

## Avoiding Your Personal “Fiscal Cliff”

You can’t open a newspaper or magazine these days without reading about the impending “Fiscal Cliff” that Congress and the President are threatening to drive off of together. (With us in the back seat, of course.) When my clients ask me about what I’m doing in preparation for this possibility, I tell them two things. First, if it does happen, it will be considerably less calamitous than the politicians or the press are admitting, and it is probably a necessary step towards balancing the Federal budget deficit. Second, Congress can’t afford to let tax rates increase significantly, lest they risk not being reelected, so I expect them to eventually compromise with the President.

More importantly, I tell clients that they should be more concerned about avoiding their own “fiscal cliff,” meaning that they need to be managing their own personal financial “to do” list. Most of it is basic, yet it surprises me how few people actually take the time to do this, especially considering that what is at stake is living the remainder of their lives comfortably. So after you’ve gone to all of your holiday parties, opened the Christmas presents, and started thinking about resolutions for 2013, you should take some time during the holiday week to attend to the financial planning necessities that I’ve outlined below.

### Protect What You Have

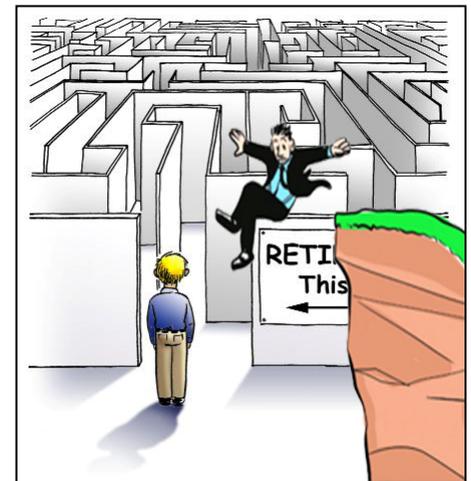
The proper types and amounts of insurance coverage are crucial in eliminating the risk of losing what you have. Everyone has auto and homeowners or renter’s insurance, but do you also have an umbrella liability policy? That \$300K limit on your auto and home policies may seem adequate, but have someone slip on the ice on your front walk and you’ll find out how limited that coverage is. Umbrella policies of \$1 million should only cost you an additional several hundred dollars a year, and is well worth the added peace of mind.

Do you have sterling silver place settings? Did you realize that, with silver at \$33 per ounce, one fork would cost you over \$150 to replace? Make sure that your homeowner’s policy covers the replacement cost of your silverware. The same goes if you happen to own collectible art, stamps, or coins.

### Keep What You Can

With tax laws still in flux, about the only thing that seems certain is that tax rates will be higher after 2012. Thus, now is the time to consider utilizing tax strategies like “gains harvesting”, charitable gifting, Roth IRAs and deferring deductions into years when you plan to have higher marginal rates. Various trusts – GRATs, charitable lead/annuity trusts – may also be worth exploring if you are concerned about your estate exceeding the limits on the still undecided estate tax limits. There is talk that some of these options will be limited in the future, so act now.

*Navigating the Retirement Maze*



### **Avoid Future Legal Hassles**

Having a current (i.e., reviewed within the last three years) set of estate documents will reduce the problems that your executor has in settling your estate after you're gone. Four simple, but essential, documents that you should have: a will, a durable power of attorney, a health care power of attorney, and a living will. If you have minor children, a living (revocable) trust is a useful fifth document. If you're concerned about the cost, there is inexpensive software available to create basic versions of these documents.

So you think that your will is the final word on who gets what? Surprise... beneficiaries on IRA accounts and insurance policies supersede anything in a will. Thus, it pays to check on all of your beneficiary designations, particularly if you have had some life changes in the past several years.

### **Glide Into Retirement**

Proper planning will help ensure that you have a retirement to look forward to. While limited space precludes going into all of the variables here, here are a few key aspects of a good plan:

- Be realistic – about how much you need on which to retire, asset growth, spending rates, inflation, and your likely longevity.
- Make the most of Social Security. Particularly in the case of couples, there are various filing strategies that can potentially result in an additional \$200,000 or more of income.
- Save, save, save! Studies have shown that the key to having sufficient assets with which to retire depends less on where you invest it, and more on how much you sock away during your working years.

So deck your halls, trim your tree, sing a few carols, and go easy on the “wassailing.” But make sure to also take the time to do some essential financial planning. You have too much at stake not to.

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