Dimitri Maraletos
CA Lic: 0767048
10221 Slater Ave., Suite 219
Fountain Valley, CA 92708-4751
(714) 593-6414 Bus
(714) 593-6104 Fax
dimitrim1@aol.com

Volume 18, Issue 2

Money Management

Keeping Debt in Check

Whether debt is a cause for concern depends upon a number of factors, including how the economy is functioning, your particular earning and economic prospects for the near and long term, and the type of debt you incur. By being conscious of spending habits, including credit card use and large purchase habits, you can better understand ways to control debt—before it starts to control you.

In order to properly manage debt, it is important to distinguish between "good debt" and "bad debt." From a purely financial perspective, *good debt* is borrowing in order to purchase an asset that is likely to *appreciate* in value (e.g., a home or business). In some cases, good debt may become "better" if, for instance, you itemize certain repayments (e.g., home mortgage interest) on your tax return and, as a result, qualify for certain tax deductions.

On the other hand, *bad debt* is borrowing in order to purchase an asset that is likely to *depreciate* in value (e.g., an automobile) or borrowing for nonasset consumption (e.g., a vacation). And, bad debt has been made "worse" now that the government has limited tax deductions for

Continued on page 2

How to File an Insurance Claim

Insurance is like a security alarm system. You may sleep better knowing you have it, but you hope it'll never be activated. If you do need to file an insurance claim, however, it's helpful to know what to do.

For a claim under any insurance policy, the first step is to notify your insurance agent that you have incurred a loss. Your agent will tell you what to do next and send along the necessary claim forms to be filled out.

The second step is to fill out those forms and submit them as quickly as possible. In the case of a life insurance claim, you may have to submit the policy document itself, along with the claim form and a death certificate. Insurance companies generally act very promptly to pay claims, but they cannot act until the paperwork is complete. Doing your share will help speed things up.

Continued on page 2

Keeping Debt in Check

Continued from page 1

certain kinds of debts (e.g., interest on personal loans and credit card debt is no longer tax deductible).

In order to manage your debt effectively, consider the following points:

Get a "Snapshot" of Your Debt. Ask yourself how much "good" and "bad" debt you have. Then, categorize your debts as *short-term* (e.g., credit card), *intermediate-term* (e.g., car loans), and *long-term* (e.g., mortgage and home equity).

Pay Off the "Right" Debt First. It generally makes sense to pay off high interest debt first, particularly if the interest is not tax deductible. Stretching out payments is most appropriate for intermediate- and long-term debt. For short-term debt, you ideally should have enough money in savings to pay it off, if necessary.

Limit Your Credit Card Use. Credit cards make life easy, but they can also tempt you to live beyond your means. If you tend to use credit cards to purchase consumables, rather than assets that appreciate, you may want to reduce your dependence on them. It is also best to try to avoid the minimum payment trap. By making only the minimum monthly payment, the interest that accumulates as you stretch out payments can make "bargain" purchases costly in the long run.

Control Impulse Spending. If you have a tendency toward impulse spending, avoid shopping unless you have a *specific* purpose. Or, try *delaying* your impulse purchases for 24 hours. You may find the need will pass once you've had a chance to sleep on it.

The reality of living in the modern world may leave most of us with little choice but to amass some "bad debt." However, common sense strategies (such as the ones outlined above) can help you control your debt, making it manageable within your means. MM

How to File an Insurance Claim

Continued from page 1

Although your agent can help you with the details, you'll find it helpful if you've kept policies and any related information close at hand. For example, life insurance policies generally should *not* be kept in a safe-deposit box. In most states, boxes are temporarily sealed upon the death of the owner. Although an executor can obtain access to the box to locate a will and insurance policies, the need to do so could slow receipt of the funds just when they are needed most. Also, if you own **homeowners** or **renters insurance**, keep an updated inventory of your possessions, along with any documentation relating to their worth. This will help you substantiate the value of your belongings in the event of a covered loss.

You also need to be aware that when dealing with certain types of insurance, such as **health** or **automobile insurance**, some companies pay claims *directly*, and others only *reimburse* you after you have paid the bill. This payment status can be influenced by the in-house policy of your insurance company, standard industry practice, or the individual policies of providers in the field.

Policies also frequently require a **deductible** amount that may result in your receiving an initial bill following a covered loss. Once that amount is satisfied, there may or may not be a **co-payment** feature under which the insurance company pays a designated percentage of all covered claims, and you are responsible for paying the balance up to a specified amount. See your individual policies for the specific deductible or co-payment amounts that apply to your coverage.

Insurance coverage can help lighten your burden when facing difficult circumstances. You may be able to further ease your mind by fully understanding your insurance policies and the steps you need to take in order to file a claim. MM

Working with Your Estate Planning Team

Estate planning often involves the coordinated efforts of an estate planning *team* consisting of your attorney, accountant, and financial professional. However, whether establishing a new estate plan or revising an existing one, only *you* can provide the guidance, direction, and information needed to develop an effective plan. Most estate planning teams begin the process by requesting that you complete a questionnaire and asset inventory. Although this may seem an arduous task, the more complete information you provide, the more your team will be able to help you achieve your goals.

