death. Be aware, however, that you may need your spouse's written consent if you wish to name anyone other than your spouse as the beneficiary of certain types of retirement plans.

**Create a postnuptial agreement**

Postnuptial agreements aren't right for everyone, but they can help eliminate conflicts between your spouse and your children from a previous marriage. The agreement is a written contract between you and your spouse that states how property will be owned and distributed during the marriage, in the event of divorce, and at death.

**Make your children joint owners**

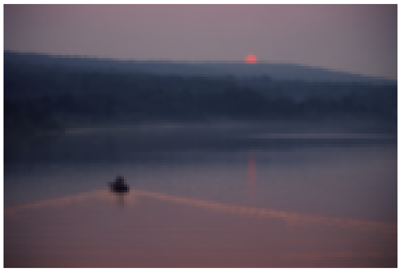
Giving your children joint ownership of property during your life will ensure that they receive that property upon your death. However, there are risks associated with this strategy. As joint owners, your children may have unlimited access to the property, meaning they would have the right to sell the property and use the proceeds for their own benefit. Also, the jointly owned property could be in jeopardy from your children's creditors if your children run into financial difficulties, or they get divorced.

**Leave your surviving spouse a lump sum**

Consider leaving your surviving spouse a lump sum and dividing the remainder of your property among your children. Or conversely, leave a lump sum to your children and the remainder to your spouse. While this seems like a simple approach, there are instances when it can be very effective, especially if you have a relatively small estate.

It is important to note that there are income tax as well as estate and gift tax considerations associated with many of the options mentioned. See an experienced estate planning attorney for more guidance.

# Five Ideas for Staying Sane in a Crazy Market



A key part of managing your money is managing your emotions, particularly when the stock market is going through a period of uncertainty. Being able to keep your cool is one of the most valuable skills you can have as an investor.

### Stay on course by continuing to save

Even if the value of your holdings fluctuates, regularly adding to an account that's designed for a long-term goal may cushion the emotional impact of market swings. If losses are offset even in part by new savings, the bottom-line number on your statement might not be quite so discouraging.

If you're using dollar-cost averaging--investing a specific amount regularly regardless of fluctuating price levels--you may be getting a bargain by buying when prices are down. However, dollar-cost averaging can't guarantee a profit or protect against a loss, and you should consider your financial ability to continue purchases through periods of low price levels.

### Stick with your game plan

Solid asset allocation is the basis of sound investing. One of the reasons a diversified portfolio is so important is that strong performance of some investments may help offset poor performance by others. Even with an appropriate asset allocation, some parts of a portfolio may struggle at any given time. Diversification can't guarantee a profit or protect against a loss, but it can help you balance risks.

### Look in the rear-view mirror

If you're investing long term, sometimes it helps to take a look back and see how far you've come. If your portfolio is down this year, it can be easy to forget any progress you may already have made over the years, though past performance is no guarantee of future returns.

Think about why you made a specific investment in the first place. That can help you determine if it still deserves a place in your investing strategy. Understanding how a specific holding fits in your portfolio also can help you consider whether a lower price might actually represent a buying opportunity. If you don't know an investment's purpose in your overall strategy, now's the time to find out.

### Remember that everything's relative

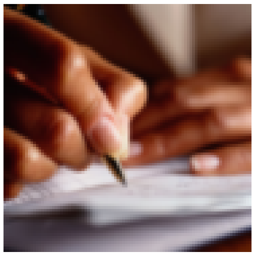
Most of the variance in the returns of different portfolios is generally attributable to their asset allocations. If you've got a well-diversified portfolio, it could be useful to compare its overall performance to relevant benchmarks. If you find that your investments are at least matching those benchmarks, that realization might help you feel better about your overall strategy.

### Remind yourself that nothing lasts forever

Ups and downs are normal for the stock market. If you regret not selling at a market peak, or missed a bargain, remember that you're likely to have other opportunities at some point. Having predetermined guidelines for buying and selling can prevent emotion from dictating investment decisions.

# Ask the Experts

## What's a credit score and why should I care about it?



Your credit score is the result of a mathematical formula that's applied to all the information in your credit report (both positive and negative) and then compared to millions of other credit reports. The most common credit score is a FICO score, developed by the Fair Isaac Corporation. A variation of the basic FICO model is used by each of the three major credit reporting agencies: Equifax, Experian, and TransUnion. Your FICO score is based on five categories, each of which accounts for a percentage of your total score:

- Your payment history: 35%
- An analysis of your debt: 30%
- The length of your credit history: 15%
- Recent inquiries/new credit activity: 10%
- Types of credit in use: 10%

The result is a three-digit number between 300 and 850 that estimates your level of credit risk. The higher the number, the lower the risk.

This number significantly affects your ability to get credit and the terms you're offered. Generally, lenders consider people with scores above 700 to be in good financial health, and worthy of the best interest rates and credit terms. Those with scores below 600 are considered to be financially risky, and may be turned down for credit or offered stricter terms (higher interest rates, lower credit limits, and/or requirements for collateral or a cosigner or both).

To keep your score high:

- Pay your bills on time
- Repair any damage (i.e., overdue payments) as quickly as possible
- Keep your balances on your credit cards low (especially in relation to your credit limits)
- Pay off your debt
- Don't open new accounts you don't need

## How do I dispute an unsatisfactory credit card purchase?

If you used a credit card to make what turns out to be an unsatisfactory purchase, you should first seek a refund or a replacement from the merchant that sold you the item. But if you have no luck there, you may have some recourse through the credit card company.

There are some requirements. First, you must have used the credit card to purchase the merchandise for personal (not business) use. Second, if you've already paid the credit card bill on which the sale is listed, the credit card company generally won't help you.

Additionally, the unsatisfactory purchase must have been made either with a charge card issued by the merchant or with a bank's card. If the item was not purchased with the merchant's own card, then the item must cost $50 or more.

Further, unless you used the merchant's own card, the purchase must also have occurred within your home state or within 100 miles of your billing address. Catalogue sales, Internet sales, and orders placed by telephone may be considered in-state purchases. State laws may vary, but these purchases are generally protected.

If you're unable to resolve the matter with the merchant, be sure to write the credit card company within 60 days of when the charge first appeared on your statement. Include in your letter your name, account number, information about the unsatisfactory item, and what you've done to try to resolve the matter with the seller.

The card issuer will usually investigate the matter, and you may withhold payment on the unsatisfactory merchandise until the matter is resolved. (Until then, no interest or late fees will be charged.) If the investigation reveals you are right and the merchant is at fault, you won't have to pay for the item or any finance charges on it. However, if the card issuer doesn't believe the merchant is at fault, you'll be expected to pay for the item. If you want to continue the dispute with the merchant, you'll have to do so in court.

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*Dave Williams is originally from Philadelphia, PA. He has been a "transplanted" Hoosier for the past 30 years. Dave strives to educate his clients on how to invest profitably and avoid loss by providing conservative options. He is dedicated to properly helping his clients reap the rewards of a well planned retirement. In addition, Dave is a well established speaker in Indiana and is committed to educating the community with his workshops on topics relating to conservative alternatives. Dave is a graduate of Indiana University with a BS in Finance. He is also a member of the National Ethics Bureau. He resides in Indianapolis with his wife of 27 years, 3 mini-Daschunds, and is enjoying his new granddaughter, Elly.*

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