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October 2015 / Vol. 7, No. 10

Stop Overpaying for Health Insurance!

8 Ways to Put Your Money to Work for You in a Health Savings Account

By Shelly Casella-Dercole, CPA

The skyrocketing cost of health insurance over the past several years forced many employers and individuals to decrease their benefits while increasing deductibles, all in a frustrating dance to reduce hefty premiums.

In this new climate, many health insurance plans now qualify as high-deductible health plans (HDHP), as defined by the IRS. An HDHP typically has lower premiums and higher deductibles than a traditional health insurance plan.

For 2015, in order to qualify as an HDHP, the health insurance plan must have a minimum individual deductible of $1,300 ($2,600 family) and maximum individual out-of-pocket expense of $6,450 ($12,900 family). Individuals who are covered under an IRS-qualifying HDHP also are eligible to have a health savings account (HSA). In fact, being covered by an HDHP is a requirement for having an HSA. Your employer and/or health insurance provider can tell you for sure if your health plan is eligible, as not all plans with a high deductible meet the IRS definition.

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HSAs are designed to encourage people to save for the higher deductibles of an HDHP by giving them a tax break for doing so. Unfortunately, many who are eligible to have an HSA don't realize they're eligible, don't understand how it works, or just don't do it and are missing out on a great opportunity.

Similar to retirement contributions, amounts contributed to a health savings account are determined on an annual basis, and each year that goes by without contributing to one is an opportunity lost forever. So the sooner you

get started, the more benefits you will realize over time.

Here are the eight things you need to know to open and maximize your own HSA account and to make sure you are not losing out on this tax-saving opportunity.

1. Contribute, contribute, contribute. You cannot get any of the tax savings or other benefits of an HSA unless you actually contribute to an HSA. So the first rule of HSAs is to contribute as much as you can up to the limits set by the IRS.

Remember, the reason the IRS sets limits is because it doesn't want you to save too much tax, so you need to be taking advantage of every dollar the IRS allows while it still allows it. For 2015, an individual can contribute up to $3,350 ($6,650 family). These contributions are 100 percent tax deductible and must be made by April 15 of the following year.

The Employer Caveat

Keep in mind, your maximum contributions each year are reduced by any amounts contributed by your employer. To help ease the burden of the transition from traditional health insurance plans to HSAs, which cost employers less in premiums, many employers make some contributions to the HSA accounts of the employees.

If you are fortunate enough to be in this situation, keep in mind that those contributions directly reduce the amount you are eligible to contribute each year. So if you are under age 55 with family coverage and your employer contributes $2,000 a year to your HSA, then your maximum contribution for 2015 is reduced to $4,650.

The amount of tax you will save is based on your marginal tax rate. For example, if you're in the 25 percent tax bracket and you opt for family health insurance coverage, and you contribute the maximum $6,650, you will save $1,662.50 in just federal taxes alone, not to mention what you may save in your state taxes, as many states also allow tax deductions for HSA contributions.

Now, let's say your family health insurance deductible and maximum out-of-pocket expense is the minimum qualifying amount of $2,600 and you have enough expenses to meet that. Since you saved $1,662.50 in taxes, thanks to your HSA, your $2,600 deductible is now in effect only $937.50. And because you have an HDHP, your premiums are likely to be lower than they would be under a traditional health plan. This could add up to significant savings and ultimately mean potentially no net expense to you at all compared to a traditional insurance plan!

2. Save $1,000 more if you are age 55 or older. If you are age 55 or older, you can contribute an extra $1,000 on top of the regular contributions each year. If you have family coverage and both spouses are age 55 or older, each spouse can get the extra $1,000 a year, making the maximum contribution for 2015 $8,650.

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The one caution with this is that the spouses must contribute the additional amount to their own HSA account. If you typically have just one HSA account under the primary insured's name,

then in order to do the $1,000 for the other spouse, that spouse must open his or her own HSA and contribute $1,000 to that account. If we continue with the example from above, the tax savings now turn into $2,162.50 and your $2,600 deductible is now effectively really only $437.50!

If we take it a step further and say you are in the highest tax bracket of 39.6 percent, your tax savings is $3,425.40, at which point the IRS is really paying 100 percent of your deductible and giving you another $825.40 back — and all the while you are paying less for your health insurance premiums. It almost sounds too good to be true, which means you need to take advantage of this loophole while you can before the IRS figures this out.

3. Rack up even more savings if this is the first year you are covered by a HDHP. In the first year you become covered by an HDHP, you are able to make the full year's contribution, even if you are not covered for the entire year, as long as you continue to remain covered by an HDHP for at least 13 consecutive months, and as long as you were covered by an HDHP by December 1.

So let's say you first become covered by an HDHP on November 1, 2015. You can make the full contribution for 2015 by April 15, 2016. Then starting in January 2016, you can contribute the full amount for the second year. This allows you to build your account quickly at first to cover any medical expenses you may incur.

