

Contents

Preface to the Third Edition xv

PART ONE

Coordinated Financial Planning

1. Personal Financial Planning—The Process	3
What Is Personal Financial Planning?	3
Focus on Objectives	4
Need For Personal Financial Planning	5
Steps in the Planning Process	12
<i>Gathering Information and Preparation of Personal Financial Statements</i>	12
<i>Identification of Objectives</i>	13
<i>Analysis of Present Position and Consideration of Alternatives</i>	13
<i>Development and Implementation of the Plan</i>	13
<i>Periodic Review and Revision</i>	14
Use of Personal Financial Planning Statements	14
<i>Personal Financial Planning Checklists and Review Forms</i>	14
<i>Other Financial Statements</i>	14
2. Setting Your Objectives	17
Importance of Setting Objectives	17
How to Organize Your Objectives	17
<i>Protection against Personal Risks</i>	17
<i>Capital Accumulation</i>	25
<i>Provision for Retirement Income</i>	29
<i>Reducing the Tax Burden</i>	31
<i>Planning for Your Heirs</i>	31
<i>Investment and Property Management</i>	31
Adjusting Your Objectives for Inflation and Deflation	34

PART TWO**Using Insurance Effectively**

3. Basic Insurance Principles	39
Risk Management	39
<i>Approach to Risk Management</i>	39
<i>Basic Risk Management Techniques</i>	40
The Insurance Principle	40
<i>Insurance Purchase Decisions</i>	41
<i>Use of Deductibles and Other Cost-Sharing Devices</i>	42
Selection of Insurance Companies, Agents, and Brokers	43
<i>Types of Insurers</i>	43
<i>Considerations Affecting the Choice of an Insurer</i>	45
<i>Considerations Affecting the Choice of an Agent or Broker</i>	49
4. Life Insurance and Social Security	51
Sources of Life Insurance Protection	51
Types of Individual Life Insurance Contracts	54
Cash Values and Nonforfeiture Options	61
Dividend Options	62
Settlement Options	63
What Actions Can an Uninsurable Person Take?	67
Group Life Insurance Coverages	68
Social Security	70
Planning and Using Life Insurance	72
How Much Life Insurance Do You Need?	76
5. Health Insurance	83
Health Insurance Coverages	83
Disability Income (Loss of Time) Coverages	84
Medical Expense Insurance Coverages	96
Individual Health Insurance Policy Provisions	106
6. Property and Liability Insurance	109
Property Insurance	109
Personal Liability	112
Homeowners Insurance	115
<i>Types of Policies</i>	115
<i>Replacement Cost Provision</i>	117
<i>Internal Limits (Sublimits)</i>	118
<i>Liability Exclusions</i>	120

<i>Eligibility</i>	120
<i>Cost</i>	121
Automobile Insurance	121
<i>Coverage and Persons Insured</i>	121
<i>Cost</i>	124
<i>Types of Policies</i>	125
Other Property and Liability Insurance Policies to Consider	125
<i>Excess Liability</i>	126
<i>Directors' and Officers' Liability</i>	127
<i>Workers' Compensation</i>	127
Insurance Companies and Premiums	128

PART THREE

Accumulating Capital and Income Tax Planning

7. Basic Investment Principles	133
Your Basic Investment Objective	133
Forms of Investment	133
Investment and Speculation	134
Factors in the Choice of Your Investments	134
<i>Security of Principal and Income</i>	135
<i>Financial Risk</i>	135
<i>Market Risk</i>	136
<i>Purchasing Power Risk</i>	137
<i>Rate of Return</i>	139
<i>Annual Rates of Return (Yield)</i>	139
<i>Capital Gains Rates of Return</i>	141
<i>After-Tax Yields</i>	142
<i>Marketability and Liquidity</i>	143
<i>Diversification</i>	144
<i>Tax Status</i>	146
<i>Callability</i>	146
Personal Investment Management	147
<i>Investment Constraints</i>	147
<i>Investment Objectives</i>	148
<i>Investment Policies</i>	149
8. Common Stock and Other Equity Investments	155
Investment Characteristics of Common Stocks	155

The Arithmetic of Common Stocks	155
<i>Earnings per Share</i>	156
<i>Net Asset Value per Share</i>	156
<i>Price-Earnings Ratio</i>	157
<i>Yield</i>	158
Should You Diversify, and How Much?	161
When to Sell?	162
Investment Categories of Common Stocks	168
<i>Blue Chip Stocks</i>	168
<i>Growth Stocks</i>	168
<i>Income Stocks</i>	169
<i>Defensive Stocks</i>	169
<i>Cyclical Stocks</i>	170
<i>Speculative Stocks</i>	170
Some Theories of Common Stock Investment	170
Common Stocks and Market Cycles	172
How Good Are Common Stock Investments?	173
Other Equity Investments	174
<i>Real Estate</i>	174
<i>Oil and Gas Ventures</i>	178
<i>Put and Call Options</i>	179
<i>New Issues</i>	182
<i>Commodity Futures Trading</i>	182
9. Mutual Funds	185
Why Invest in Mutual Funds? :	185
Types of Funds	186
<i>Open-End Funds</i>	186
<i>Closed-End Funds</i>	186
<i>Open-End versus Closed-End Funds</i>	187
<i>Load and No-Load Mutual Funds</i>	187
<i>Reducing the Sales Load</i>	189
<i>Load versus No-Load Funds</i>	191
How Can You Invest in Mutual Funds?	192
Mutual Funds and Their Investment Objectives	194
How Can You Find Out about Mutual Funds?	196
Mutual Fund Performance	196
Selecting a Fund	197
10. Investing in Fixed-Income Securities	199
What Are Fixed-Income Investments?	199
Types of Fixed-Income Investments	200
<i>Preferred Stocks</i>	200

