## DOLLARS AND SENSE
# GENERAL WORKSHOP

### MONEY MANAGEMENT

- Achieving Your Financial Goals
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# ACHIEVING YOUR FINANCIAL GOALS

When you get down to it, achieving your financial goals is all about creating a plan and sticking to it. Without goals and a specific plan to meet them, we drift along and leave our future to chance. As the saying goes, "Most people don't plan to fail; they just fail to plan." The following steps will help you plan for—and achieve—a brighter future for you and those who depend on you.

## 1. SET CLEAR FINANCIAL GOALS

Establishing financial goals should be the first step in the financial planning process. Work with your spouse or significant others to identify both short- and long-term goals. Be open and honest in sharing your thoughts about saving and spending, investing and borrowing. Wealth building is best accomplished when it's a team effort, but since attitudes about money are acquired over a lifetime, be willing to make some allowances for your partner's money habits. Try to anticipate how changes in your life, such as the birth of a child, disability of a family member or the need to care for an elderly parent, may affect your financial future. Commit your goals to paper and then plan and prioritize objectives for achieving them. Periodically review your goals as your life and circumstances change.

## 2. APPOINT A MONEY HANDLER

Decide who will handle money management tasks like balancing the checkbook, paying the bills and monitoring investments. If you've been in a long-term relationship for a while and one of you has been in charge of finances for many years, perhaps it's time to make a switch. Regardless of who handles the day-to-day money management, get together frequently to review your budget, investment portfolio and tax situation, and to discuss major purchases and important financial decisions.

## 3. ESTABLISH A BUDGET

Budgeting simply is putting together a plan to ensure that your expenditures do not exceed your income. You can create a budget by totaling the income you and your partner receive on a monthly basis. Include your earnings from your job and income from other sources, such as dividends and rents from property you might own. Then list your fixed expenses (e.g., mortgage payment, car payment, insurance), flexible expenses (e.g., groceries, utilities, transportation costs) and discretionary expenses (e.g., saving, entertainment, gifts). Total your income and your expenses. If your income exceeds your expenses, you are doing fine. If your expenses exceed your income, look for costs you can reduce or cut.

Spending less than you earn is the key to being able to save and invest money. Continually look for ways to cut your expenses or increase your income. For example, if you go out to lunch daily, you could pack your lunch for work instead. If for some reason you cannot reduce your expenses, consider getting an additional job to increase your income.

## 4. PAY YOURSELF FIRST

The key to saving is discipline. Perhaps the best strategy for achieving your financial goals is to automate your savings plan. Have $100 (or whatever sum you're comfortable with) taken out of your paycheck or checking account each month and put into a money market or mutual fund. This pay-yourself-first strategy works infinitely better than settling for saving whatever, if anything, is leftover at the end of the month. Some employers offer automatic savings plans that deposit money directly from your paycheck into a savings account or tax-deferred retirement plan such as a 401(k). There are also many brokerage companies with programs that allow you to invest as little at $25 or $50 a month through automatic deductions from a savings or checking account.

Remember that it's never too soon or too late to save for retirement. One of the best strategies is to put the maximum amount possible into your employer-sponsored retirement plan. Most young people should consider investing a substantial proportion of their portfolios in stocks, which tend to offer higher yields than bonds or cash over the long term.

## 5. REDUCE DEBT

If you're carrying over credit card balances from month to month, make debt reduction your first financial objective. Try trimming a couple of items in your monthly budget—like dinners out and movies—and use the savings to pay down debt. You also might consider consolidating your credit card balances onto the card with the lowest interest rate or taking out a home equity loan to pay off your credit card debt. For many people, putting the roof over their heads at risk with a home equity loan is a step they take only as a last resort—squeezing savings out of your budget or taking out a personal loan are safer alternatives.

### 6. CREATE AN EMERGENCY FUND

CPAs recommend that you have three to six months of living expenses that you can easily tap in the event of an emergency. Many people select a savings account for their emergency funds. If your balance is high enough, you may be able to open a money market account or a money market mutual fund that pays a higher rate of interest and still allows ready access to your funds.

### 7. EVALUATE YOUR INSURANCE COVERAGE

Ensuring that you have adequate insurance coverage is vital to protecting your family and your assets. Key policies to review include health, disability, life, automobile and homeowners insurance.

Make a checklist of your policies and the amount of coverage you have. Determine whether changes in your financial and family life warrant adjusting coverage. For example, if you recently started a business in your home, you may need to augment your homeowners insurance to protect equipment or other related items. If you were single (or married to someone else) when you bought your life insurance policy, you may need to update the policy's beneficiary designation to reflect your new status. And remember to check the beneficiary designations on your retirement and pension plans and update them as necessary—you might still be carrying your ex or your deceased great aunt Tillie as your beneficiary. Two-income couples should compare the health care coverage their employers provide and decide whether it makes sense to maintain individual coverage or switch—as employee and dependent—to the plan with better benefits.