4. Delay using your HSA funds. If you have the means to contribute the maximum amount each year to your HSA and pay for all of your medical expenses out of pocket using other personal funds, this is the best way to make the HSA work for you from a tax perspective. You get the benefit of the tax deduction now and tax-deferred growth on the full amount, which could become a significant additional source of retirement income later.

Rather than thinking of an HSA as a way to pay for medical expenses, you should think of it as an additional way to save for retirement. Suppose you and your spouse are age 55 with family coverage and contribute $8,650 a year for the next 10 years until age 65. If you do not take any distributions, you could have $114,987 for retirement, if you are able to invest it at a 5 percent return. Now, based on those assumptions, if you are age 35 and contribute $6,650 for the next 30 years, you will have $473,796 saved for retirement.

Can't Afford to Contribute Anything? Think Again

Let's say you can't contribute the maximum amount, or maybe you don't think you can afford to contribute anything, so you think, "Why bother with an HSA?" You still should open an HSA and, at a minimum, every time you have out-of-pocket medical, dental, or vision expenses, you should deposit the amount of the expense first into the HSA and then pay the expense out of the HSA. That way, you are at least getting the tax deduction for the contribution by having those expenses flow through the HSA. If you have to pay them anyway, you may as well do it in a way that gets you a tax break.

Keep in mind that you still have the tax savings you will realize each year to use toward your medical expenses, so there should be no reason that all of your medical expenses have to be paid by the HSA. If we use the example from above, you would really only be out of pocket $437.50 for the year after the tax savings. If you are in the highest tax bracket in the example, you won't be out of pocket at all.

5. Convert IRA funds into HSA funds that can be used for medical expenses. The IRS also allows a once-in-a-lifetime rollover from an IRA into an HSA account up to the maximum allowable contribution for the year the rollover is done. The contribution to the HSA in this case is not tax deductible and the distribution from the IRA is not taxable. The benefit of doing this is to be able to fund your HSA if you have no other means to do so, and it makes that IRA money available to you now to use tax-free for medical expenses as well as save for retirement. This is not advisable if you have the means to make the full contribution to the HSA with other funds.

6. Based on the examples above, the next logical question is, "If I contribute $8,650 to my HSA, but only have $2,600 as my maximum out of pocket expense, what happens to the extra $6,050 I contributed to my HSA?" The answer is that it stays in your account and can be used for the following:

• *Any IRS-qualifying medical expenses,* even those not covered by your health insurance such as eyeglasses, chiropractic, dental expenses, etc. Basically, anything that qualifies as a deductible medical expense for IRS purposes can be paid for by your HSA, except that generally you cannot pay health insurance premiums with the HSA.

This makes an HSA account a great way to make all of your medical expenses fully tax deductible. Without an HSA, most individuals never qualify to deduct any medical expenses because the IRS says that you can only deduct medical expenses that exceed 10 percent of your adjusted gross income. This only happens for those who have very low income or no health insurance with large medical expenses. But with an HSA, 100 percent of your medical expenses can become deductible without meeting that 10 percent floor first! You also can use your HSA to pay for medical expenses for your spouse and dependents, even if they are not covered by the HDHP.

• *Future medical expenses.* Keep in mind that an HSA account is your individual account. There is no "vesting" or "use it or lose it" rule. This money will always be yours, even if you change insurance plans or jobs. So any amounts you contribute that you don't use in the current given year can be used for future medical expenses as well.

• *Retirement.* At age 65, any amounts left in the account can be withdrawn without penalty for any reason whatsoever. However, those amounts not used for medical expenses will be taxed at your ordinary tax rate. In this way, an HSA operates in exactly the same way as a traditional IRA in that you make tax-deductible contributions now, it grows tax-free, and then you pay tax when you withdraw it. The only difference is that you can start drawing on an IRA penalty-free at age 59½, but for an HSA you need to wait until

age 65. This is because that is the age you qualify for Medicare.

Another benefit of the HSA is that with an IRA you are required to start taking distributions at age 70½. There is no such requirement for HSAs. Additionally, retired people typically have higher medical expenses. If they pay for those medical expenses by taking distributions from traditional retirement accounts, those distributions will be taxable. Those over age 65 who have other retirement accounts available to them should draw from those accounts first and try to draw from their HSA for medical expenses only, as those distributions are then tax-free.

7. You can choose your own HSA provider. So now that you have been convinced that it's time to open up an HSA, where do you start?

First, if you have an HDHP, your insurance company and/or your employer will "suggest" where you should be putting your money. Indeed, they will make it seem like you have to use the provider they suggest. This is absolutely not the case. If you don't use the provider sponsored by your employer, you likely will not be able to contribute tax-free through payroll deductions, but you still can contribute on your own and take the deduction on your tax return at the end of the year, thereby getting the exact same benefit.

