



Family First Financial Planning

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Where does time go? We are already in September and fall is around the corner. Summer vacations are done for now and it is time to review your year end financial planning.

Have you paid in enough for estimated taxes? Have you used your Health Savings Account or Flexible Spending Accounts? Perhaps it is time to review annual enrollment in benefits at work. Have you made your charitable gifts? Or perhaps you wanted to make some gifts to family that will qualify for the annual exclusion amount.

Now is a great time to come in and review your financial goals with a planner. We can help to be sure you are on track for the fall and for 2012.

Leslie Corcoran and Jackie Goldstick

September 2011 Family First Financial Planning

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Life without Life Insurance



What if you were no longer here to provide for your family and loved ones? What if you couldn't watch your children grow, graduate from college, and begin their own families? What if your spouse couldn't

afford the home, car, college tuition, or unanticipated medical expenses, all because you hadn't planned for the unexpected? Life is full of "what ifs," and we don't always have the answers to every question. That's why it's important to put a plan in place that will protect your family if you're not here. Life insurance can be an essential part of that plan.

How much do you need?

Life insurance can provide financial resources at your death for your family or business, or for charities and other interests. The amount of life insurance you need depends on a number of factors, including the size of your family, the nature of your financial obligations, your career stage, and your goals. The answers to these questions may help you determine how much life insurance you should consider:

- What immediate financial expenses (e.g., debt repayment, funeral expenses) would your family face upon your death?
- How much of your salary is devoted to current expenses and future needs?
- How long would your dependents need support if you were to die tomorrow?
- How much money would you want to leave for special situations, such as funding your children's education or gifts to charities?
- What other assets, including existing life insurance, do you have?

What if your spouse dies first?

If you're the primary breadwinner in your marriage, it's easy to overlook the financial and emotional strain your family will face if your spouse should die before you. Your income might be diminished if you have to work less in order to spend more time with your children. Or, you may have to work longer hours to cover unanticipated expenses for daycare, house

cleaning, meals, etc. To your young children, losing one parent may seem like losing both. If your spouse should die before you, insurance on his or her life can offer financial security for your family, allowing you to spend more time providing emotional support for your children.

Even if you're single

Just because you're single doesn't mean you don't need life insurance. If you died tomorrow, what financial obligations would remain? Do your parents or other relatives depend on you for support? Do you want to leave something to people close to you such as siblings, other relatives, or close friends? How will you provide for your favorite charities? Do you have pets that will need care in your absence? Life insurance is an important part of any financial plan, even if you're not married.

Don't let hard times be an excuse to cancel your insurance

During tough economic times, you might be tempted to stop paying your life insurance premium. However, a recent study reveals that 4 in 10 households with children under age 18 would have trouble meeting their everyday living expenses if the primary breadwinner died. Yet 30% of U.S. households have no life insurance, and of those that do, over half (58 million) say they need more life insurance (Life Insurance and Market Research Association 2010 *Trends in Life Insurance Ownership*). Cancelling your life insurance to save a few dollars when money is tight may jeopardize your family's financial future.

Review your plan

Whether you have life insurance through your employer or purchased privately, have you reviewed your coverage recently, especially in relation to your current circumstances? Do you have enough coverage to meet your changing needs and goals? If you change jobs, can you take your insurance with you? Lives change over time and your financial needs may change as well. Review your present coverage with your insurance professional to ensure it's keeping up with your changing financial needs and goals.





An employer-offered health flexible spending account (FSA) can provide you with a tax-favored way to pay for your qualified medical expenses.

Health Flexible Spending Accounts

An employer-offered health flexible spending account (FSA) can provide you with a tax-favored way to pay for your qualified medical expenses. You can make contributions to the health FSA that reduce your federal taxable wages, and the health FSA can reimburse you tax free for qualified medical expenses.

Health FSA basics

At the beginning of each plan year, you elect the amount (if any) of your wages that will be contributed to a health FSA during the year. The plan must specify a maximum dollar amount or maximum percentage of compensation that can be contributed to your health FSA. You might base your election on prior experience, as well as expectations for the upcoming year. Your employer will then withhold a proportionate part of those contributions from each paycheck. The salary reduction contributions reduce your federal taxable wages. (In some plans, your employer may also make nontaxable contributions on your behalf to the plan.)

When you incur qualified medical expenses during the year, you (or the service provider) submit those expenses to the health FSA. The expenses cannot be paid for or reimbursed under any other plan. Certain written documentation may be required. The health FSA reimburses you (or the service provider) for those expenses, up to the amount that you elected to contribute to the health FSA for the year. You receive the reimbursements tax free. You cannot claim an income tax itemized deduction for medical expenses that are reimbursed to you by the health FSA.

Special rules may apply to highly compensated participants and key employees.

