

Money Management

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Retirement: A New Chapter

For an increasing number of people, retirement signals not the end of a career, but rather the beginning of a new phase—entrepreneurship. Many baby boomers see retirement as an opportunity to start a new chapter in life, and they plan to use their hard-earned skills and knowledge to create their own independent businesses.

There are many advantages that those aged 50 and older possess when starting their own business ventures. By retirement, mortgages have often been paid and children have graduated from college. With fewer financial obligations—and perhaps a cushion from a lifetime of saving—retirees may have the opportunity and the time to develop a strong business plan and concept. Retirees also have the benefit of utilizing the many business contacts and skills acquired over their working years to enhance product development, marketing, and sales.

Many retirees find the opportunity of their dreams during their golden years. For example, prior to retirement, Rob had a thriving career in editing and publishing. After retiring, Rob quickly learned that he was not content

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Help Safeguard the Future with Disability Income Insurance

Have you ever wondered how you would manage financially if you were to experience a severe injury or illness that left you unable to work? How long could you continue to pay your bills and cover your daily expenses? The likelihood of such an event may be greater than you think. According to the Insurance Information Institute (III, 2010), 43% of all people age 40 will have a long-term (lasting 90 days or more) disability event by age 65.

To be prepared for such a situation, it is important to *plan ahead* and be proactive. To help protect yourself, you may wish to apply for an **individual disability income insurance** policy. However, there are a few considerations to be aware of when choosing this coverage:

- **Definition of Disability.** Carefully review your policy's definition of disability. Some policies may provide coverage if you are unable to work in the occupation in which you are employed or for which you were trained,

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to stay at home. He missed using his skills and being out in the world with people who appreciated great writing in the same way that he did. He decided that he could use his expertise and creativity in his own business endeavor. Drawing upon his years of experience, Rob opened his own bookshop, with plans to invite many of the authors he'd worked with over the years to host poetry readings and booksigning events in the evenings.

If you want to use your years of wisdom to create your own company, here are some questions to consider:

Are you personally motivated? Building a business requires intense dedication. You will need to develop your own ideas, set your own schedule, and manage a variety of responsibilities.

Are you a “people” person? Running your own business will likely involve interaction with various professionals and personalities. If you can harness the interpersonal skills you gained from decades in the working world, you will be better prepared to handle difficult clients or professionals.

Do you have the ability to think quickly? Owning your own company may mean that you will have to provide answers and make decisions quickly, and sometimes under pressure.

Do you have passion and stamina? It is often said that you must love what you do.

Realize at the start of the enterprise that a good deal of time and effort will be required.

Are you organized? Organizational and planning skills can lead to continued business success. Finances, invoices, and schedules are just a few of the tasks at which you must be or become proficient.

Is your energy level high? A business requires a lot of work, and it can be physically and emotionally stressful. Those who are energetic often do well because they are propelled by their desire to succeed and have the energy to follow through.

Will your family be supportive? A new business can consume a lot of your time, mental energy, and sometimes, capital. Make sure to tell your family what they can realistically expect from your business venture, and gain their support and trust.

There are many advantages to entrepreneurship. The chance to be your own boss and experience the payoff of your own hard work makes entrepreneurship an exciting and educational adventure. Interestingly, lack of experience often accounts for many small business failures. Therefore, decades of experience may put you ahead of the game before it even begins, and many of today's retirees are embracing the challenge. *MM*

Diagnosing Your Financial Condition

How healthy are you financially? To obtain your own diagnosis, grab a notebook and conduct a comprehensive financial assessment.

Start with a breakdown of your **net worth**. On separate lines, list your assets. Determine *liquid* assets first, such as cash and savings. Then add up the cash value of illiquid assets: retirement plans, real estate, collectibles, other personal property, life insurance, and annuities.

Here are two signs of healthy finances:

- 1) your liquid assets could cover three to six months of expenses, in case of emergency, and
- 2) at least half your assets are appreciating in value.

Once you've determined your assets, add up your **liabilities**—unpaid bills and outstanding

loans—and do the math. After totaling your assets, subtract your liabilities to determine your net worth. If the total value of your outstanding debts (including your mortgage) is less than half of your assets, you're in good shape. If your debts are more than half your assets, you may be carrying too much debt.

Now, examine your **cash flow**. Pull out last year's tax information and a clean sheet of paper. Write down your after-tax income (annual income minus taxes) on the top line. Then take out your checkbook, credit card statements, and other records. Now, determine the amount you spend in the following areas: rent/mortgage and utilities; food/clothing; furniture/appliances; leisure activities; car

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Help Safeguard the Future with Disability Income Insurance

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or if you can no longer earn as much as you once did in that field. In contrast, other policies may offer coverage only if you are unable to work in *any* occupation. Should you become disabled, this distinction can make a world of difference.