There is normally a much larger benefit to being able to choose your own HSA provider. Most providers suggested by insurance companies and employers have setup fees, monthly fees, and myriad other fees associated with those accounts, and they pay little to no interest. This is a rip-off. There are plenty of providers out there that don't have monthly fees and pay good interest. It pays to do your own research and open your own account.

If your employer contributes to your HSA, it may require that you open an account with the institution it suggests. Keep in mind that there is nothing stopping you from having two or more HSA accounts, and you can make tax-free trustee-to-trustee transfers between HSA accounts (you will have to get the receiving institution to initiate those kinds of transfers for you).

Also, make sure the provider you choose offers a debit card associated with the account, for free, as that is extremely useful for paying medical expenses.

8. Don't use your HSA for non-medical expenses if possible. If you take money out of your HSA for other than qualifying medical expenses before you reach age 65, you will have to pay income tax on that distribution as well as a 20 percent penalty. Obviously, you want to avoid this. ■

Ben's Online Picks

www.depositaccounts.com:
This is an online resource for finding HSA providers with no fees and good, competitive interest rates.

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Check your e-mail inbox for this month's password.

(Remember to use lowercase letters.)

Protect Yourself From a Pension Going Bust

For millions of Americans, a pension remains a solid "third leg" of the retirement stool after Social Security and personal savings. And while nearly all pension plans are backed by the federal government, pensions can fail. Then what do you do?

First, here are some facts to keep in mind: When a private pension plan goes under, the government does step in to assume at least part of the liability.

Corporations pay premiums to a government agency, the Pension Benefit Guaranty Corp. Just like any insurer, the agency pays out if a bankruptcy damages the viability of the plan. A striking example of this occurred in 2005, when United Airlines won the right to default on its pension obligations, resulting in the biggest-ever pension failure, with $7.4 billion in claims.

The federal government expects up to 173 multi-employer pension plans to run out of money over the coming decade. Some are large and some are small, but in every case, there is a risk that employees will receive less than they expected from a federally rescued plan.

In number terms, the government guarantees up to specific monthly payments by age if your plan fails and is turned over to the agency. In 2015, for instance, a 70-year-old can expect up to $8,318 per month, while a 62-year-old would get up to $3,959.

If your plan goes bust, and the payout is less than you had budgeted or planned for, you'll be left scrambling to rethink your retirement

Proactivity Pays

It's important to know your personal situation when it comes to a pension potentially going bust, says **Stephen DeCesare**, a certified financial planner in Marlton, New Jersey. You also must, of course, diligently follow your plan's progress through the federal process.

For instance, the liability owed to you by the plan might be sold to an insurance company. If so, state guaranty limits come into play. You might find that outcome acceptable, or you might review the numbers with your planner and instead decide to take a lump-sum distribution, DeCesare says. If you do, you could benefit from rolling that money over to an individual retirement account, he adds.

"Take control of the management of your IRA rollover yourself or hire a professional to help," DeCesare says. "Consider transferring some or all your IRA rollover to an insurance company to secure a lifetime payment and to help avoid emotionally driven miscues."

strategy."If someone fears that their pension will fail, they should plan their retirement accordingly and plan as if that source of income will not be there," says **David C. Jozefiak**, a certified financial planner in Sterling Heights, Michigan. "They will need to make sure they have sufficient income from other sources to meet or exceed their expenses. They must also account for inflation and how much more their expenses may be 20, 30, or more years into retirement."

One way is to delay receiving Social Security payments, which increases the monthly payments by about 8 percent a year up to the ultimate retirement age of 70. Delaying retirement and saving more is a help (obviously), as well as reducing expenses sooner and paying off debts, such as a mortgage.

Most important, all near-retirees should "practice" living on their eventual retirement income well ahead of the actual start of retirement, Jozefiak says. "Six months or more prior I have them begin living on that reduced income — the extra income gets saved," he explains.

"I have found they will try very hard and be willing to make sacrifices if necessary to try to make it work," he says. "Ultimately, they will be able to decide for themselves whether it is going to work, which makes my conversation a lot easier on either moving forward or discussing alternatives."

One such alternative might be tapping into other assets to make up the gap. Chances are, the largest single investment you own after a pension and Social Security payments will be your home. If your mortgage is paid up, a good course of action might be to unlock some of that value, says **Donald L. Reichert**, a chartered financial consultant in Greenville, South Carolina.

"If someone had some real concerns about the prospect that a pension plan might fail, they have a couple of simple choices," Reichert says. "Consider selling the home to the children and renting it back on a long-term lease, or either refinancing the home to pull a block of equity out or selling the home and renting something."

The equity cash could be used to purchase a single-premium immediate annuity on one or both of the spouses. "Depending on age, the guaranteed rate of return on the equity used to purchase the annuity would more than likely be substantially higher than the payments on the line of credit on the borrowed amount or on the monthly rent expense," Reichert says. "The older the annuitant, the higher the payout rate on the principal." ■

— Greg Brown

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Best Ways to Leave Money to Your Kids *and* Your Favorite Charity

You want to do right by your heirs and you want to do right by your causes. Can you do both? Advisers say you can, but a lot depends on how much money you have to give and how much you might need for yourself later in life.