### 8. MAKE TAX PLANNING A YEAR-ROUND STRATEGY

Effective tax planning is a year-round endeavor. Developing long-term tax-savings strategies will help you keep more of what you earn. You may be overjoyed if you receive a refund when you file your income taxes, but you should realize that the refund was essentially a no-interest loan to the government. You could have invested that money during the previous year and earned interest on it. Review your W-4 form annually to ensure you have taken all the withholding allowances applicable to you so that no more money than necessary is taken out of your paycheck.

Take advantage of every opportunity—from income shifting to using a tax-deferred retirement plan, from bunching deductions to offsetting capital gains—to save valuable tax dollars. Remember, every dollar you cut from your taxes is another dollar you can put toward achieving your financial goals.

### 9. DRAFT OR REVISE YOUR WILL

When you die without a will, the state determines who gets your assets. If you and your spouse don't have wills, have them drawn up. If your wills have been in place for a while, review them to determine whether they should be updated to reflect any changes in your life status.

### 10. IMPROVE YOUR FINANCIAL LITERACY

Read the money and business sections of your newspaper, subscribe to a personal finance magazine or take a personal finance course at your local high school or community college. You also can find a wealth of financial educational material and advice on the internet, and there are numerous books that can educate you about investing.

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## CREATING A BUDGET

Does it ever seem like your money just disappears? Putting together a simple budget—combined with expense tracking—will show you exactly where your money is going.

A budget is a plan for coordinating income and expenses. There is no average budget to follow—your budget is unique to your financial situation. The type of budget that will work for you depends on the savings and spending priorities you set.

- Enter your net income or take-home monthly income.
- Next, enter your fixed expenses, such as car payments and rent.
- Now, enter your flexible expenses such as your phone bill or electricity bill, using figures you gathered from a typical month.
- Now, enter your discretionary expenses, such as clothing and entertainment.
- Then, enter the amount you put into savings. This is also a discretionary expense.
- Now total your expenses and your savings and subtract this amount from your net income. If you have money left over, you may want to use it to increase your savings.

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| CATEGORY | MONTHLY BUDGET AMOUNT | MONTHLY ACTUAL AMOUNT | DIFFERENCE |
|---|---|---|---|
| **INCOME** | | | |
| Salary/Wages Job 1<br>(after taxes and other deductions) | | | |
| Salary/Wages Job 2<br>(after taxes and other deductions) | | | |
| Interests/Dividends | | | |
| Other Income | | | |
| **Income Subtotal** | | | |
| **FIXED EXPENSES** | | | |
| Housing (Rent) | | | |
| Telephone | | | |
| Water/Garbage | | | |
| Health Insurance | | | |
| Car Payment | | | |
| Car Insurance | | | |
| Debt Payments (credit cards, loans) | | | |
| Other Fixed Expenses | | | |
| **FLEXIBLE EXPENSES** | | | |
| Groceries | | | |
| Transportation<br>(gas, repairs, tolls, bus, etc.) | | | |
| Medical/Dental | | | |
| Utilities (heat, electricity) | | | |
| Education | | | |
| Personal/Family services<br>(Laundry, toiletries, haircuts, etc.) | | | |
| Long Distance Telephone | | | |
| Cable TV | | | |
| Other Flexible Expenses | | | |
| **DISCRETIONARY EXPENSES** | | | |
| Savings | | | |
| Dining Out | | | |
| Clothes | | | |
| Furniture | | | |
| Gifts | | | |
| Entertainment/Recreation/Vacation | | | |
| Books/Magazines/Newspapers | | | |
| Charity | | | |
| Other Discretionary Expenses | | | |
| **Expenses Subtotal** | | | |
| **Net Income**<br>lincome less expenses) | | | |

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# CREDIT CARDS: WHAT YOU DON'T KNOW CAN HURT YOU

Credit cards are necessary in today's world. Used responsibly, credit cards can be helpful in an emergency and for establishing a credit history. Yet all credit cards are not equal. Here are some tips on using credit wisely.

## JUST SAY "NO"

Credit card company representatives will compete for your business by handing out T-shirts, coffee mugs, CDs and other enticements. Such incentives may appear attractive, but before you sign anything, read the fine print in the credit contract. Ask yourself if having the credit card is worth the incentive. In many cases, it is not.

## BE AWARE OF TEASER RATES

Credit card companies sometimes offer low introductory interest rates to attract new customers. These rates typically last for only a few months and then jump as high as 20 percent, so it's important that you carefully compare offers from several different issuers before selecting a card.

## STICK WITH ONE CREDIT CARD

Just because it's easy to apply for multiple cards doesn't mean you should. This is especially tempting when department stores offer you discounts on purchases if you apply for a credit card. It's easier to manage one credit card and pay off only one bill at the end of the month. Besides, just applying for multiple credit cards can hurt your credit rating. Also, using one credit card to pay off another is a dangerous practice that should be avoided.

## PAY IN FULL EVERY MONTH

Get in the habit of paying the balance in full each month, which means don't charge more than you can pay off at the end of the month.

## PAY ON TIME

Send the credit card payment several days in advance of the due date to allow for mailing time. Late penalties are costly and some companies will increase the interest rate after one or two overdue payments.

