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a business, tax, and financial newsletter

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in this issue:

Becoming a Better Negotiator

Whether closing a sale, haggling over a price with a supplier, or discussing a raise with an employee, business owners negotiate nearly every day. While you may already be an effective negotiator, consider the following strategies to help maximize your negotiating skills.

Negotiating does not have to be a zero-sum game. When two parties enter into negotiations, they are both looking to create something of value that did not exist before. Instead of taking an adversarial approach, think about how both parties can arrive at a mutually beneficial solution. Without abandoning your own interests and objectives, consider the interests of your negotiating partner. Reflect on what your priorities might be if you were in your partner's shoes and how you can best accommodate those priorities.

Do Your Homework

Before approaching the bargaining table to negotiate an important deal, make sure you are fully prepared. If, for example, you are attempting to sell a product at a certain price, have evidence on hand to justify your price, such as information or testimonials about the quality of the product relative to similar products in the marketplace and about the prices of equivalent products offered by competitors. If necessary, practice with a business partner or coworker, asking for feedback and advice on how you can improve your arguments and presentation.

Find out as much as you can in advance about your negotiating partner so that you can explain in detail why what you are offering is ideally suited to meet his or her specific needs. It may be tempting to focus solely on the virtues of your company or product, but many clients will see through a one-size-fits-all sales pitch. In the course of your presentation, concentrate at least as much on your client's needs as on the product or service offered. Your client will know if you have done your homework.

When you are the customer, come to the negotiating table with your questions about the offer as well as information about the prices for similar products or services available elsewhere. Have in mind an ideal price and how much you would be willing or able to deviate from that price if, for example, you were offered a volume discount, a maintenance contract, or free delivery.

continued on page four

Life Insurance: How Much Is Enough?

You may already be aware of the importance of having enough **life insurance** coverage to handle financial matters that could affect your family in the event of your death. However, determining the appropriate amount of coverage for your family can be complicated. Rather than using an arbitrary formula, such as having enough coverage to equal five to seven times your annual salary, you may want to conduct a "**needs analysis.**"

A needs analysis incorporates an evaluation of your family's most important financial obligations and goals. It can help you plan to address mortgage debt, college expenses, and funds for your family's future, as well as liquidity for meeting potential estate tax liabilities with life insurance coverage.

Mortgage Debt

You may want to consider whether your life insurance proceeds will be sufficient to help pay the remainder of the mortgage on your home. If you are carrying a large mortgage, you may need to increase your life insurance coverage. If you own a second home, you may also want to factor that mortgage into the formula.

College Expenses

Many people want life insurance proceeds to help cover their children's undergraduate college, and possibly graduate school, expenses. The amount needed can be roughly calculated by matching the ages of your children with projected college costs adjusted for inflation. Because it may be difficult to project costs that far into the future, it is important to revise this calculation periodically, as your children get closer to college age. When estimating long-term savings goals, it may also be a good idea to be as conservative as possible.

Your Family's Lifestyle

The amount you may need to help provide for your surviving spouse and dependents will vary according to your age, health, retirement plan benefits, Social Security benefits, and other assets, along with your spouse's earning power. Many surviving spouses may already be employed or will find employment, but your spouse's income alone may not be sufficient to cover your family's current lifestyle. Providing a supplemental fund can help your family maintain its standard of living in the event of your death.

Estate Taxes

Life insurance has long been recognized as a method for establishing liquidity at death to pay estate taxes and maximize asset transfers to future generations. Be sure to consult your qualified tax and legal advisors to help ensure the desired results.

Existing Resources

If your current assets and any other death benefits are sufficient to cover your financial needs and obligations, you may not need additional life insurance for these purposes. However, if they are inadequate, the difference between your total assets and your total needs may be funded with life insurance.

You must consider many factors when completing a needs analysis. In addition to the areas already mentioned, ask yourself the following questions:

- What are your estimated Social Security benefits at retirement?
- How do you "inflation-proof" your family income, so the real purchasing power of those dollars does not decrease?
- What is the earning potential of your surviving spouse?
- How often should you review your needs analysis?
- How can life insurance help provide resources for your retirement?
- How do you structure your estate to reduce the impact of estate taxes?
- Which of your assets are liquid and which would not be reduced by a forced sale?
- Which of your assets would you want your family to retain for sentimental reasons or for future growth possibilities?

As you evaluate your insurance needs, remember to assess your existing policies. Calculate the additional coverage you may need based on your family's financial obligations and any other resources, such as retirement benefits and personal savings. Planning *now* may help to protect your family's financial future.

Stretching IRA Withdrawals

The primary concern of some traditional **Individual Retirement Account (IRA)** holders who are approaching the mandatory distribution age (April 1 of the year *after* the year they reach age 70½) may be stretching their account assets over their lifetimes and that of their spouse. Maximizing tax deferral and/or passing these assets to their heirs may be of lesser importance. Others, however, who are fortunate enough to enjoy sufficient retirement income from other sources, may wish to extend the tax deferral as long as possible.