Parents are far more financially active in their children's lives than in the past, paying for schooling, cars and sometimes a first house down payment, says **Howard Pressman**, a certified financial planner in McLean, Virginia. As a result, many feel they've met their responsibilities and instead focus on funding their own lifestyle in retirement.

Soon enough, though, they hit that key age of 70½, where required minimum distributions (RMDs) come into play. "People have been living on their taxable investments to allow their tax-deferred retirement plans to grow," Pressman says. "Then they get bumped up into their higher tax bracket, and to some extent we are limited in what we can do about that."

One solution is to leave IRA money to charity and keep yourself in a lower tax bracket. For the kids, leave them the taxable accounts, Pressman says. Once you pass, they'll get to step up the cost basis and any taxes due are at their tax bracket, which often is lower.

"IRAs aren't, in my opinion, efficient for giving to children. Better to give them something that can step up in basis," Pressman says. However, he adds, "do this in the context of a comprehensive financial plan. Doing these things individually can create problems in other parts of the plan."

Another important avenue to consider is buying permanent life insurance, since the proceeds are tax-free, and leaving the IRA to charity upon death, say **Gary Plessl** and **Kevin Houser**, financial planners in Allentown, Pennsylvania, and authors of *The Book on Retirement*. Too often, IRAs are cashed out by kids and don't have a chance to grow.

"If someone's objective is to pay zero taxes in their IRA, if they don't need the money to live on, we take out a life insurance policy and use that RMD money to pay the premiums. As long as it's set up properly, that money is passed along to the kids tax-free and estate-tax free," Plessl says. "The kids get theirs from the life insurance policy, the charity gets the IRA money and the government gets nothing."

The strategy solves a cash flow problem common among seniors facing unknown costs later in life, says Houser. "The parents are freed up to spend money. Everybody is all taken care of already," he says.

One good strategy for IRA money is letting the RMDs "stretch" out over

decades, says **Jennifer Landon**, founder and president of Journey Financial Services in Idaho Falls, Idaho. Over a child's lifetime, an IRA can compound for longer and be taken in smaller periodic amounts.

You can even make a typical IRA multi-generational. In that case, an adult inheritor disclaims the IRA and passes it on to the next generation, greatly extending the stretch effect. "If my dad passed away, I don't want that IRA because it's taxable," she says. "But I can disclaim my inheritance and leave it to my kids. Because they have a long life expectancy, the IRS wouldn't require them to take out very much."

It's important to review the rules of your custodian carefully, Landon advises, since some will peg their calculation to the oldest sibling and others will factor in multiple ages. If that's an issue, consider splitting the money into several IRAs instead. She's also a proponent of life insurance over IRAs for heirs, since it's tax-free with no complications.

Finally, if you use an IRA to leave money to kids, be sure to name actual people as beneficiaries, not "the estate of" or "the living children of" in your brokerage documentation. "Those IRAs won't be able to stretch and instead are immediately taxable," Landon says. "Oftentimes, that pushes the beneficiary into the highest tax bracket, since it's all taxable."

A simple solution is to name two beneficiaries, says **Chuck Neff**, a certified financial planner in Itasca, Illinois. Make the charity the beneficiary of one portion and your child another. "The money goes to the charity right away," Neff says. "The non-spouse beneficiary can stretch the IRA out over their lifetime."

If the amount of the bequest is small, say $20,000, the child is likely to pay the taxes and move on, Neff says. But, if you have a lot of money in an IRA, consider a Charitable Remainder Unitrust (CRUT). These are more costly to set up, but if it's large enough, the charity will shoulder the expense.

A CRUT can pay out an income to your child, even stretch it out over their lifetime, while the charity collects what is left, as little as 10 percent of the initial value of the CRUT.

Importantly, Congress has talked in recent years about reducing the stretch provision for non-spouse beneficiaries to five years. Money already in a trust avoids that limitation.

Be sure the charity you select is set up to administer trusts, since it will be issuing the payments to your surviving child. "Or, you may want more control yourself — you set up a trust, pick a trustee and investment adviser. It depends on how much control you want," Neff says. "However, I wouldn't be considering the CRUT strategy unless you have a significant amount of money. Otherwise, give it directly to the child and the charity also gets theirs that much sooner." ■

— Greg Brown

The One-Stop Solution to Manage All Your Online Passwords

Gone are the days when an online password was your dog's name and perhaps a number or two tacked onto the end for good measure. Now, each site seems to have different requirements to ensure you're using a password complex enough to actually thwart hackers — think rules like, "You must use two capital letters, at least one lowercase letter, one non-alphanumeric character, and at least three numbers." And oh, by the way, "You may not use sequenced numbers, and it must have a total of 26-30 characters." And it expires every 90 days, so at precisely the same time you finally memorize it, you have to change it. Who can remember all that?