- **Residual Benefits or Partial Disability Coverage.** Under certain specified circumstances, if you become disabled and are only able to earn a *portion* of your previous income, residual benefits or partial disability coverage pays a percentage of your benefits.
- **Guaranteed Renewable.** With this feature, the insurer cannot refuse to renew your policy or change any terms, except for premium cost, as long as you continue to pay your premiums on time.
- **Guaranteed Insurability.** This provision allows you to increase your monthly benefit, even if you experience health changes that would otherwise prevent you from obtaining additional disability coverage.
- **Cost-of-Living Adjustment (COLA).** This feature helps protect your benefits against the effects of inflation during a long-term disability. It is important to note that the

cost of your disability income insurance policy will vary according to the scope of coverage you choose, and there may be an additional premium for adding any **riders**.

The Outlook without Protection

If you don't have a disability income insurance policy, there are alternatives, although they all have shortcomings. For instance, you could self-insure. But, even if you save 10% of your salary each year, one year of disability could easily wipe out many years of savings. Or, perhaps your employer provides group disability insurance. Unfortunately, **employer-sponsored plans** are often limited in scope and duration, and coverage is not portable upon termination of employment (except in certain executive disability policies). **Workers compensation** may be an option in some cases; however, it only covers injuries that occurred on the job. Eligibility and benefits vary by state.

A debilitating illness or injury that reduces or eliminates your primary source of income can be a financially devastating experience—one from which it can be difficult to recover. Disability income insurance can play an important role in your overall financial strategy. **MM**

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payments/expenses; professional expenses; and insurance premiums. Write each on a separate line and add lines for special expenses (such as a vacation, education, etc.) and/or "other."

After you add those lines together, subtract that sum from your after-tax income to determine the money available for savings and investment. If this figure is less than what you actually have available, you may have to go back and check your figures. People often underestimate their spending.

If the cash flow worksheet shows that you're saving 5% to 10% of your income, you're doing well. If not, you may want to cut back on your spending and develop a plan to pay off your debt. The worksheet may also reveal areas where you can cut back without making a dramatic impact on your lifestyle.

Determining your net worth and analyzing your cash flow may help you gain a realistic diagnosis of your financial condition, along with ways to work toward a healthier financial prognosis. **MM**

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Home Improvements and Resale Value

When it comes to home improvements, it is important to consider which would be the most profitable in terms of resale value. Sometimes, it's possible to get back all, or even more, of your investment. While some improvements, such as a remodeled kitchen or added bathroom, may add value to your home, others can actually make your home more difficult to sell. For example, not all prospective homebuyers will appreciate a full spa with a whirlpool, hot tub, steam bath, and built-in stereo system. In the same way, a swimming pool could be seen as a detraction due to the maintenance required.

So, how do you know which home improvements might increase your home's resale value? Start by researching the recent selling prices for comparable homes in your neighborhood. If most homes range from \$175,000 to \$250,000, your top resale price will most likely be equal to or less than \$250,000, no matter how many rooms, baths, hot tubs, or skylights you add. As you consider remodeling, keep in mind that it is usually difficult to recover any costs that raise the value of your property over comparable homes in your neighborhood. You may also choose to spend less on home improvements if you are thinking about moving in a few years.

The following interior home improvements may increase resale value:

1. An interior facelift: Repainting ceilings, walls, and interior trim can create a clean, bright, and inviting appearance.
2. A remodeled kitchen: The kitchen is viewed by many as the center of the home, and it often serves as a combination family room/workplace.
3. Addition of a second bathroom: Many prospective homebuyers want more than one bathroom.
4. Fireplace installation: Even though fireplaces may lose more heat than they provide, they do add considerable charm to a home.
5. Installation of central air conditioning: Central air conditioning could help sell your house if it is located in a warmer climate. In colder regions, buyers may be reluctant to pay extra for it because of the operating expense.
6. Improvements in energy efficiency: Additional insulation, thermopane windows, and energy-efficient appliances could begin to pay for themselves immediately, even before selling your home.
7. Refinished or newly installed hardwood floors: Hardwood floors can add character, durability, and elegance to your home and may add to the sale price.

When it comes to recovering your investment, home improvements can be a mixed bag. Depending on how long you plan to stay in your home, some improvements can enhance your lifestyle and be well worth the investment. Still, before you begin a remodeling project, consider what improvements may be most advantageous in terms of resale value. *MM*

A Parting Thought...

An "attorney" is an individual who has been granted legal authority to conduct business on your behalf. You have the right to provide anyone with this power. If the **power of attorney** is limited, the individual you choose can conduct only that business specified in your agreement. If the power of attorney is general, the person's authority is more

extensive but still assumes you are competent to review and approve his or her decisions. If the agreement contains what is known as "durable" language (according to the passage of certain state laws), it allows the designated individual, also known as the **attorney in fact**, to make decisions on your behalf in the event of physical or mental incapacity. *MM*