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Dear Friends,  
If you could have more money in your bank account, you'd definitely take it, right? It is also really easy to let your funds slip away. But what you might find surprising is how simple it can be to turn things around for the better. We have identified four money mistakes you might be making and doable solutions to avoid them.  
Should you have any questions, please feel free to contact our offices.  
Sincerely,  
Randhir S. Judge

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Four Money Mistakes You Might Be Making

Business Owner Succession Planning

Women and Estate Planning

Can I provide annuity payments to my heirs after I die?

# Randhir S. Judge F.L.I.A., LUTCF

## Four Money Mistakes You Might Be Making



Three years after the economic crisis led many Americans to re-evaluate their financial picture, economic uncertainty is still the norm. While there's little you can do about the shaky economy, you can help stabilize your own finances over the long term by evaluating what you're doing right ... and wrong. There's no guarantee, but avoiding these four money mistakes may help you survive and ultimately thrive in any turbulent economy.

### Mistake 1: Jumping on the bandwagon

Are you letting economic news--good or bad--control your financial decisions? For example, are you selling gold because you've heard that prices are at record highs or buying real estate because you've heard that prices are at record lows? Have you decided to pull most of your money out of the stock market because you've seen headlines warning of a possible financial crisis?

Unless you're basing your decisions on your own needs and circumstances rather than on the opinions or actions of others, you can't be sure you're doing what's right for you. Instead of jumping on the bandwagon, take a proactive, rather than reactive, approach to your finances, no matter what economic news you're hearing or what other investors are doing. Revisit your tolerance for risk and your own financial goals, and try to prepare yourself for a variety of scenarios. Avoid basing money decisions on emotion, or you may find yourself facing unanticipated consequences down the road.

### Mistake 2: Only saving what's left over

Do you continue to worry that you're not saving enough? Do you routinely rely on credit rather than cash to pay for the things you want or need? Rather than blame your financial inertia on your income, look a bit deeper, because the real culprit may be the lack of financial priorities. If you don't know exactly how you're

spending your money and you haven't set financial goals, it's unlikely that you'll see much financial progress.

Go back to basics by preparing (or reviewing) your budget. If you tend to save only what you have left over every month, you can put yourself on a more disciplined course by having a fixed amount taken out of your paycheck automatically for retirement. Or, you can set up automatic transfers from your checking account to a savings or investment account.

### Mistake 3: Not having an emergency fund

One lesson that you may have learned over the past few years is that the job market isn't stable. That's a major reason why one of your savings priorities should be an emergency fund. While it isn't glamorous, this underappreciated workhorse really pulls its weight during hard times. Having cash on hand that you can use for an unexpected expense, or to pay bills if you lose your job, is vital because it can help you avoid having to rely on credit or tap your retirement savings. If you don't have emergency savings to fall back on, a minor money shortfall can quickly turn into a major cash crisis.

### Mistake 4: Not asking for help

Even if your finances are in good shape right now, you may be overdue for a checkup. Reviewing your finances is especially important during periods of volatility because it can help reveal potential strengths and weaknesses, and identify changes you might need to make to adjust to the current economic climate. And if you're already in financial trouble, don't let fear or shame prevent you from asking for help. Facing financial problems early may help you make a full recovery. Many creditors are willing to work with you, but this may be much easier while your credit is still good, and while you still have time to turn things around.



*What will happen to your business when you become disabled, retire, or die? You will generally need to identify someone to transfer your ownership interest to family members, co-owners, key employees, or an outside party. There are many options for you to consider.*

## Business Owner Succession Planning

Every successful business owner must eventually face the question: What will happen to my business when I become disabled, retire, or die? Sooner or later, you will generally need to identify someone to transfer your ownership interest to family members, co-owners, key employees, or an outside party. Without a succession plan, the business may need to be liquidated.

### Successor management

One of the first questions that should probably be addressed is: Do you have successor management readily available to run your business? Without it, the business may fail. You might look among co-owners, family members, and key employees for candidates. It may be necessary to train successor management, helping others develop their skills or even bringing in new talent. Of course, if you sell to an outside party, that party may provide their own management. It should be noted that successor management can, but need not, be the same as the successor owners.

### Co-owners

If you have co-owners, you and your co-owners may wish to keep ownership limited to a select group. One way to do this, while providing a market for your interest in the business, is for you and the other owners or the business entity to enter into a buy-sell agreement. A buy-sell agreement is a legally binding contract in which the owners of a business set forth the terms and conditions of a future sale or buyback of a departing owner's share of the business. Specifically, buy-sells control when owners can sell their interests, who can buy an owner's interest, and at what price.