Enter the password manager: a software application that helps users store and organize their passwords, doing away with the days of keeping your passwords on a series of sticky notes or scribbled in a notebook that you put who-knows-where.

"A password manager is the single best use of your computing time," says **Robert Siciliano**, identity theft expert for IDTheftSecurity.com. "Most users are constantly entering numbers, letters and characters into each site. One mistake means you have to start all over. A password manager does this for you without fail."

Robert Siciliano is a personal security and identity theft expert and CEO of IDTheftSecurity.com. He is the author of four books.

While nothing is 100 percent safe, Siciliano says the top password managers have excellent security in place. He offers the following tips to first-time users.

Select a Manager: When choosing a password manager, look for one that works across devices and across browsers, backs up locally and in the cloud, and offers two-factor authentication. Make sure it has a proven track record by Googling online reviews. Password managers usually provide a free product that has limited capabilities (such as service on only five to 10 sites), and then purchase prices can range from free to around $50 per year.

Create a Strong Master Password, and Memorize It: Many password managers rely on a user-selected master password to encrypt the protected passwords. Therefore, a compromised master password renders all of the protected passwords vulnerable. Store your master password in a safe place, and use one that you won't forget — just as you memorize your Social Security number and phone number, remember your master password.

Be Patient, and Don't Give Up on the Software in Frustration: When installing new password software, most include what's called an "installation

wizard" that will walk the user through the process step by step. Beyond that, getting to know the nuances only takes a day or two, and then you'll no longer have to deal with typing in all those pesky combinations.

Back Up and Account Expiration: Password managers generally back up locally (on your own computer) and in the Internet "cloud." According to Siciliano, you may also want to consider creating a Microsoft Excel file and email it to yourself (in an email program you trust), along with printing out a copy and putting that copy in a safe. If your account does expire due to a lapsed subscription, you will be notified of when your data will be deleted — it won't just instantly disappear without warning. ■

— Jill Schildhouse

Three Top Password Managers to Consider

Password managers allow you to use a single password for all of your accounts, and it will even fill out forms for new accounts. Following is a summary of the top three solutions, according to Robert Siciliano, identity theft expert for IDTheftSecurity.com:

LastPass

- Compatible with nearly every browser.
- Will notify you when a service you have an account with gets hacked so you can change your password.
- Two-factor authentication is supported.
- Reveals how weak or strong a password is and assists you with coming up with strong ones.
- Free for computer users.
- Of these three password manager services, LastPass has the best mobile support.
- This service costs just $12/year for smartphones and tablets.

Password

- Once you get the desktop application installed (one-time fee of $50), it can be easily integrated with various browsers, and you can use it over multiple devices.
- Provides free applications for Android and iOS.
- Has a digital wallet that includes the ability to store credit cards and other sensitive data.
- Will audit your passwords for strength as well as duplications.
- Sends you hack alerts if any of your accounts have been compromised.
- Has two-factor authentication.
- Great interface design that gets regular updates and new features.

RoboForm

- The veteran RoboForm has a long and reliable history of security.
- Offers applications for Windows, Mac, and Linux; can be stored in a flash drive.
- Offers syncing across desktop and mobile devices.
- Lets you simultaneously log into multiple sites if you visit those sites daily and don't like the hassle of individual logins.
- No fee for use with iOS, Android, or Windows Phone.
- Very easy to use; no fancy bells and whistles that can confuse non-tech-oriented users.
- The fee is $9.95 the first year, then $19.95 annually after that; for desktops only, minus the syncing capabilities, it's a one-time charge of $29.95.

10 Timeless Ways to Instantly Improve Your Finances

You've sworn to yourself that this was the year you were going to get a handle on that mounting credit card debt, save more money, build up your retirement nest egg, and help your kids or grandkids pay for college.

Now 2015 is nearly over and you're still trying to figure out what to do first to make your finances better. Here's the good news — it's not too late and it's not that hard. In fact, according to several nationally recognized financial experts, there are many ways to instantly improve your finances. Here are 10 of the most recommended "first steps" to consider:

1. Start with a phone call. For the price of a phone call, you could end up saving thousands by renegotiating your debt, says **Neale Godfrey**, a No. 1 New York Times best-selling author who has written 27 books empowering families to take charge of their financial lives. Godfrey, a former bank president and founder of GreenStreetCommons.com, a financial literacy resource for parents and kids, says you can call to get your interest rates lowered or stretch out payments on credit card debt, mortgages, and student loans. "You don't want to wait for them to call you. You want to be proactive," she says. "If your interest rate is 15 percent and you reduce it to 7 percent, right there you are saving thousands of dollars." And don't worry about those student loans you still haven't paid off. "You can negotiate student loans. People think you can't, but you can."

Neale Godfrey is a former bank executive, the founder of GreenStreetCommons.com, and best-selling author of 27 books on family finances.

