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# Financial Review

Keeping you informed on *Financial Services* issues



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## Are Two Incomes Better Than One?

The concept of the “traditional” American family, with one spouse who works and one who cares for the home, has changed over time in response to life’s many challenges and opportunities. The dual income family, with husband and wife each managing separate careers and contributing to the financial success of the household, has become commonplace.

Today’s families have a variety of financial commitments and expectations, and two incomes are often required to meet the overall expenses of the family. Both spouses may wonder how they will save for their children’s education, plan for their own retirement, and perhaps help their aging parents deal with some of their financial burdens.

### The Cost of Working

The rewards of dual income families include the opportunity for both husband and wife to pursue a career and to accumulate wealth for the future. While they may have more disposable income to cover necessities, and even some luxuries, other expenses may take a big bite out of that second paycheck. Job-related expenses, such as additional transportation costs, including multiple car payments, car insurance, and parking fees; workplace attire; and meals away from home, may increase significantly. In addition, couples with busy work schedules

may need to hire domestic help in order to maintain the household.

Moreover, childcare is often necessary when both spouses work outside the home. Quality childcare is one of the largest expenses of the dual income family, ranking close behind housing, food, and taxes. When all of these additional expenses are factored into the family budget, it is easy to see how a second paycheck may not provide as much income as anticipated to help fund education and retirement goals.

### Maintaining Balance

Another important consideration for dual income families is the possibility of losing income due to disability or death, which can seriously strain the family’s finances. One way to address these possibilities is to insure *both* wage earners with **life and disability income insurance**.

Besides financial concerns, there is a growing emphasis on quality of life issues as families seek balance between their professional and personal lives. Work alternatives, such as telecommuting or job-sharing, have emerged as possible ways to achieve this balance, often allowing for more flexibility in caring for others, such as children and aging parents. As the dual income family trend continues, the concerns and needs of American families continue, as well.

## Where There’s a Will, There’s a Way

A **will** is a formal legal document directing the settlement of your estate and the distribution of your assets according to *your* wishes. Without a will, the intestacy laws of your state will determine the distribution of assets. Only through a formal legal will can you designate your own executor, guardians for minor children, and other fiduciaries. Even those who have shifted the majority of their assets into **trusts** or who use **joint ownership** for property should draw up a will. While these methods are designed to bypass **probate** (the judicial process that establishes the validity of a will), they are not able to cover all assets. A will, however, does have the potential to cover all assets, leaving no property unaccounted for and no stone unturned.

Wills are a means of providing security, both for yourself and your loved ones. A qualified, experienced, legal professional can help ensure that your will is properly written and that it contributes to the overall success of your estate plan.

# How Charitable Giving Can Really Pay Off

Jill and Harry have always set aside a small portion of their budget for charitable donations. In addition to feeling good about supporting a number of worthy causes, they've been able to deduct—from their Federal income tax return—all of their charitable gifts. Now, the couple thinks it is time to make a rather substantial charitable contribution. Their intent is to donate some stock they purchased years ago for \$1,000 that has since increased in value to \$50,000.

Before Jill and Harry move ahead, they realize there are a couple of issues that need to be resolved. For instance, Harry is a bit reluctant about making the donation because, by doing so, he realizes their children will never reap the benefits of the stock. On the other hand, Jill wants to make sure the donation is advantageous to both them *and* the charity. Upon careful review, the couple has come up with a plan that alleviates their concerns. Here's a closer look.



The first step for the couple is to address Harry's concerns. They'll do this by purchasing a **life insurance policy** in an amount that is equal to the value of the stock—that is, \$50,000. Through the life insurance, they can help ensure that their children will ultimately receive a benefit that is generally commensurate with the value of the donated stock. Certainly, the Watsons will increase their expenses because of the policy's premiums. But, as you'll soon see, donating the stock will actually help pay for the policy.

Next, the couple can address Jill's concern by donating the *actual stock* to the charity, rather than selling the stock and

then donating the proceeds. There are two reasons for this.

First, if they sold the stock, they'd realize a gain of \$49,000 (\$50,000 - \$1,000), that would, in turn, result in a tax of \$7,350 (\$49,000 x 15%). Therefore, the couple's donation would be reduced from \$50,000 to \$42,650, if they choose to pay the tax from the proceeds, or they would need to cover the tax with other funds. By donating the stock directly to the charity, any appreciation in the stock's value is not taxed (either to the couple or to the charity).

Second, the income tax deduction for a charitable gift is based on the **fair market value (FMV)** of the gift and the couple's Federal income tax bracket. Thus, assuming the couple is in the 28% Federal income tax bracket, a gift of \$50,000 would give them a \$14,000 charitable income tax deduction (\$50,000 x 28%). On the other hand, a gift of \$42,650 would only provide an \$11,942 charitable income tax deduction (\$42,650 x 28%). In effect, donating the appreciated stock outright produces a greater current year tax deduction than selling the stock and donating the proceeds after taxes.

Ultimately, it is the substantial tax deduction that can help offset the costs associated with the life insurance policy. The end result truly is a "win-win-win" situation. The charity wins because they receive the full value of the stock, the couple wins because they get a significant (and maximized) charitable income tax deduction, and their children win because they eventually will receive a life insurance death benefit that replaces some, or all, of the value of the stock.

## Making the Most of It

If you would like to maximize the tax benefits of charitable giving, be sure to consult a qualified tax professional. There are some limitations on charitable giving based on the type of gift, the type of organization receiving the gift, and your **adjusted gross income (AGI)** for Federal income tax purposes. Nevertheless, the ability to receive a potentially substantial income tax deduction and possibly replace some of the donated wealth with life insurance makes charitable giving pay off for you *and* for the organizations you wish to support.

# For Your Information

## Let Your Voice Be Heard

Regulations.gov is the online source for U.S. government regulations and related documents from nearly 300 Federal agencies. The site was created to increase access to and participation in developing regulations and documents that can impact individuals and promote efficient and effective rulemaking through public involvement. Users may find, read, and comment on documents; share knowledge; and sign up for email alerts. Visit [www.regulations.gov](http://www.regulations.gov) for more information.

## Wireless AMBER Alerts

The AMBER Alert Program, named for 9-year-old Amber Hagerman, is a voluntary partnership between law enforcement agencies, broadcasters, and transportation agencies to activate an urgent bulletin in child abduction cases. Broadcasters use the Emergency Alert System (EAS) to air a description of the abducted child and suspected abductor. Individuals may receive geographically specific messages on their wireless devices through an AMBER Alert wireless messaging system. To learn more, visit [www.wirelessamberalerts.org](http://www.wirelessamberalerts.org).

## Benefit Eligibility Screening Tool

The Benefit Eligibility Screening Tool (BEST) helps individuals find out if they qualify for benefits that are administered by the Social Security Administration. Based on answers to several questions, this tool will list benefits for which an individual might be eligible and provide information about how to qualify and apply. BEST is not an application for benefits and does not require a name or Social Security number. For more information, visit <http://connections.govbenefits.gov>.