Use-it-or-lose-it rule

Health FSAs are "use-it-or-lose-it" plans. Amounts in the account that remain at the end of the plan year cannot be carried over to the next year; they are paid to the employer and cannot be refunded to you. However, the health FSA can provide a grace period of up to 2½ months after the end of the plan year. For a plan using a calendar year, a grace period until March 15 of the following year might be used. Expenses incurred during the grace period can be paid from amounts remaining in the health FSA at the end of the previous plan year. Know when your plan year ends and whether you have a grace period. If you have money left in your health FSA at the end of your plan year and you have a grace period, look for ways to use up the money during the grace period (for

example, by purchasing glasses or contacts, stocking up on prescription drugs, or having dental work done--whatever can be reimbursed by your health FSA).

One-time HSA distributions

If you were covered by a health FSA on September 21, 2006, you may have until the end of 2011 to take a onetime distribution from your health FSA that is transferred directly to your health savings account (HSA) as a qualified HSA distribution. A qualified HSA distribution is treated as a nontaxable rollover from the FSA to the HSA. Various conditions must be met to make a qualified HSA distribution. Consult a financial professional familiar with FSAs and HSAs.

Recent changes

- **Coverage expanded for children under age 27.** A health FSA can generally reimburse you for qualified medical expenses incurred by you, your spouse, and your dependents. Effective March 30, 2010, qualified medical expenses that can be reimbursed by a health FSA were expanded to include expenses incurred by any child of yours who is under age 27 at the end of your tax year. Prior to March 30, 2010, reimbursement by a health FSA for expenses of a child was generally limited to a child under age 19 (or under age 24 for a full-time student). Such expanded coverage is available only if your employer amends the plan documents to provide it to you.
- **Prescriptions needed for over-the-counter medicine reimbursement.** As of 2011, you will generally need a prescription if you wish to be reimbursed by a health FSA for the cost of over-the-counter medicines. From about 2003 through 2010, a health FSA could reimburse you for over-the-counter medicines without the need for a prescription. The change makes the health FSA definition of medicine or drugs the same as the definition you would use if you were itemizing the deduction for medical expenses for federal income tax purposes: a prescribed drug or insulin.
- **New dollar limit for health FSAs in cafeteria plans.** Starting in 2013, there will be a new annual \$2,500 limit for salary reduction contributions that you can make to a health FSA that is part of a cafeteria plan. If your employer wishes, the cafeteria plan can impose a lower dollar limit. The \$2,500 amount will be indexed for inflation starting in 2014. Prior to 2013, there is no statutory limit. The new \$2,500 limit does not apply to a stand-alone health FSA.



Portability allows a surviving spouse to use the unused basic exclusion amount of the first spouse to die to shelter property from federal gift and estate taxes. Portability of the exclusion between spouses would seem to make estate planning easier for many estates. However, unless extended by Congress, portability of the unused basic exclusion amount between spouses is set to expire in 2013.

Your estate plans and documents may need to be revised to reflect the tax changes for 2011 and 2012 and for the uncertainty for 2013 and beyond. Flexibility will be key.

Portability of Basic Exclusion Amount between Spouses

Transfers of property during life or at death are generally subject to federal gift or estate taxes. Each taxpayer has an applicable exclusion amount, which is the amount of property that can be sheltered from federal gift and estate taxes by the unified credit.

Prior to 2011, each spouse was entitled to his or her own applicable exclusion amount, and any amount that a spouse did not use was lost, absent special planning.

But, thanks to legislation passed in 2010, the estate of the first spouse to die can now elect to transfer any basic exclusion amount that is not used to the surviving spouse. This is known as "portability." For 2011 and 2012, the applicable exclusion amount is redefined as equal to the sum of the basic exclusion amount of the surviving spouse and the unused basic exclusion amount of the last deceased spouse. For 2011 and 2012, the basic exclusion amount is \$5 million (plus indexing in 2012).

Portability of the exclusion between spouses and an increase in the basic exclusion amount would seem to make estate planning easier for many estates. However, unless extended by Congress, in 2013, portability of the unused basic exclusion amount between spouses is set to expire and the exclusion is scheduled to decrease to \$1 million.

Simple planning with portability

If you're planning today, you could transfer everything to your spouse and, if you die in 2011 or 2012, your estate can elect to transfer your unused basic exclusion amount to your surviving spouse. Your spouse will then have an applicable exclusion amount equal to the sum of his or her own basic exclusion amount and your unused basic exclusion amount, which your spouse can use for gift or estate tax purposes. For example, if you transfer your \$5 million unused basic exclusion to your surviving spouse, who also has a \$5 million basic exclusion amount, your spouse then has a \$10 million applicable exclusion amount to shelter property from gift and estate taxes. Such simple planning might be very practical for some married couples, especially where the spouses' combined estates are expected to be less than the applicable exclusion amount.

Potential need for more complex planning

There are a number of reasons why such simple planning with portability may not produce the desired or best results. These include:

- Portability is set to expire in 2013, and tax rates are scheduled to increase while the

applicable exclusion amount is set to decrease.

