

Dialogues » WEALTH STRATEGIES FOR DISCUSSION



- » **CONSOLIDATE** your accounts – and take stock of your assets and liabilities.
- » **REVISIT** your insurance needs – and make sure your family will be provided for.
- » **UPDATE** wills and beneficiaries – and feel more secure.
- » **REASSESS** your financial goals in times of uncertainty – for changes and opportunities.

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Ten Financial Planning Tips To Protect Your Family and Your Wealth

» These days, there seems to be no shortage of situations causing investors to feel anxious and unsettled. Some investors are worried about holding onto their jobs in a tight marketplace, while others are troubled by the potential effect an economic recession could have on the stock market—and their investment portfolios.

Although you have little say in the matter of which direction the economy or the markets move, you can exercise some control over your own financial affairs.

To begin, your first move should be to work closely with your Financial Advisor to develop a comprehensive plan that you review together on a regular basis. To help with this process, here are ten steps you can take now to help protect your family's financial future regardless of market performance—or any other surprises life may throw your way. ■

By Morgan Stanley Smith Barney LLC.

Pull It Together

» 1. Shore up your emergency fund.

A basic tenet of financial planning is to have an adequate reserve of cash on hand in case of an emergency. This rainy-day fund should be stable and liquid, so you can meet short-term cash-flow needs that may arise from (for example) the loss of a job or a sudden unforeseen expense. As a rule of thumb, your cash reserves should cover at least three months' worth of living expenses. For many investors, however, the opportunity cost of keeping such a large amount of cash tied up is a deterrent. One solution to this conundrum is to establish a line of credit against your home or investment securities.

2. Consolidate your accounts. If you're like many investors, you probably have a checking or savings account at a credit union, a mortgage at a bank, one or more brokerage accounts, some scattered mutual funds—and the list goes on. Consolidating your accounts with one provider not only will help you take stock of your current assets and liabilities, it could also reduce your investment fees—and spare you a steady blizzard of account forms, statements and other records that might be making financial planning more difficult than it needs to be. Additionally, pulling all of your accounts together also will help your loved ones sort through your estate. Take this opportunity to locate all the paperwork from your various accounts and determine the best way

to manage them under one roof. When choosing a provider, make sure it offers online access to your accounts so you can monitor your assets from anywhere at any time.

3. Locate important documents. Once you've got your accounts under control, keep going—find all the other documents related to the status of your assets and your wishes. These documents include your *will*, which specifies how your possessions will be distributed and who will manage your estate upon your death (see more in the next section); your *durable power of attorney*, which appoints someone to address your financial matters if you fall ill or become incapacitated; your *living will*, which addresses extraordinary health care issues; and your *health care proxy*, which appoints someone to make health care decisions if you become unable to.

It is important for your survivors to be able to find your essential documents with ease and speed, so create a list of where these items are located, along with the keys to any safety deposit boxes, the combinations to personal safes and any online user names and passwords. Be sure to include your financial statements, income-tax returns, birth and marriage certificates, Social Security and naturalization cards, insurance policies, the deed to your home and titles to your cars. To help with this sizable task, ask us for a copy of our

document-locator tool. Once you have compiled everything, make a copy (either paper or digital) for good measure and send it along with your master list to a family member, friend or trusted advisor for safekeeping.

4. Prepare a will. If you die without a will, state laws will determine who manages your estate and how it will be divided among your survivors. Rarely will state law match your own wishes exactly, so consider preparing a will even if you do not anticipate owing estate taxes. Perhaps most important, your will also states who would take care of your children in the event of your premature death. If you've already drafted a will, review it to ensure it covers any alterations in tax law or in your circumstances, objectives or wishes. These changes may include a move to or the purchase of property in another state, a marriage, a divorce, a birth, health issues and the enrollment in—or completion of—a college program.

PLANS AND POLICIES

5. Establish an estate plan. The top federal estate- and gift-tax rate is 45% (for 2007, 2008 and 2009). Since estate tax generally must be paid in cash within nine months following an individual's death, this situation can result in a sudden and significant reduction of assets, as well as a need for serious liquidity. The final settling of your debts and the official

transfer of your estate property—a process known as probate—also may increase your estate-administration expenses, delay the execution of your wishes and subject your affairs to unwanted publicity.

We and the firm's specialists can work with your attorney or tax advisor to enact estate-planning strategies that help reduce the impact of estate taxes and facilitate the transfer of the maximum amount possible to heirs and charity. If you already have an estate plan, make sure it is still relevant in the face of changing family circumstances, market performance and interest rate swings. Market performance may have dramatically affected the value of certain assets you plan to leave to beneficiaries, while a low-interest-rate environment may make certain estate-planning strategies more beneficial than ever before.

If your estate plan includes trusts, you must decide whom to name as the trustee or co-trustee. The individual or institution you designate—it could be anyone from your spouse to a professional trustee—will be responsible for carrying out the instructions outlined in your will or trust in the event of your death or

incapacitation. Would this trustee act alone? If you become incapacitated, does your trustee have the authority to obtain and disclose your medical information as needed? We can help you assess your trustee options and make the best decision for your situation.

