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MLM Financial Group
5 Burlington Woods Drive
Suite 102
Burlington, MA 01803
(Tel) 781-273-1400
(Fax) 781-273-1402
info@mlmfinancialgroup.com

Dear Clients,

Summer is finally here and we hope you will all have the chance to enjoy the nice weather with your friends and family.

At MLM, as our business grows so does our firm. We are pleased to announce that we have hired Shawna Brackett as Client Service Assistant. Shawna has been an intern with us for nine months and recently graduated from Merrimack College. Please join us in welcoming her the next time you call us or visit our office.

Please let us know if we can assist you in any way. We look forward to talking to you or seeing you soon.

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Pre-Planning Your Retirement

If you're like many Americans, you've probably enrolled in a 401(k), Roth IRA, or other investment vehicle in the hope of one day enjoying the fruits of your labor. But just putting money aside for a later date isn't enough. You also need a strategy to help grow those savings to carry you along the road ahead. Determining whether or not you've planned wisely enough to enjoy a comfortable retirement requires a critical look at several important variables. If you haven't developed a plan yet, remember that it's never too late!

Know your ideal retirement

For some, the idea of retirement conjures up images of relaxing and enjoying the finer things in life. Others might prefer to remain active, by working a part-time job or volunteering for a local charity. Whatever the case, the lifestyle you choose will determine how much money you'll need to carry you through your golden years. Do you know what your daily life during retirement will look like? Where you will live? How you will spend your time? How much this will cost? These are all questions that need answers. After you know the answers, you can begin to lay the foundation for an ideal retirement.

Consider your life expectancy

The Center for Disease Control estimates that the average 65-year-old can expect to live another 18.4 years. This means that many people could outlive their savings, even if they have planned for retirement. Because you cannot rely on psychic ability or a horoscope to predict the future, it is important to select a realistic life expectancy, based upon gender, age, and family history. Consider making plans toward the optimistic end of the scale; after all, no one has ever become disadvantaged if the money outlives him or her.

Choosing how to save

Traditional or Roth IRA? Chances are you've heard of both; maybe you even have retirement savings in each. If your employer offers a 401(k) plan, you also have the potential for traditional and Roth 401(k) contributions to add into the mix. Both options should be weighed carefully when deciding between current tax deductions and future tax-free distributions.

If you find Roth IRAs appealing but have been unable to use them due to exceeding the adjusted gross income (AGI) limitation, there is good news on the horizon. Starting in 2010, the \$100,000 AGI cap is being removed so that anyone who is single or married filing jointly will be able to convert funds from a traditional IRA into a Roth IRA.

And, with the passing of the Pension Protection Act in August 2006, you can do even more. To help you in saving for retirement, the Act ensures that the increase in IRA and 401(k) contribution limits is made permanent, as well as the catch-up contributions for individuals age 50 and older.

Determine your retirement date

If you're like many individuals who are approaching retirement, you've asked yourself: When should I retire? The answer depends upon how well you have planned. Considering all of the possibilities and analyzing the nature of your retirement needs will lead you to the correct answer. Take the time to think about your current and future financial situations. Complete a net worth and a cash flow statement with a financial professional—these are two of the many methods to help you assess your financial position. It might be advantageous for some individuals to retire later than previously expected, or to take on a part-time job. The longer you work, the more time you have to save.

Consult a financial professional

Forty-four percent of respondents in the 2006 Employee Benefit Research Institute's Retirement Confidence Survey cited "guessing" as their method for calculating retirement needs. But the transition into retirement is too important to rely on arbitrary assumptions—it requires a detailed analysis of your current financial situation and future needs. A second opinion is always important, especially when your financial well-being is involved. Sit down and discuss your options with a financial professional.

Article written by:

Peter M. Lawler
Corporate Client Group Director





If you're purchasing life insurance ... how do you determine how much your life is worth in dollars to the family you'll leave behind?



Money for Your Life: Determining Your Life Insurance Need

Life is priceless. But if you're purchasing life insurance, a financial value needs to be assigned to it. How do you determine how much your life is worth in dollars to the family you'll leave behind?