2. Carry an index card in your pocket or purse. Write down what you're buying every day or use your debit card to track what you're spending, notes Godfrey, who used to help families with their finances during appearances on *Oprah*. "Compare your debit card to your spouse's and at the end of the month see what you really spent. When you are accountable to somebody else and doing it together, all of a sudden it's a challenge . . . and we love challenges."

3. Take advantage of free credit reports. Be sure to check your credit score as often as possible, not just for errors. Godfrey says there might be something small on your credit report that you forgot to pay off that is affecting your score. Take care of it right away and watch your score improve.

4. Start gifting now. "If you're going to die with an estate, why would you leave that for your heirs to be really hurt by that," Godfrey notes. "Look into gifting, things like 529 college savings for kids and grandkids. You can put a lot of money in that now. You get the tax benefit and so do they." Godfrey said most people don't realize that a 529 account can be transferred within a family, among siblings, or even given to a niece or nephew. It also can be used for accredited vocational schools or even by the parents if they want to go to graduate school.

5. Don't rush to pay off your mortgage early. If you're choosing between building up your retirement account or putting an extra $200 a month or so toward paying off your mortgage, go with boosting your 401(k), says **Christina Povenmire**, a certified financial planner and founder of CMP Financial Planning in Columbus, Ohio. "Sometimes people are obsessed with paying off their mortgage, but you don't want to forgo putting money in the 401(k) to pay off the mortgage, especially if you have a nice low interest rate." And don't forget that your mortgage interest is tax deductible.

Christina Povenmire is a certified financial planner, and principal and founder of CMP Financial Planning, which is based in Columbus, Ohio.

6. Be smart about "found" money. Your boss gave you a bonus or a raise. Your Aunt Sally left you something in her will. You got a decent tax refund. They're all examples of "found" money, a windfall you may not have been expecting, explains Povenmire. Once again, she recommends putting at least part of that into your retirement savings instead of your checking account where you would spend it all.

7. Buy a coffeemaker and a mug. It's not necessarily the major unforeseen expenses that come along that derail us — it's all the little daily spending decisions. You've heard the advice a million times before, most likely, but have you really put it into action? If you want to avoid that "drip, drip method of spending," as Godfrey puts it, buy a coffeemaker and skip the daily Starbucks trip. Ditch your expensive cable bill for a cheap Netflix subscription and a digital antenna. Keep the car parked and walk or bike for short trips around the neighborhood. As Franklin wrote, "Beware of little expenses: a small leak will sink a great ship."

8. Ask for help. Find an expert and trustworthy financial adviser who puts your interests first, suggests **Stephen F. Lovell**, president of Lovell Wealth Legacy in San Francisco and Walnut Creek, California, and host of a KDOW radio show about pursuing financial success. "You need someone who understands all the upsides and all the pitfalls," he says.

Stephen F. Lovell is president of Lovell Wealth Legacy, based in California. He hosts a weekly radio show, *The Good Life Made Better*.

9. Keep count. "Learn about investment costs," Lovell reminds investors. "You have mainly three costs — the cost of an adviser, management fee, and trading cost. Don't diminish the importance of investment costs, because they diminish your wealth." Taxes also can impact your return on investment, so find out how investments are taxed so you can increase your after-tax gain.

10. Know your options. There are many different types of investments for different financial needs and for different times in your life. "Don't neglect the full array of available investments," Lovell cautions. "Relying only on stocks, bonds, and cash puts you at a disadvantage." ■

— Gail Kalinosky

Protect Your Business (and Your Fortune) With These *Key* Insurance Policies

Business owners should have several layers of insurance to protect not only their income, but their family and business partners too. To that end, one of the most important insurance policies a business owner can purchase is commercial general liability (CGL).

CGL provides financial protection in case your business causes injury or damage to a person or property, adjusted based on the type of business and perceived risk. (In other words, a designer or consultant needs less coverage than a building contractor or a firm with a fleet of company vehicles on the road.)

The best way to determine your commercial general liability coverage amount needs, and to gauge how that impacts your bottom line, is to have up to three different insurance agents audit your needs and provide quotes to compare coverages and annual premiums.

Beyond CGL, however, there's another type of policy you may want to consider — especially if the continued success (and very existence) of your company depends heavily on one revenue-generating person, or a handful of top performers.

Indeed, when thinking about all the ways to protect a business — and the individuals who depend on that business for their financial well-being — key person life insurance is one of the best investments that a small business can make, says **Richard Reich**, president of Intramark Insurance Services in Glendale, California, and a nationally licensed life and disability insurance broker.

You might assume that "key person" means the business owner, but it can be anyone who is instrumental in the day-to-day business operation or the company's revenue stream. "That may be the founder, managing director, or a top sales person who generates significant revenue for the company," Reich says.

