

# When to Think About Tomorrow

*It's always good to have a financial plan. But some times are especially crucial.*

By SUZANNE BARLYN

Mapping your financial future can seem like an overwhelming task, especially if rising prices and a sputtering economy are straining your budget and battering your portfolio. It's enough to make you want to put planning off indefinitely.

In fact, that's what many Americans do. Nearly half of the investors in a 2007 survey said they had never worked up a comprehensive financial plan with a professional, according to Opinion Research Corp. of Princeton, N.J., which conducted the poll for MoneyTrack, a public-television series.

"There's a lot of fear and resistance" to planning, says Cathy Curtis, owner of Curtis Financial Planning in Oakland, Calif. "People think they'll be deprived. But if they're really not sure about how they're going to end up, then they need to know."

A comprehensive financial plan takes stock of your income and expenses, your assets and debts, your near-term and long-term goals, such as buying a house, paying for college or retiring comfortably, and the risks you face, including disability and death. And, of course, taxes, because every move you make has tax implications.

So, when do you need to draw up a financial plan? Any time is a good time, but there are circumstances that make planning particularly important. Here's a look at some of those circumstances.

## *Starting a Family*

Having a child "wakes [people] up," says Michael Deutsch, chief operating officer of Sovereign Wealth Management Inc. in Memphis, Tenn. "The big issue is that now it's not just about" the parents. The cost of supporting and educating a child through college can easily exceed \$1 million, says Mr. Deutsch.

Those expenses affect every aspect of a family's financial planning, from managing new day-to-day expenses to covering college costs and still finding a

way to fund retirement. Life insurance and estate planning also become critical when children enter the picture. Paul Entin of Bloomsbury, N.J., says he and his wife, Shannon, were always disciplined about saving, but the birth of their first child in 1998 rattled him into becoming more serious about comprehensive planning.

He says that reading David Chilton's "The Wealthy Barber" helped him develop a financial plan that covers cash-flow management, investing for college and retirement goals, insurance, real estate and a will. He later sought input from a professional planner, who analyzed his initial efforts and concluded the family was on track, Mr. Entin says.

Mr. Deutsch recommends that young families prepare for the myriad challenges ahead by learning about the performance patterns of various asset classes, so that their investments are based on their long-term goals rather than short-term market movements. He also emphasizes the importance of life insurance for both parents, and of setting up trusts for life-insurance proceeds that are designated for children.

### *Death of a Spouse or Divorce*

A divorce or spouse's death may require a financial overhaul to reassess cash flow and update retirement and estate plans, and a surviving spouse needs a plan to manage life-insurance proceeds. The division of assets in a divorce also raises several issues that require careful planning.

Stacy Nightingale, a real-estate agent who lives in Rockport, Maine, started working on a comprehensive financial plan following a recent divorce. Her immediate concerns, she says, are changing the beneficiaries for her retirement account and other investments, and reassessing her retirement planning after settling for the marital home in lieu of a share of her former husband's retirement account. Ms. Nightingale says she also plans to address other issues, such as budgeting on a single income and estate planning beyond the updating of beneficiaries.

Consulting a planner during the divorce process can help avert decisions that could result in higher taxes years later, says Mr. Deutsch. For instance, settling for a stock that is equivalent in value to another in a disputed portfolio but had a significantly lower purchase price will result in a higher capital-gains tax liability when the stock is sold.

Both divorce and the death of a spouse may also require a change in the decision maker named in a so-called durable power of attorney, which designates a person who can sign legal documents if an individual is incapacitated by a medical condition, and in an advance health-care proxy, a document that designates

someone to make medical decisions.

### *Remarriage*

The process of two individuals combining families, income streams and retirement assets often triggers financial planning, says Helen Modly, a financial planner with Focus Wealth Management Ltd. in Middleburg, Va.

Estate and tax issues are usually the focus of financial planning in this context. Ensuring that assets are left to the new spouse and to children from a prior marriage are often primary concerns. "A husband wants to make sure that he takes care of his new wife if he passes on, but he also wants the money to go to his kids -- not her kids" or the children of a future husband of hers, says Ms. Modly.

One common solution is setting up a qualified terminable interest property (QTIP) trust. These trusts can be set up to provide a surviving spouse with income while ensuring that when the surviving spouse dies the assets in the trust pass to the grantor's children from a previous marriage. There are also estate-tax benefits in certain situations.

Among the tax issues remarriage can stir up is whether the couple's newly combined income could trigger the alternative minimum tax, and if so, how that might be avoided.

### *Imminent Retirement*

The inclination to stop working within the next three to five years is a common reason for seeking advice on how to time retirement and structure an investment portfolio to maximize financial resources in the years ahead. Today, shrinking portfolios combined with rising gas and food prices may be giving some prospective retirees extra cause to take a closer look at their situation. "A lot of people have come to the realization that maybe their forecasts are a little rosy," says Ms. Modly.

Other issues include replacing an employer-sponsored health-insurance plan, the tax implications of withdrawals from individual retirement accounts and employer-sponsored retirement plans such as 401(k)s, and when to start collecting Social Security payments.

### *A Windfall*

A cash infusion from, say, an inheritance or taking a business public often raises a multitude of planning issues, from knowing how to best invest your windfall to whether you can afford to quit your job and still achieve all your financial goals. Of course, it can also change your goals in a big way, creating a whole new set of possibilities that can be somewhat bewildering.

Tax issues, such as entering a higher tax bracket or facing potentially steeper estate taxes, are also a concern.

If you're expecting a windfall, advance planning sometimes can help you maximize the benefit. John Burns, a financial planner for the Burns Advisory Group in Oklahoma City, says planning is particularly critical prior to selling a business. A careful exit strategy, such as selling a percentage of privately held stock to a trust, can save your family millions in estate taxes. "There are a lot of moving parts," he says. "The issues become more complex, and then coordinated planning offers a lot of value."

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