The thumb no longer rules

There are several rules of thumb you might have heard about when it comes to calculating your basic life insurance coverage need. Figure six to eight times your annual gross income, and maybe throw in special funding needs (e.g., college for the kids) on top of that. Or back into your answer by determining your premium expense as a percentage of your income--6%, plus an additional 1% for every dependent--and buy as much insurance as you can for that amount.

These rules of thumb are simple enough to use. Trouble is, they don't take into consideration your individual circumstances. Consider them no more than a rough starting point.

Are you what you earn?

The human life value approach, often used in court cases involving wrongful death suits, attempts to measure your economic worth to those who would be affected by your death. Your human life value is defined as the present value of your future net earnings (adjusted for inflation) that would be used for your family's benefit, plus the value of other services you contribute (e.g., you mow the lawn rather than pay to have it done), through your planned retirement age. The resulting figure represents the amount of life insurance coverage you should have to adequately replace your economic value to your family should you die today.

While the human life value approach is more precise than any of the rules of thumb, it still has its weak points. In one sense, it tends to overstate your family's insurance need by failing to account for other assets and sources of income that can help support your family if you die. In another sense, it tends to understate your family's life insurance need by failing to account for certain large lump-sum expenses that will come up only after you die--for example, final medical expenses, funeral costs, and estate settlement expenses. Finally, by focusing primarily on replacing your income, this approach may ignore the financial needs of your surviving family members.

It's all in the family

One of the more comprehensive methods of calculating your life insurance need is the family needs approach, which assumes that the purpose of life insurance is to cover the needs of your surviving family members. Accordingly, it focuses primarily on estimating what their immediate and ongoing financial needs would be upon your death.

Your family's immediate financial need will require cash to cover expenses incurred upon your death, such as final medical and funeral expenses. Their ongoing financial need will require an income stream to meet family expenses associated with different situations that will last until your surviving spouse's death (e.g., child dependency, college, spousal income needs until retirement, and spousal retirement). These needs will vary depending on your spouse's and children's ages, whether any family member has special needs, your spouse's capacity to earn income, your spouse's intended retirement age, and his or her life expectancy.

Under the family needs approach, the amount of life insurance you'll need will equal your family's immediate need plus the present value (after other expected sources of income are deducted) of your family's ongoing need, less the value of other assets that could meet some of these needs.

The general equation would look like this:

$$(Im + P[On - Xi]) - As = LIN$$

where **Im** equals the **I**mmEDIATE financial need at your death, **P[On - Xi]** equals the **P**resent value of your family's **O**ngoing financial need less other **eX**pected income, and **As** equals the value of existing **A**ssets available to defray some of these expenses. The result is your **L**ife **I**nsurance **N**eed.

By examining in detail your family's anticipated expenses during various periods after your death, the family needs approach provides a realistic estimate of your life insurance need. Not only does this approach offer more accurate estimates than the various rules of thumb, but it may also provide a clearer estimate of your family's needs than the human life value approach.

For more information and help assessing your own situation, consult your financial or insurance professional.

Estate Tax Repeal: Ramifications and Outlook

The Economic Growth and Tax Relief Act of 2001 gradually phases out the federal estate tax until its complete repeal in 2010. However, under the same law, the estate tax is scheduled to return in 2011.

Since 2001, there have been a number of failed attempts to make the estate tax repeal permanent. In fact, there are still several bills in Congress that include provisions to eliminate this tax. While it's clear President Bush would sign such legislation, the recent changes in Congress make it less likely he'll get the chance to do so. The question remains, though: Will permanent repeal become law, and if so, what are the potential ramifications?

Good-bye estate tax, hello capital gains tax

Repeal does not mean that tax on wealth transfers from one generation to the next will disappear. While currently a tax is imposed on estates, after repeal, a tax will be imposed indirectly on inheritances in the form of capital gains tax. Here's a simplified explanation.