6. Revisit your insurance needs—and coverage. The premature death or incapacitation of a primary breadwinner can devastate even the most thorough financial plan. If you were no longer around or able to provide for your dependents, would your family be able to maintain the same standard of living? Review your current insurance policies now to make sure your family will be provided for if something happens to you. Here are some questions to consider:

» Are you earning the same amount as when you first bought your policy?

You may not have enough coverage to replace your current earnings or meet your family's expenses. Be sure to identify your insurance needs in relation to your standard of living—and don't forget to include mortgages, college tuition and other such expenses.

» Has there been a recent birth, death, marriage or divorce in your family?

Maybe the reason you purchased your insurance policy in the first place has changed or maybe you want to reconsider the beneficiary of your policy.

» Do you have the most beneficial policy available? In general, life-insurance products offer better benefits and cost less than they did ten years ago—you may be able to upgrade your policy without paying much more in premiums. (Note: A policy change may incur fees and costs, and may also require a medical examination.)

» Have you overlooked a disability policy? Disability insurance can provide the cash you need to help maintain your family's lifestyle should you become too sick or injured to work.

We, together with the firm's insurance experts, can perform a complimentary review of your current insurance coverage to determine if you have an adequate and competitive policy (or policies) in place. If you don't own insurance, now is the time to explore your needs and options.

7. Update beneficiary information. Be sure to designate in writing primary and contingent beneficiaries for your life-insurance policies, employer-sponsored retirement plans and IRAs. If you've already done so, make sure your choices are up to date and still desirable. The disposition of these assets is generally not controlled by your will—if no beneficiaries are chosen, the terms of your IRA or retirement plan will determine the recipients of these assets upon your death. The chosen beneficiaries for your IRA and retirement plan accounts also may affect the calculation of your required minimum distributions, so it's important to understand the tax and non-tax consequences resulting from the person or entity (trust, charity, estate) you designate.

Your Wishes—How to Avoid a Critical Pitfall

When reviewing your important documents, it's critical to be aware of the Health Insurance Portability and Accountability Act, or HIPAA, a federal law that restricts health care providers (such as doctors, hospitals or nursing homes) from releasing information about you. If you do not appoint an authorized "personal representative," health care professionals cannot provide them with the medical information they may need to carry out your wishes should you become incapacitated.

Because HIPAA rules extend beyond health care documents to financial and estate-planning documents, make sure you have appointed your health care agent, successor trustee, attorney in fact and other agents as your "personal representatives" so they can receive and share your information. If your original documents were drafted before HIPAA took effect in April 2003, you may have to create new ones. Consider going a step further and creating a separate HIPAA release to authorize those who may have to act on your behalf to obtain and disclose your medical information.

ASSESSING AND DISCUSSING

8. Diversify your portfolio. It's generally unwise to radically adjust your asset allocation as a knee-jerk reaction to specific events. It is always a good idea, however, to make sure your portfolio is adequately diversified. Is it invested in a wide-enough range of asset classes? Is it still allocated according to your current risk tolerance and time horizon? Does it include investments that are less contingent on stock-market performance? Does it have enough international exposure? Take this opportunity to assess your current asset allocation and to further diversify your portfolio, if appropriate. And remember to review it on a periodic basis with us, so we can help you alter it as your needs change or help you stick to it when the market starts to make you jittery.

9. Talk about financial continuity. All the will drafting, estate planning and account consolidation you do will make little difference if you don't talk to your loved ones about how they will be affected should something happen to you. Many families neglect such conversations until they are forced to have them due to death or a grave illness. Rather than waiting for a crisis, start talking to your family now about estate planning, medical treatment, guardianship and other sensitive issues.

Knowing how to proceed should make their lives easier if a crisis does occur. It could also increase family harmony and help ensure your wishes are respected.

10. Reassess your financial goals. Times of uncertainty and turbulence often create opportunities for introspection and "taking stock." You may discover that certain things you deemed important in the past seem less so now. Or you may identify new goals, like pursuing a different career or giving back to your community and the world at large. In the same spirit, a rough time may be the right time to examine your long-term financial goals as well. Have they changed? Have circumstances or market performance affected

your ability to meet them? These are the issues you should be discussing with us.

Because each individual has varying objectives and circumstances, be sure to work closely with us, your tax advisor and lawyer as you carry out the steps described in this newsletter. And while you'll face some decisions that are difficult to make, they should not be put off—doing so could end up costing you money, increasing your anxiety and adversely affecting those you love most. Our primary focus is ensuring that your wealth works hard for you—and that your overall financial plan and preparedness help secure the future you envision for your family. ■

Conversation Starter: The Family Mission Statement

When discussing financial continuity and your wishes with your family, one helpful—and collaborative—framework worth considering is a family mission statement. This document outlines your family's values, goals and vision of who you are and, possibly, what role you seek to fulfill in the community. The family mission statement can be as short as a few sentences or somewhat lengthier—some may even recount milestones from the family's history or descriptions of traditions handed down from generation to generation.

So, think about your family's values and the legacy you envision—and be sure to ask us about the expertise and tools available to help you throughout this process.

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