### Family members

Keeping the business in the family can present many issues that may contribute to the success or failure of the business as it is transferred to the successor generation. Do you wish to sell the business to family members, make gifts or bequests of interests, or perhaps use some combination of these? Do you need income for retirement, for your surviving spouse, or for the payment of final expenses? You may need to provide compensation to family members working in the business and profits to family members retaining an ownership interest, while cashing out some family members or otherwise providing for them.

Gifts you make are generally subject to federal gift tax. But you can make gifts of up to \$13,000 per recipient per year free from gift tax using the annual exclusion. You can effectively double that amount by splitting gifts with your

spouse. You can often obtain significant valuation discounts by making gifts of interests in a family limited partnership or a family limited liability company.

In 2012, you can also make gifts or bequests of up to \$5,120,000 that are sheltered from federal gift tax and estate tax by the basic exclusion amount. This limit applies to all gifts you make during life and to your estate at your death. Under some circumstances, spouses may be able to effectively double the limit by splitting gifts with a spouse or by using the unused exclusion of a deceased spouse (portability). Note, though, that unless Congress acts, in 2013 the exclusion will be reduced to \$1 million and portability expires. Similar exclusions or exemptions apply for generation-skipping transfer (GST) tax purposes, an additional tax imposed when the transfer is to someone two or more generations younger than you. There may also be state gift, estate, or GST tax to consider.

Sales to family members can utilize buy-sell agreements and installment sales. Installment sales allow the family member to make payments over time.

### Key employees

You may have some key employees working for you, who provide some unique skills and value to your business, and who have an interest in owning the business. You may be able to sell the business to them utilizing buy-sell agreements and installment sales. A business can also be sold to an employee stock ownership plan (ESOP), a tax-favored retirement plan for employees.

### Outside party

In some cases, succession is not practical using transfers to co-owners, family members, and key employees. Or it may be that you need to obtain the highest possible price for the sale. In that case, selling to an outside party may be the answer.

### Income tax consequences

Generally, the sale of your interest in a business will result in capital gain or loss tax treatment. You generally receive a tax basis stepped up (or stepped down) to fair market value for property you own at your death. Therefore, there will generally be no capital gain if your estate sells your interest shortly after your death. Also, if you sell your interest in an installment sale, capital gains (if any) are generally not taxed until installment payments are received.

# Women and Estate Planning



**Statistically, women live longer than men, and women earn less money over their lifetimes than men.**



They say men are from Mars and women are from Venus, but is this true when it comes to estate planning? Absolutely. And because women often find themselves in such different circumstances than men, it is even more crucial for them to educate themselves about estate planning, and consult an experienced estate planning professional.

## Women tend to live longer than men

Women live an average of 4.9 years longer than men (Source: National Vital Statistics Report, Volume 59, Number 4, March 2011). That means women need their assets to last longer than men do. It also means that wives are probably going to outlive their husbands, so they will likely inherit their husbands' estates, and they will probably have the last word about the final disposition of assets going to the couple's heirs.

## Women tend to earn less during their lives than men

Full-time working women earned only 81.2 cents for each dollar a man earned in 2010 (Source: Bureau of Labor Statistics, Women at Work report, March 2011). Further, women work fewer years than men in order to care for home and family, further reducing their ability to save (Source: GAO-04-35, October 31, 2003). Simply put, women earn less money over their lifetimes than men. This means that women must plan to make fewer dollars last longer. It's important that women get sound retirement planning advice.

## Most custodial parents are women

Approximately 84% of custodial parents are women (Source: U.S. Census Bureau, Custodial Mothers and Fathers and Their Child Support report, November 2009). Women who are parents of young children need to plan for the continued care of those children if something unforeseen should happen. They also need to determine who will handle the children's property until they are older.

## Women are business owners

Women owned 7.8 million nonfarm U.S. businesses operating in the 50 states and the District of Columbia in 2007, an increase of 20.1% from 2002 (most recent statistic available) (Source: U.S. Census Bureau, Facts for Features article, January 26, 2011). Women who are business owners need to protect their assets, and plan for the succession of their businesses.

## Women are professionals

Women make up 57.5% of professional and

related occupations (Source: Bureau of Labor Statistics, Current Population Survey, Table 11, "Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity," 2010). Women in professions with high litigation risks, like medicine, law, and real estate, can benefit from asset protection planning.