Under the current tax system, property that is transferred to heirs at the owner's death typically gets a "step-up" in tax basis. Generally, tax basis refers to the cost the owner paid to acquire the property, and is used to compute capital gains tax when the property is sold. For example, let's say Mr. Smith buys property for \$50,000, which becomes his tax basis, and sometime later sells the property for \$60,000. Mr. Smith's computed capital gain for tax purposes is \$10,000.

When property is transferred by gift, the recipient receives a "carryover" basis; the tax basis in the hands of the person making the gift generally becomes the recipient's tax basis. So, let's say that Mr. Smith gives the property in the above example to his son, John. Mr. Smith's \$50,000 tax basis carries over to John, and when John subsequently sells the property for \$60,000, John recognizes the \$10,000 capital gain.

However, when property is transferred because of the owner's death, the tax basis is stepped up to its current fair market value. Again using the first example, let's say that John receives the property through his father's will. John's tax basis is stepped up to \$60,000, the property's fair market value. When John subsequently sells the property for \$60,000, John recognizes no capital gain on the transaction.

One of the consequences of estate tax repeal in 2010 will be that the step-up in tax basis will be lost. Heirs will receive a carryover basis on inherited property, and will recognize the capital gain (or loss) when the property is sold at some point in the future.

What will this change in the tax system mean for American families? According to the IRS, estate tax affects only 2% of the most wealthy Americans. Capital gains tax, though, can affect anyone who owns capital assets. Therefore, unless the step-up in basis remains, estate tax repeal is likely to result in creating a higher tax bill for a greater percentage of less wealthy Americans. Further, repeal will create a paperwork headache for heirs who will have to determine the decedent's tax basis in the property they've inherited.

Pros and cons of permanent repeal

Proponents of permanent repeal regard the estate tax as morally unfair and an obstacle to family business continuity and growth. Critics call permanent repeal a boon to the mega-rich and fiscal suicide in a time of budget deficits, a Social Security and Medicare crisis, and war. The confusing reality is that there is statistical evidence both for and against the arguments presented by each side.

One thing is certain, however: Dealing with the uncertainties of the current state of the estate tax is a burden on Americans and their financial planning professionals who must reevaluate estate planning options every year. For many on both sides of the issue, sensible reform is a preferable alternative to the success or failure of permanent repeal.

Outlook

In 2007, the Democrats regained power in Congress after 12 years of Republican control. The new Congress has been pursuing a fresh agenda, putting estate tax relief on the back burner. When the issue does resurface, it's likely that Congress will support reform over full and permanent repeal. Reforms such as lowering the estate tax rates to match capital gains tax rates and/or increasing the exemption amount have been proposed. Other options that have been discussed include doubling the exemption amount for married taxpayers, phasing out the tax over a five- or ten-year period, and replacing the estate tax with an inheritance tax (which would merely move the tax burden to the heirs). It remains to be seen what will be done, if anything.

According to the Center for the Study of Taxation in April of 2006, 3 out of 4 Americans want the estate tax repealed or significantly reduced.



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Ask the Experts



How can I protect the personal items in my car?

Personal items left in your car may be easy targets for thieves unless you make an effort to secure them. Especially likely to be stolen are small yet expensive electronics, such as portable navigation devices, cell phones, and portable DVD and music players, as well as valuable sports equipment such as golf clubs.

Although it may seem obvious, locking your car is still the best way to protect your possessions. Don't leave windows or your sunroof open, either, even in hot weather.

To prevent crimes of opportunity, never leave valuable items in plain sight. Today's thieves don't necessarily bother to rip CD players out of the dashboard (although some still try) because it's so much easier to pop a navigation device off the windshield or grab small electronics that have been left on the seat. Even though it may be a hassle, lock valuables in the trunk, or better yet, take them with you.

You may be surprised to learn that personal property in your car is generally not covered by your auto insurance policy unless it's permanently installed (e.g., a radio). However, personal items are generally covered by your homeowners or renters insurance, subject to a deductible, and up to certain limits.

If you routinely carry expensive items in your car and need additional coverage, look into purchasing a rider or endorsement to your homeowners or renters policy. And keep in mind that some policies will provide coverage only when signs of forced entry are present--yet another reason to lock your vehicle!

