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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.



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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.

Could You Handle a Financial Windfall?



Receiving a financial windfall is often a life-changing event. It's a relatively common one, too. You might never win the lottery, but the odds are that at some point you'll receive a significant amount of money, perhaps from an inheritance, bonus, insurance settlement, or the sale of a home or business. If so, would you be prepared for the financial decisions you might suddenly face?

Proceed with caution

The first thing you'll want to do after receiving a large sum of money is to take a deep breath. You may feel the urge to spend, invest, move, quit your job, or give to others. But if you want your windfall to last, don't do anything until you've had a chance to come to terms with the personal and financial consequences. Regrettably, some people who suddenly come into money lose it all within a few years because they fail to plan. Taking the time to make well-thought-out financial decisions will help ensure that your money will last.

Put your money somewhere temporarily

Until you've had time to explore your options, there's nothing wrong with putting a lump sum into a relatively liquid account, such as a savings or money market account. You don't have to leave it there forever--just set it aside until you've had time to formulate a plan.

Assemble a support team

Because your finances are likely going to be a lot more complex now, one of the first things you should do is to get unbiased advice from a financial professional who can help you put together a financial plan. You may also need to work with an accountant, an attorney, or an insurance professional who can help address any tax, estate planning, or insurance planning concerns. Although receiving a windfall should be a happy event, it's sometimes very stressful, and you may need help from trusted professionals to help you handle the pressure.

Avoid spending and giving impulsively

Spend or give your money away too quickly and you risk depleting your nest egg. Although it's tempting to go out and buy something you've always wanted but couldn't afford before, watch your spending. A financial windfall can turn even a financially conservative person into an impulsive shopper. If your ultimate goal is to create lasting wealth, take time to consider your future needs, not just what you need (and want) today.

What about giving or loaning money to family and friends, or making a charitable donation? Again, it's best to wait until you've set priorities

and developed a financial plan. Otherwise, your personal relationships could suffer (will your sister be hurt if you give \$10,000 to your brother?), and your generosity might have unintended consequences (will you be approached by dozens of charities once you donate to one?).

Watch out for too-good-to-be-true opportunities

Unfortunately, more than one person has become the target of unscrupulous individuals looking to profit from the good fortune of others. And even if you're approached by a well-meaning friend, family member, or business associate, you should thoroughly investigate any investment or business opportunities presented, instead of relying on someone else's judgment. If you have trouble saying no, consider referring any requests you receive to a third party, such as an attorney or financial professional you're working with.

Look at your financial needs and goals

An important part of handling a financial windfall is to evaluate your short- and long-term needs and goals. This will serve as a foundation for your financial plan.

- Do you have enough money set aside in an emergency account?
- Do you have outstanding debt that you'd like to pay off?
- Do you plan to pay for your children's education?
- Do you need to bolster your retirement savings?
- Are you planning to buy a first or second home?
- Would you like to quit your job or go into business for yourself?
- Are you considering giving or loaning money to loved ones or donating to a favorite charity?
- What would you like to accomplish with your wealth over time?

Have a little fun

Once you've made some initial decisions and set aside money needed to pay taxes, consider spending a small portion of your windfall on something you'd like. There's no reason to deprive yourself, as long as you've taken care of business first. If you plan well and control the urge to spend lavishly, your windfall may provide you with financial security and comfort for many years to come.

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
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.

