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Volume 18, Issue 3

Money Management

Disability Income Insurance: Protecting Your Most Valuable Asset

Have you ever asked yourself how you would manage if you were to suffer a severe accident or illness that left you unable to work? How long could you help maintain your standard of living, 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, 2007), 43% of individuals between the ages of 40 and 65 will suffer a long-term disability.

To be prepared for such a situation, it is important to *plan ahead*. A smart approach to help protect a portion of your income may be to purchase an **individual disability income insurance** policy. However, there are a few considerations to keep in mind 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 were employed or

Continued on page 4

Solving "The Case of the Missing Money"

Do you ever wonder where all your money goes? The truth is usually not that mysterious. You can discover it with a little discipline on your part—along with the help of a budget. Many people spend their money in small increments without realizing how it all adds up. By helping you track your income and expenses, a budget can help you gain control of your personal finances.

Make It a Family Affair

Creating and maintaining a budget is often more successful if it is a family affair. All adult family members should be involved in the process. Since children affect and are affected by the budget, they should also be included. When they see that the family's income is not unlimited, it can help them understand why everything they want is not always theirs for the asking.

Continued on page 2

Solving “The Case of the Missing Money”

Continued from page 1

Each family requires a personalized budget tailored to its own particular needs. Here are some of the basic steps to follow:

1) **Track Income and Spending.** To start, tally all your sources of income and spending for a few weeks or months. The easy way to do this is to get a receipt for all expenditures over $1.00. You can also refer to credit card statements, receipts, and check stubs.
2) **Categorize Expenses.** Set up different categories for your expenditures. The two basic types of expenses are 1) **fixed**—those over which you have no control, such as mortgage or rent, insurance, and utilities; and 2) **discretionary**—those over which you do have control, such as clothes, movies, sports events, dining out.

3) **Set Priorities.** When you begin to see how much money is coming in and how much is going out, it is time to set priorities. Is your objective to buy a house or a new car? Are you saving for your child’s college education or your retirement? Perhaps your top priority is to get out of debt.
4) **Prepare the Budget.** Now that you have a handle on your current income and expenses and have established some priorities, you are ready to prepare a budget. Remember to keep it simple. The less complicated, the easier it will be to maintain. For instance, to estimate expenses such as for tax bills or insurance premiums, simply calculate the annual expense and divide by 12. The budget process should give you a better sense of where you need to cut expenses. It may take several passes before you whittle them down to bring them in line with your income and your financial objectives.
5) **Stick to It.** Get in the habit of reviewing your budget at least monthly. A weekly review is even better. A budget must be consistently maintained in order to work.
6) **Conduct an Annual Review.** Also, review your budget at the end of each year. By totaling what you spent and comparing it to what you had budgeted, you will see areas to work on for the coming year.

Additional Reminders

Once you have prepared a budget, there are still some important things to remember. First, don’t forget to set aside emergency savings in case of an unforeseen problem, such as a job loss, or an unexpected major expense. The rule of thumb is that an emergency savings fund should cover three to six months’ worth of living expenses. To work best, savings should be set aside on a regular weekly or monthly basis. And second, keep a close watch on your credit card spending. Don’t let your credit cards run away with you. Due to the ease of using credit cards, many people end up buying things they don’t really need, and they may end up costing them even more in finance charges if they don’t pay the bill on time.

Many families are always wondering where their money went. By making a budget a part of your family’s financial routine, you could be well on your way to answering this question. *MM*

Baby Boomers and the Changing World of Retirement

Over the next two decades, the most chronicled generation in America will gradually enter retirement. At that point, each wave of baby boomers will quickly discover if their retirement plans, Social Security, and personal savings will be sufficient to maintain their existing lifestyles and needs.

Baby boomers—a name given to those born from 1946 to 1965—have been noted for their creation of the "computer age," quest for physical fitness, and expectations for living long and full lives. Now, as the boomers pass into middle age, many are beginning to focus their attention on retirement.

Unlike the previous Great Depression-to-World War II generation, many baby boomers believe they cannot depend on receiving Social Security benefits during their retirement years. In fact, many economists question the future "security" of the Social Security trust funds.

To further compound concern, many employed boomers may not have ***employer-funded* retirement plans**. Since, in today's work world, employ*ees*, rather than employ*ers*, generally assume full responsibility for funding their retirement plans, it is no surprise that uncertainty and worry occupy the minds of many of those without guaranteed pensions.

Broadening Perspectives

What can boomers do to determine if their savings and assets will sufficiently fund their retirement years? Definitive answers are often elusive. After all, life is filled with many variables, and no one really knows for sure what the future holds. However, even with these constraints, boomers can gain much insight by estimating and analyzing the following:

- Potential income sources (e.g., income-producing real estate, inheritances, etc.)
- Projected balances of retirement and savings plans
- Costs of future health care needs
- Annualized rate of inflation over retirement years
- Amount of Social Security income to be received
- Percentage of present income required during retirement years
- Length of years retirement may last or life expectancy

Survey Says. . .

A 2008 survey conducted by the Employee Benefit Research Institute* found that only 18% of Americans are very confident they will have enough money to live comfortably in retirement. Results also revealed that only 47% of workers have tried to calculate how much money they will need for a comfortable retirement, and around half (49%) reported that the total amount of their savings (excluding the value of their home and any defined benefit plans) is less than $50,000. In addition, 22% of workers and 28% of retirees said they have no savings of any kind.

As is true of every generation facing the retirement planning process, baby boomers should have a *disciplined* savings program in place. If you're a baby boomer, keep in mind that periodic or haphazard deposits may be counterproductive. With a commitment to success and a scheduled plan, you can work toward building the necessary retirement funds to secure your own financial future. *MM*

* Source: *Retirement Confidence Survey*, Employee Benefit Research Institute, 2008.

Disability Income Insurance: Protecting Your Most Valuable Asset

Continued from page 1

for which you were trained. In contrast, other policies may offer coverage only if you are unable to work in *any* occupation. This distinction can make a big difference if you become disabled.

- **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 portion 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 qualifying disability.

The Outlook without Protection

If you don't have a disability income insurance policy, there are alternatives, although they all may have shortcomings. For instance, you could self-insure. However, 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 long-term 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 suffered on the job. Eligibility and benefits vary by state.

To qualify for **Social Security** disability benefits, you must be severely disabled, and even then, you will have to wait at least six months for payments to begin. Social Security disability was not intended to be an individual's sole source of disability income, thus benefits are often less than what you might need to cover your regular living expenses.

A debilitating illness or injury that cuts off or reduces 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 program. *MM*

*These riders are available at an additional cost.

A Parting Thought...

Did you know gifting assets can be an effective means of reducing the size of your estate or assisting a family member or friend? But, you must be careful—giving away *too* much can result in gift taxation. The **annual gift tax exclusion** allows you to give away up to $12,000 per year in 2008 to as many people as you wish without incurring a gift tax liability (married individuals can gift $24,000 to each person, even if only one spouse actually makes the entire gift). In future years, the annual gift tax exclusion will be adjusted for inflation in increments of $1,000, *rounded down* to the nearest $1,000 multiple.