Similar to personal life insurance policies that provide a monetary benefit to named beneficiaries in the event of a person's death, key person life insurance allows a company to purchase an insurance policy on a specific individual who is instrumental in running the business. The difference is the beneficiary component. Reich says instead of an individual, like a spouse or child, being named as the beneficiary, the company is the beneficiary and receives the cash value of the policy.

Deciding how much key person life insurance to purchase requires crunching

a few numbers. Reich says the most straightforward method to calculate how much key person life insurance you need is multiplying the key person's salary by between five and seven. For example, a key person whose salary is currently $100,000 would warrant a minimum $500,000 policy and a maximum $700,000 policy.

However, there are some other things to consider that could drive the policy coverage — and thus its price tag — up or down. "Take into account the amount of time, salary, and resources required to replace that individual and for the replacement to achieve the same contribution or earning level, the amount of money the individual typically generates for the business in a given timeframe, and the costs that may be incurred following that individual's death," Reich says.

Reward Your Moneymakers

Keep key people and top moneymakers in the company loyal to you with Section 162 plans. These executive bonus plans allow your employees to purchase either a whole life or universal life insurance policy with a bonus paid by the company.

While the bonus is taxable income for the employee, it is also a significant benefit, as the policy may yield attractive cash value growth. In addition to having satisfied, loyal employees willing to work hard to nurture the company, business owners can generally deduct the bonus as a business expense for the company.

When you are shopping for key employee coverage, remember that loyalty can be a major plus when it comes to insurance. It may be tempting to shop for different coverage with different insurance agents, especially if one offers a one-time discount to transfer an existing policy or purchase a new policy, but having one agent write the key employee coverage policy, another write the policy for the business's liability coverage, and yet another write the policy for, say, disability insurance can create costly overlaps and/or gaps in coverage.

"Dealing with multiple agents and insurance companies increases the likelihood you'll pay for the same coverage twice or not have the coverage you thought you did in the event you need to file a claim," says **Jonathan G. Stein**, a consumer attorney and former insurance adjuster in Elk Grove, California.

A better approach is to package all insurance policies together to fill the gaps. "You have to shop around to find an agent who can, and will, handle all business policies, but doing so is possible and will save headaches down the road," Stein says.

In addition to avoiding overlaps and gaps, you might even save a little, too. Most insurance companies offer discounts to bundle coverage. So if you purchase your commercial auto policy and your commercial general liability policy from the same company, you may end up paying a lower overall annual premium than purchasing those from two separate companies.

— Gina Roberts-Grey

Travel

Beware: 5 Hidden Catches of Travel-Related Credit Cards

Flashy incentives like airline miles and nights in a hotel offered by credit cards with travel-related rewards can tempt you to apply for a new card to fund upcoming travel. It's also true that choosing the right credit card for each transaction when traveling can help consumers rack up rewards.

Yet, before you add a new piece of plastic to your collection, take a minute to consider these potential pitfalls of travel-related credit cards:

1. Reward values can change. Over time, rewards can lose value, says **Matthew Goldman**, CEO and cofounder of credit card optimizer Wallaby Financial. "Airlines and hotels often revalue points as frequently as annually." This can lower the value of rewards and leave you with fewer incentives.

2. Rewards can disappear with lack of usage. Goldman says if you don't use your card frequently, your points may expire. His advice: Charge a small amount that you can pay off every month to maintain account activity. "Charging something like one tank of gas can keep your rewards active."

3. Rewards cost more. "The APR on a reward card is often higher than on non-rewards cards," Goldman says. Regardless of the number of miles, dinner vouchers, or nights in a hotel you stay to accumulate, if you typically carry a balance on a credit card, using travel reward cards isn't a smart move. You also might be forced to pay an annual fee to rack up those points.

4. You're locked in. Hotel or airline brand rewards cards lock you in to working with their partners and brands. If you earn all your points with one airline, and then are unable to book with that carrier for any reason, you could be left with a bunch of miles you can't use. "Stick with more generic programs that earn credit against travel," Goldman says. He suggests cards like Barclaycard's Arrival or Capital One's Venture cards. "There are also transferable programs like American Express Membership Rewards or Chase Sapphire Preferred Ultimate Rewards Points to avoid being forced into one hotel chain or airline."

5. You spend more. It's easy to come down with a case of travel reward card-itis when you can accrue perks and bonuses with a travel reward program. That means you might spend money you otherwise wouldn't because you're thinking, "I'm earning miles." Goldman suggests crunching the numbers, asking yourself if the incentives are truly worth the cost of annual fees and interest on balances versus just finding the best deals and paying for your vacations outright.

— Gina Roberts-Grey

Franklin Matters

Franklin on Americans' Heavy Tax Burden

By Mark Skousen

Ben Franklin was no friend of the tax man. As a printer, he opposed the Stamp Tax that the British imposed on printed materials in 1765. But his opposition was more than simple commercial self-interest.