## Women are wealthy

Women control \$14 trillion in assets (Source: Center for Women's Business Research, 2005) and three-fourths of the financial wealth in the United States (Source: womensvoicesforchange.org, July 21, 2011). It's important for women to get sound investment, charitable giving, and tax planning advice.

## Creating an estate plan

Regardless of marital status or net worth, women should make important decisions and arrangements today in order to protect themselves, their husbands or partners, and other loved ones in case of incapacity or death.

To create an estate plan, women need to have at least a working knowledge of the estate planning tools that are available, which typically include:

- Will -- A will is a written directive that includes instructions about who is to settle the estate (the executor), how property is to be distributed to the heirs, and perhaps most importantly, who will raise the children. Dying without a will means that a probate court will distribute the estate, which might result in family problems and lawsuits. Wills should be reviewed at least every two years, and updated after significant life events such as a birth, death, divorce, or remarriage.
- Trust -- A trust is a legal entity where someone, known as the grantor, arranges with another person, known as the trustee, to hold property for the benefit of a third party, known as the beneficiary. The grantor names the beneficiary and trustee, and establishes the rules the trustee must follow in a document called a trust agreement.
- Durable Power of Attorney -- A durable power of attorney (DPOA) names family members or other trusted individuals to make financial decisions or transact business on behalf of the person executing the DPOA.
- Health-Care Directives -- Health-care directives are instructions about the medical care that would be wanted if conditions were such that the patient couldn't express his or her own wishes.



## Ask the Experts

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### Can I provide annuity payments to my heirs after I die?

You may be able to provide income payments to your heirs for the rest of their lives through the use of a stretch annuity. A stretch annuity (also known as a legacy annuity) makes lifetime payments to the beneficiary you name in your deferred annuity contract if you die before the annuity start date (e.g., before you begin receiving regular annuity payments).

According to the rules regarding distribution of deferred annuity death proceeds, an annuity beneficiary other than the surviving spouse must receive the annuity proceeds within one year from the date of death. Often, the beneficiary will elect to receive the proceeds in a lump sum, subjecting all of the annuity's accumulated interest to income tax, significantly reducing the value of the beneficiary's proceeds. A better option might be to allow the annuity's death benefit to be paid over a number of years, in which case only a portion of each payment is subject to income tax and the balance of the annuity can continue to grow tax deferred.

Generally, most annuity issuers allow the beneficiary to elect how the proceeds are to be distributed. However, some issuers allow the annuity owner to determine how the annuity's proceeds are to be distributed. In either case, in addition to the lump sum payment, most issuers allow the proceeds of a nonqualified annuity to be distributed:

- Over a period not to exceed 5 years
- Annuitized over a period no longer than the beneficiary's life expectancy, including a period certain, such as 10 years
- As scheduled withdrawals based on the beneficiary's life expectancy according to the IRS life expectancy table

A stretch annuity may be most appropriate:

- For beneficiaries in a high income tax bracket who would pay substantial income tax on annuity earnings if received in a lump sum
- For beneficiaries who may be spendthrifts and might be better served by receiving systematic payments as opposed to a large, lump sum of money



### Can I deduct losses from my variable annuity?

Generally yes, if the annuity is a nonqualified (e.g., not an IRA) commercial annuity. Typically, a variable annuity allows you to invest your

premium in various mutual funds, called subaccounts. Unfortunately, these subaccounts may not perform favorably, and your premium could actually decrease in value.

You can claim the deduction in the year you surrender, or cash-in, the annuity (a partial surrender can't be claimed as a deductible loss). The amount of the loss is determined by subtracting the cash surrender value of the annuity from your basis in the contract. The basis is your investment in the annuity, reduced by any prior withdrawals from principal. For income tax purposes, the loss is treated as an ordinary loss and not a long-term capital loss.

Unfortunately, the IRS has not provided definitive guidance as to where the loss should be claimed on your tax return. Some believe the loss should be taken on the front of Form 1040 as "other gains or losses" from Form 4797.

However, IRS Publication 575 (Pension and Annuity Income) treats the deduction of a variable annuity as an itemized miscellaneous deduction on Schedule A subject to the 2%-of-adjusted-gross-income limit.

*Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk including the possibility of loss of principal. Variable annuities contain fees and charges including, but not limited to, mortality and expense risk charges, sales and surrender (early withdrawal) charges, administrative fees, and charges for optional benefits and riders.*

*Variable annuities are sold by prospectus. You should consider the investment objectives, risk, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company issuing the variable annuity, or from your financial professional. You should read the prospectus carefully before you invest.*