Regulation reform finalized in 2002 makes this task much easier. In response to Americans living longer, healthier lives, the Internal Revenue Service (IRS) increased the life expectancy figures on which **required minimum distributions (RMDs)** are based. As a result, RMD amounts have decreased, and IRA owners are now allowed to withdraw *less* than was necessary under the original distribution rules. For most, RMDs are calculated using a uniform table **(uniform lifetime table),** which assumes a **beneficiary** is fewer than ten years younger than the owner, regardless of the beneficiary's actual age. If the IRA owner has named his or her spouse as the sole beneficiary, and the spouse is ten or more years younger than the owner, a second table **(joint life and last survivor expectancy table)** may be used to calculate the RMD.

Beneficiary Choices

Married individuals quite often name a spouse as the beneficiary of an IRA. If the IRA owner dies prior to, or after, the mandatory minimum withdrawal date, only a surviving spouse can choose to make an inherited IRA his or her own. This would postpone mandatory distributions until April 1 of the year after the year in which he or she reaches age 70½.

In contrast, a nonspousal beneficiary is more limited and must begin taking distributions from an inherited IRA by the end of the year following the year of the owner's death. With the legislative changes, however, the consequences of beneficiary choices are no longer dependent on whether the IRA owner died *before* or *after* starting the required withdrawals, simplifying planning decisions. Unlike the old rules, such distributions no longer must continue to be based on the owner's original life expectancy calculation, but may now be stretched out over the life expectancy of the beneficiary, significantly extending the potential benefits of tax deferral.

What's the Advantage?

These simplified rules should make it easier for some retirees to meet the minimum distribution requirements, thereby avoiding unnecessary penalties, while enabling the greatest possible buildup of their tax-deferred assets. However, IRA owners should be aware that any such buildup could potentially lead to higher estate taxes down the road. If you have an IRA and have reached (or are approaching) age 70½, it may be best to consult a qualified tax and financial professional for assistance with your particular circumstances.

Financial Record-Keeping Makes Sense

Every April, two things come to mind: 1) it's finally spring, and 2) tax season is here again. When you put your income taxes together this year, you'll probably file away a copy of your income tax return for your own records. More than likely, you've done the same thing in years past. However, at one point or another, you've probably asked yourself: "How long should I keep this stuff, anyway?" Well, don't be too quick to throw it all away.

How long you should keep a document depends on the "action, expense, or event the document records" according to the IRS. Generally, you should keep your records until the period of limitations for the tax return runs out. A good rule is to hold on to tax records for at least six years. That includes all tax forms, investment statements, bank statements, proof of deductions, and so on associated with a particular return. In addition, any records pertaining to capital gains and capital losses, or the carryover of capital losses or charitable deductions, should be retained until they are no longer pertinent. Generally, the IRS has up to three years to carry out an audit. If the IRS suspects that income has been misreported by more than 25%, it has up to six years to perform an audit. There is no statute of limitations for fraudulent filings.

continued on page four

becoming a better negotiator

continued from page one

Keep an Open Mind

As you approach the negotiating table, be sure to keep an open mind. Listen carefully to what your negotiating partner has to say, and think about whether you can offer a greater degree of flexibility than you initially anticipated. If necessary, ask for additional time to think about the terms before entering into an agreement.

The deal you are negotiating may be a big one. So be aware of any hidden agendas, and do not allow yourself to be pressured into signing a contract you do not fully understand. If you are attempting to close a sale, do not insist that a client make an immediate decision if he or she is not ready to do so. While pitching aggressively to get the sale may be effective in the short term, it may jeopardize your relationship with the client, and may damage your reputation for solid business practices.

Inevitably, some negotiations come to an abrupt halt when neither side is willing to compromise further. However, this may not be the end of the story. Even if you are unable to strike a deal, avoid showing any anger or irritation. Psychologically prepare yourself for the possibility that the initial round of negotiations may not go your way, and envision yourself gracefully accepting a negative outcome. Kindly and professionally, let your negotiating partner know how much you appreciate the time he or she has taken to discuss the transaction, leaving the door open for future communication. Even a session that ends in a deadlock can be useful in building a relationship that could result in future cooperation.

Negotiations with other business professionals can be tricky. But if you are prepared before you come to the table and remain open about the outcome, you can improve your negotiating skills and your chances of building your business.

financial record-*keeping* makes sense

continued from page three

Old sales receipts or checks that may be necessary for the future calculation of capital gain or loss on an asset should be kept until they are no longer relevant. In addition, if you own a business, it may be wise to hold on to accounting ledgers, check registers, and employment contracts for at least ten years.

The bottom line: use common sense when assessing what you should keep and what you can purge. Before you throw anything away, be sure to review the item's importance. Once you have determined what should be retained, carefully store the records in a well-marked box or file drawer for future reference. A record retained is better than a penalty gained!

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