He told the British ministers they could have raised a great deal more money and less mischief if they had asked for "voluntary grants" from the colonies to the Crown. Franklin favored "persuasion" over "compulsive" taxation in paying for colonial government.

Eventually, Franklin, at age 70, became a revolutionary because Great Britain, which he loved, and its Parliament had abused their powers so much that "total disunion" was inevitable. (He said so as early as 1771.)

Yet Franklin was no anarchist. He believed that every citizen should pay his fair share of government expenses, during war or peacetime. He was angry with William Penn and his descendants, who exempted themselves from taxation as proprietors of Pennsylvania.

He railed against American citizens who refused to support George Washington's troops during the War of Independence. "He can have no right to the benefits of society who will not pay his dues toward the support of it," he wrote. At one point during the conflict, Franklin contended that wartime runaway inflation had one positive result: It forced the tax evaders to pay for the war through depreciation of the Continental currency.

During the Constitutional Convention in 1787, Franklin advocated a laissez-faire attitude toward government authority and its powers of taxation. He was in sympathy with Thomas Jefferson's dictum, "Government governs best which governs least." The state has the power to tax, but should tax lightly. He learned from the French, "Laissez nous faire: Let us alone . . . Pas trop gouverner: Not to govern too strictly."

Franklin understood the challenge his new nation faced. "As all history informs, there has been in every state and kingdom a constant kind of warfare between the governing and the governed; the one striving to obtain more for its support, and the other to pay less. This has alone occasioned great convulsions, actually civil wars, ending either in dethroning of the princes or enslaving of the people." Clearly, Franklin and the other found-

continued on next page

Franklin Matters *continued from previous page*

ers were in search of a middle ground. They found it in the Constitution.

Franklin disliked showering favors on the rich, but he also opposed excessive taxation of the rich, who do much good in society. Regarding the Poor Laws in England, he wrote that they were "not made by the poor. The legislators were men of fortune. By that act they voluntarily subjected their own estates, and the estates of all others, to the payment of a tax for the maintenance of the poor . . . Besides this tax, they had, by donation and subscriptions, erected numerous schools for educating gratis the children of the poor; they erected hospitals at an immense expense for the reception and cure of the sick, the lame, the wounded, and the insane poor, for lying-in women, and deserted children. They also continually contributed toward making up losses occasioned by fire, by storms, or by floods, etc. Surely there should be some gratitude due for so many instances of goodness!"

> "We are taxed twice as much by our idleness, three times as much by our pride, and four times as much by our folly."
>
> *— Ben Franklin*

Franklin warned against spending too much time worrying about ways to avoid taxes. For some things were more taxing than government. In his popular pamphlet, *The Way to Wealth*, he talked of greater issues: "Friends, the taxes are indeed very heavy, and if those laid on by the government were the only ones we had to pay, we might more easily discharge them; but we have many others, and much more grievous to some of us. We are taxed twice as much by our idleness, three times as much by our pride, and four times as much by our folly; and from these taxes the commissioners cannot ease or deliver us by allowing an abatement. However, let us hearken to good advice, and something may be done for us: 'God helps them that help themselves,' as Poor Richard says."

Be free,

Note: This column originally ran in the premiere issue of Franklin Prosperity Report, published in August of 2009. We felt it had special significance as we near the end of the 2015 tax year.

Mark Skousen, Ph.D., is a sixth-generation grandson of Benjamin Franklin and holds the Benjamin Franklin Chair of Management at Grantham University. An economist and monetary historian, he's the author of *The Compleated Autobiography of Benjamin Franklin*, which draws on Franklin's papers to chronicle the 33 years of his life subsequent to the publication of his autobiography at age 51.

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Dr. Franklin's Mailbag

The Right Timing for Retirement Withdrawals

When it's time to retire, is there an "ideal" order I should tap my various accounts and claim Social Security? — Jay S., Springfield, Ill.

"The most important factor when you're in the distribution phase rather than accumulation phase is managing your tax bracket," says **Madaline Creehan**, a wealth adviser with Buckingham Asset Management in St. Louis. "What makes sense for a lot of folks is to try to stay in a tax bracket no higher than 25 percent." To get there, she recommends thinking of your various investments as "buckets" to draw from: "Some will have two buckets: taxable and tax-deferred. If they're lucky enough to have participated in a Roth IRA, they'll have a tax-free [third] bucket."

The answer isn't to deplete one bucket and move to the next, but rather to tap each in varying amounts to control your income (and thus your tax bracket) each year. Keep in mind that at age 70 1/2, you're required to start taking money out of tax-deferred accounts — IRAs and 401(k) plans.

As for Social Security, there's no one right answer, so we have created a Special Report available at www.franklinprosperity.com, "Strategies to Maximizing Your Social Security," to help. As a general Social Security tip, Creehan offers this advice: "It rarely makes sense to take Social Security at 62 unless your life expectancy is not very long."

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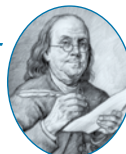

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