<i>Corporate Bonds</i>	201
<i>Deep-Discount Bonds</i>	202
<i>Municipal Bonds</i>	203
<i>Bond Funds</i>	205
<i>United States Government Obligations</i>	206
<i>Certificates of Deposit</i>	208
<i>Savings Accounts</i>	208
Conversion Privileges in Fixed-Income Securities	208
What You Should Know About a Bond	209
Strategy for Investing in Fixed-Income Securities	209
11. Income Tax Planning	211
The Federal Income Tax	211
Basic Tax-Saving Techniques	216
<i>Tax Elimination or Reduction</i>	216
<i>Shifting the Tax Burden to Others</i>	224
<i>Taking Returns as Long-Term Capital Gains</i>	229
<i>Postponing Taxation</i>	230
<i>Taxation and the Capital Gains Tax "Lock-in" Problem</i>	233
Tax-Sheltered Investments	234
Tax-Planning Caveats	236

PART FOUR

Planning for Your Retirement

12. Pension and Profit-Sharing Plans	241
Economic Problems of Retirement Years	241
How Can You Provide for Your Retirement?	242
Kinds of Pension Plans	243
Impact of the Federal Tax Law on Private Pension Plans	244
When Are Retirement Benefits Payable?	245
What Kinds of Pension Plan Benefits May You Have?	246
<i>Retirement Income Benefits</i>	247
<i>Benefits upon Termination of Employment</i>	247
<i>Death Benefits</i>	248
<i>Widow's Pension</i>	250
<i>Disability Income Benefits</i>	251
How Much Pension Benefit Will You Receive?	251
Your Tax Status Under Qualified Pension and Profit-Sharing Plans	254
Inflation and Retirement Planning	257
Profit-Sharing Plans	259

13. Other Retirement and Employee Benefits	261
Individual Annuities	262
Settlement Options	265
Tax-Sheltered Retirement Plans	266
<i>Tax-Sheltered Retirement Plans for the Self-Employed (HR-10 Plans)</i>	266
<i>Individual Retirement Accounts and Annuities (IRAs)</i>	269
<i>Simplified Employee Pension (SEP) Plans</i>	270
<i>Tax-Sheltered Annuity (TSA) Plans</i>	270
Professional Corporations	272
Nonqualified Deferred Compensation	273
Supplemental Executive Retirement Plans (SERPs)	274
Survivor Income Benefits	275
Employee Thrift or Savings Plans	275
Stock Purchase Plans	277
Employee Stock Ownership Plans (ESOPs)	278
<hr/>	
PART FIVE	
Estate and Tax Planning	
<hr/>	
14. Estate Planning Principles	281
Objectives of Estate Planning	281
Property and Property Interests	282
What Is Your Estate?	287
<i>Probate Estate</i>	287
<i>Gross Estate for Federal Estate Tax Purposes</i>	288
<i>State Death Tax Value</i>	288
<i>The "Net" Estate to One's Heirs</i>	289
Settling the Estate	290
<i>Intestate Distribution</i>	291
<i>Problems with Intestate Distribution</i>	291
<i>Distribution by Will</i>	292
<i>Steps in Estate Settlement</i>	292
<i>Methods of Estate Transfer</i>	294
15. Planning for Death Taxes	299
Death Taxes and Estate Settlement Costs	299
<i>Unified Transfer Tax System</i>	299
<i>How to Estimate Your Federal Estate Tax</i>	300
<i>State Death Taxes</i>	306
<i>Estimating Your Estate's Liquidity (Cash) Needs</i>	306

<i>Providing Liquidity for Your Estate</i>	307
<i>Determining What Is Left for Your Family (the "Net" Estate)</i>	308
<i>What Happens When the Other Spouse Dies?</i>	308
<i>Reversing the Order of Deaths</i>	309
How to Save on Death Taxes and Settlement Costs	309
<i>Using the Marital Deduction to Save Federal Estate Taxes</i>	310
<i>"Skipping Estates" to Save Federal Estate Taxes</i>	315
<i>Making Lifetime Gifts</i>	317
<i>Proper Arrangement of Death Payments under Pension, Profit-Sharing, and Other Retirement Plans</i>	319
<i>How to Save State Death Taxes</i>	320
<i>Saving Estate Settlement Costs</i>	320
16. Will Substitutes in the Estate Plan	321
Joint Property	321
<i>Advantages of Jointly Owned Property</i>	321
<i>Problems of Jointly Owned Property</i>	322
Life Insurance in Estate Planning	322
<i>Taxation of Life Insurance</i>	323
<i>How to Arrange Your Life Insurance</i>	326
<i>Should You Give Away Your Life Insurance?</i>	333
<i>Wife Insurance</i>	334
Other Death Benefits	335
Revocable Trusts as a Will Substitute	335
17. Planning for Your Business Interests	338
Should You Sell or Retain Your Business Interest?	339
Partnerships	339
Close Corporations	343
Sole Proprietors	346
Estate Liquidity through Section 303 Redemptions	350
Subchapter S Corporations	351
Personal Financial Planning Checklist for Decision Making	355
Personal Financial Planning Review Forms	369
Index	401