- You have family members or individuals other than your spouse that you would like to benefit prior to the death of your spouse.
- You have grandchildren or younger generations that you would like to benefit. The \$5 million generation-skipping transfer (GST) tax exemption is not portable between spouses (and is scheduled to decrease to \$1 million as indexed in 2013).
- State exclusion amounts may be lower than the federal applicable exclusion amount and may not be portable between spouses.

Use of A/B trust arrangement

Prior to the 2010 legislation, many married couples with estates that were greater than the applicable exclusion amount would set up an A/B (or A/B/C) trust arrangement. In general, the first spouse to die would transfer an amount equal to the applicable exclusion amount to the "B" or credit shelter (bypass) trust. The B trust could benefit the surviving spouse and their children, but the B trust would be designed to bypass the surviving spouse's estate. The balance of the estate would be transferred to the surviving spouse, either outright or by using an "A" marital trust, and qualify for the marital deduction. In some cases, a "C," "Q," or QTIP marital trust was also used if the first spouse to die wanted to control who received the marital trust property at the second spouse's death. The A/B trust arrangement typically assured that there would be no estate tax at the first spouse's death and that neither spouse's applicable exclusion amount was wasted.

An A/B trust arrangement may still be useful whether or not portability is available. For example, the B trust can assure that the applicable exclusion amount of the first spouse to die is not lost, even if portability is not available in the future. The B trust can be used to provide for family members or individuals other than your spouse (and even your spouse) prior to the death of your spouse. You could also allocate your GST tax exemption or state exclusion to the B trust. The A trust could use your spouse's applicable exclusion amount, GST tax exemption, and state exclusion.

Review estate plans and documents

Your documents and plans may need to be revised to reflect the tax changes for 2011 and 2012 and for the uncertainty for 2013 and beyond. To help guide you through these opportunities and uncertain times, consult an experienced estate planning attorney.

Ask the Experts

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What happens to my online accounts when I die?

These days, using a personal computer is just a normal part of life. You may have e-mail or online accounts that require a password, or you may have pictures, videos, or documents stored online or on your hard drive. You may even maintain a blog or website. Like your physical assets, these "digital" or "cyber" assets can have both sentimental and economic value. Chances are, nobody else knows your cyber assets even exist, and if they do, they may not know where those assets are stored or how to access them. It's important that you make plans for the disposition of your cyber assets in the event of your incapacity or death. If you don't, your survivors may have to deal with time-consuming and costly searches, or worse, the assets may be overlooked and lost altogether.

What happens to your cyber assets at your death depends on what type of asset it is, and while the laws regarding cyber assets are not well settled, there are some broad guidelines. Domain names, once registered, become your personal property under property law, and your websites and blog content are yours under

federal copyright law. These types of cyber assets are clearly defined by law and are transferable to your heirs (e.g., through your will). On the other hand, certain online accounts, such as e-mail accounts, Facebook, Twitter, eBay, or PayPal, may not be classified as property in the legal sense; you are merely given a license by the website when you agree to its terms of service. Under these terms of service, transferability of your accounts may be limited or even prohibited altogether. Terms of service vary widely from site to site. Some sites, such as YouTube, will allow persons with legal power of attorney to access your accounts, and they post instructions on how to do so. Other sites, such as Facebook, will put your accounts into a "memorial state." Many sites, however, will terminate and permanently delete your accounts upon notification of your death. You should read and understand all terms of service and make any necessary legal arrangements so your heirs will have access to your accounts.

Note: On the flip side, you may have certain private accounts to which you want to ensure that no one is given access and which will be terminated immediately upon your death.



How do I include my cyber assets in my estate plan?

Your cyber (or digital) assets may have sentimental and/or economic value, and you should consider including them in your estate plan.

Here's how:

1. Identify your cyber assets. They include (a) domain names, websites, and blogs, (b) photos, videos, and documents stored on sharing sites such as Flickr, YouTube, and Google Docs, (c) e-mail accounts, (d) online bank, credit card, investment, and other such accounts that typically require a password, (e) accounts with online companies such as Facebook, Twitter, and eBay, and (f) documents, spreadsheets, photos, and other such items that are stored on your computers, hard drives, DVDs, smartphones, flash drives, and other offline or online servers or backup servers.
2. Understand which assets are transferable to other persons and which are not. Your domain names, websites, and blogs are transferable under property and copyright laws; however, your online accounts may or may not be transferable, depending on the online site's terms of service (you may merely have a license). Read all terms of service to understand what can be done with the account upon your death. You will find that many accounts will automatically terminate upon notice of your death, and other accounts, such as one on Facebook, may be put into a "memorial state."
3. Inventory your cyber assets. List all your assets indicating (a) where they are located, (b) how they are accessed, including URLs, usernames, and passwords, (c) what you wish to have happen to the asset at your death (e.g., transfer to an heir, terminate, memorialize), and (d) who will be responsible for carrying out those wishes (e.g., spouse, executor). Refer to but do not include this inventory in your will, because wills become public and this is private information. Put it in a safe place and let others know of its existence.
4. Include specific bequests of certain valuable cyber assets (domain names, websites, blogs) in your will, and execute powers of attorney for those accounts that will require it.