Although some questions may seem intrusive, each has a specific purpose. You may be requested to provide any or all of the following information when formulating an estate plan:

Family and Other Beneficiaries

- The names, ages, relationships, and special needs of family members and other beneficiaries.
- Copies of property settlements, other financial agreements, and court decrees relating to your family.

Health

- Information on your current health and the health of your beneficiaries.
- The average health and life spans of your ancestors.

Assets and Liabilities

- A list of your assets, their estimated net value, and documentation of their ownership.
- Identification of your liabilities and those of your spouse.

Existing Plans

- A copy of your current will, including information on contractual or legal restrictions on the disposition of your assets.
- Documentation of survivorship provisions and beneficiary designations on insurance policies, retirement plans, employee benefit plans, business buy-sell agreements, and other such assets.

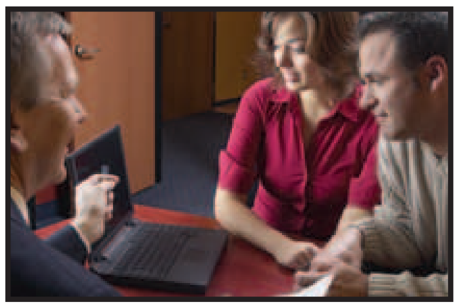
Objectives and Purposes

- Your objectives, purposes, and hopes for yourself and each beneficiary.
- An assessment of each beneficiary's ability to manage assets.

Benefits of Estate Planning

Once fully informed, your estate planning team can help you accomplish the following:

- Analyze your assets to determine which should be disposed of during your lifetime and which should be retained, as well as whether any special expertise will be required to value and dispose of your assets.
- Identify which assets will be subject to probate and estate taxes, and estimate the potential costs to your estate.
- Estimate and plan for the liquidity needs of your estate, your surviving spouse, and



other family members and beneficiaries to cover estate taxes, probate costs, and future living expenses.
- Guide you in selecting the best domicile, if applicable, to help reduce the net effect of taxes on your estate.

No Plan Is Final

Bear in mind that no estate plan is permanent. Marriages, remarriages, births, deaths, job changes, and new legislation may necessitate adjusting an existing plan or creating a new one. Also, the composition of your assets may change over time. To keep your estate plan up-to-date, notify your estate planning team of any relevant changes as they occur, and work with them when they alert you to legislative changes. MM

The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

Taxes and Your Retirement Destination

What will you look for as you approach your "golden" years? Do you want an affordable condo on the golf course with room for visiting grandchildren? Would you like to remain in a community surrounded by old friends and family, or would you prefer living in close proximity to new friends? Is access to excellent medical facilities a priority?

As you decide where your retirement haven will be, in addition to considering these lifestyle questions, you should research the effects of state tax structures on your projected retirement income. Here is a look at the following key tax areas:

Earned and unearned income taxes. If you continue to work, some states treat seniors like everyone else on their income tax rolls, some specifically give seniors tax breaks on earned income, and others do not tax earned income for any of their residents. Tax rates on unearned income may also vary from state to state. Be aware that several states tax former residents on Individual Retirement Account (IRA) distributions. Thus, if you move, you may have to file income tax returns in *two* states—and watch out for unexpected local income taxes.

Pension income taxes. In many cases, seniors receive income from military, government, and private pension plans. Some states exempt all pension income from taxation, while others exempt certain types and/or amounts of pension income.

Social Security benefit taxes. Some states do not tax Social Security benefits at all, while others follow federal tax formulas for determining their tax on such benefits. Still others have developed their own formulas for income tax on Social Security benefits.

Property taxes. Some states may offer advantages to seniors, so familiarize yourself with the relevant personal property tax laws, especially on cars and boats.

Sales taxes. Many states—and sometimes localities within each state—tax clothing, gas, household goods, and sometimes even food and prescription drugs. When you look at what you have budgeted out of your fixed income for these items, remember to add sales taxes if they will apply.

Estate taxes. While they do not *directly* affect your cost of living as a senior, do not overlook estate taxes when determining the feasibility of settling in one state over another. In some states, your spouse may be taxed on a portion of his or her inheritance that, in another state, would pass to him or her free of state estate tax. Changes in state estate tax codes should be watched carefully as states study ways to make their financial environments "friendlier" to seniors.

No *single* tax consideration should be used to determine the most favorable tax environment for your retirement years. You need to analyze your *overall* financial situation and then look at all of your retirement options. Your main goal should be to spend your senior years where you will be relatively free from financial stress—to live the happy, healthy life you have earned. MM

A Parting Thought...

Divorce may rank as one of the most stressful of life's events, affecting not only the emotions, but also the wallets, of those involved. Because it may provoke change at almost every level of life (e.g., social relationships, family, and work), it usually requires a fundamental reexamination of life goals and expectations. Once divorce has moved from a possibility to a reality, it is essential that you learn how to protect your legal rights. From a financial perspective, divorce involves three things: division of marital property, child support, and alimony. An understanding of the divorce process may help you ensure the law works to your advantage on all three fronts.