



Necessary Documents and Action Steps for Total Life Financial Planning

Everybody needs to have some basic written documents -- a will, a power of attorney, and a living will -- reviewed and approved by a lawyer. Two important things that are established by a will are, who will inherit your property when you die, and who will be the executor of your estate (this is the person who administers your estate). A power of attorney is a document that enables another person to act on your behalf in the event you are unable to make competent decisions on your own.

A living will express your wishes about medical decisions in case you are unable to make informed consent decisions on your own. The living will explains what, if any, medical care you want when you are still alive but are unable to make those decisions at that time. There are several other things you should be aware of and take into consideration when drawing up your will, a power of attorney, and your living will (medical directive). The information below will guide you in your total life financial planning.

Transferring Property to Others through Titling

Another way to transfer property is through rights of survivorship. Right of survivorship can be used when Party A and Party B own property together and desire the surviving owner to receive the property on the death of the other. The principle of joint tenants without right of survivorship should be used if Party A and Party B own property together and want their heirs to receive their interest in the property.

Life and Disability Insurance

Every person still in the workforce and who has family obligations should have, as a minimum, a term life insurance policy of \$500,000. The average monthly premium for this is \$42 for a woman and \$57 for a man at age 40. Married couples need to have a policy on each spouse. Whole life and variable life policies are not suitable for most people. Disability insurance is very important for everyone to have in the event you are disabled. The cost of disability insurance may be expensive, so it pays to do your research to compare policies and to make sure you are getting only exactly what you need.

Property Insurance

Basic auto and homeowner insurance are essential, and are required by law (auto insurance) or your mortgage holder or landlord (property insurance or renters' insurance). However, one of the most neglected policies is an umbrella policy. The average liability for an auto policy is \$350,000 thousand, and for homeowners' policies it is \$150,000. Your assets are put in serious jeopardy if you have claims over these liability limits. An umbrella policy that costs approximately \$400 a year adds an extra \$1 million to each of those policies. A better deal is to get \$2 million of umbrella coverage for \$650 per year.

Investments and Retirement

Use employer 401K plans and simple IRA plans to save money. Use IRAs if your employer does not have a retirement plan. Use Roth accounts over non-Roth tax deferred accounts when possible. Use T. Rowe Price or Vanguard mutual funds for investments. Only use mutual funds not individual stocks or bonds. Investors under age 55 can afford to take more risk by having 70 percent or more invested in stocks and the rest in bonds. Once in retirement, the investment in stocks should be 50% to 40%, with the rest in a bond fund.

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Cash Savings

Many advisors recommend that each person or family have six months of expenditures in a bank account for emergency purposes. I believe 12 months of expenditures is more realistic, and should be held in a savings account. Remember to add to this emergency fund periodically, and try to find the savings account with the highest interest rate that you can. Certificates of Deposit (CDs) are another option for holding this money. Again, shop around for the highest interest rate and ladder your CDs (invest your savings in CDs with varying redemption dates).

Estate Planning for 2020, the estate tax exemption is \$11.58 million for each taxpayer. Be sure to check the State where you live to see what its estate tax limits are. The annual gift tax exclusion is \$15 thousand a year, in 2020 per person. Your taxable estate may be reduced by giving appreciating assets to family members, non-family members, and charities.

Buy-Sell Agreements for Businesses

It is important for business owners to have a buy and sell agreement in place in the event of their disability or death. This agreement obligates the buyer to purchase the business at an agreed price with agreed payment terms. The business owner (the seller) or his estate will transfer the business to the buyer for the agreed price. The buyer may be a key person of the business, or the buyer may be another business.