## PAY ONLINE

Take advantage of online bill-paying or check services that most banks and credit unions have. These services allow you to schedule payments in advance and will automatically pay your bills when due. You can schedule recurring payments to ensure that you never will have to pay late fees.

## PROTECT YOUR CREDIT HISTORY

As soon as you start using a card, the payments—whether paid on time, late or not at all—become part of your credit history. A poor credit history can affect your ability to rent an apartment, get a job or buy a car or house. What's more, the mark stays on your credit record even if the bill is later paid.

## DON'T EXCEED THE CREDIT LIMIT

This helps avoid penalties and ensures that you will have credit available in the event of a true emergency. A $2,000 credit limit doesn't mean you can afford to carry a $2,000 balance.

## REVIEW STATEMENTS CAREFULLY

Immediately inform the credit card company of any discrepancies or errors on your monthly statement.

## REPORT A LOST OR STOLEN CARD IMMEDIATELY

Keep a copy of your credit card account number and the financial institution's name and customer service telephone number in a convenient place in case your card is lost or stolen.

## AVOID CASH ADVANCES

Be aware that the interest rate on cash advances can be much higher than the rates charged on purchases.

## PROTECT PERSONAL INFORMATION

Never provide your credit card number unless you make a telephone, mail order or online purchase. If you receive a call from someone who says he or she represents your credit card company and needs your credit card number or security code to verify your account, hang up. Likewise, if you receive an e-mail requesting you click on a link so as to verify your account, do not click on the link and delete the e-mail. No legitimate credit card issuer will directly request such information by phone or e-mail.

Also, never let anyone else use your credit card and don't charge purchases for other people.

Learning how to use credit wisely will help you avoid serious credit problems.

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# SAVING AND INVESTING—10 SIMPLE STRATEGIES

### 1. START SMALL
Not sure where to start? Try saving 10 percent of your monthly income, but don't let that amount scare you. If 10 percent is not doable, figure out how much you can afford to save each month and regularly put away that amount. Consistency is what counts!

### 2. CONTRIBUTE TO YOUR RETIREMENT PLAN
If you have a 401(k) plan at work, contribute at least as much as your company matches—and more if you can. Not taking advantage of this opportunity is equivalent to passing up free money. If your company doesn't offer a 401(k) plan or if you've maxed-out on your annual contribution, open an individual retirement account (IRA) or a Roth IRA and contribute to it regularly.

### 3. SAVE THROUGH PAYROLL DEDUCTION PLANS
A great way to save is to have your company deduct money from your paycheck to go directly to a savings account or into U.S. Savings Bonds. Remember: What you don't see, you can't spend. While you're at it, see if you can get your employer to electronically deposit your paycheck to your bank account. This can help you avoid the temptation to deposit only part of your check—and succumb to impulse buying with the rest of it.

### 4. SET UP AN AUTOMATIC INVESTMENT PLAN
Many mutual fund companies will arrange to deduct $50 or more from your bank account each month and deposit it into a mutual fund account. With this systematic approach, sometimes called dollar-cost averaging, you buy more shares when prices are low and fewer shares when prices rise. The net result is that your total investment cost is averaged over time.

### 5. "ROUND UP" YOUR MORTGAGE PAYMENT
You can build up equity in your home faster and save thousands of dollars in interest simply by "rounding" up your mortgage payment. Consider increasing what you pay to the nearest hundred or just send an extra $50 or $100 each month. Your lender applies the extra payment directly to your principal. There is no need to contact your lender or to commit to a specific amount.

### 6. BANK YOUR RAISES
When you get a raise, continue to live on your previous salary. Deposit the additional funds into a savings or investment account and you'll be surprised how quickly your balance grows. Do the same with your income tax refund check and any unexpected windfalls.

### 7. KEEP PAYING OFF A LOAN
When you finish paying off a car or personal loan, continue to make the same monthly payment—but to yourself instead. Put the money in a savings or investment account. When the time comes to buy a new car, you may find you have enough to pay for the car in cash or, at least, make a substantial down payment.

### 8. PAY OFF YOUR CREDIT CARDS
Consolidate all your credit card debt on one or two cards with the lowest interest rate. Start paying as much as you can each month to get rid of your credit card debt. Keep in mind that when you tack on interest rates of up to 18 percent to your purchases, "sale" items are far less of a bargain. Also, consider paying off your credit card debt with a home equity loan. In most instances, the interest expense is deductible, and your loan interest rate is lower. But be careful, home equity loans put your home at stake if you get behind on payments.

### 9. REINVEST DIVIDENDS
By arranging to reinvest dividends from stocks and mutual funds, you can purchase additional shares of stock or mutual funds with no commission cost. Have interest from a certificate of deposit (CD) credited back to your account, rather than sent to you, and you'll earn interest on your interest.

### 10. KEEP TRACK OF WHERE YOUR MONEY GOES
Understanding how you spend your money is key to determining how you can cut back. Carry a small notebook with you and keep track of every dime you spend for a month or two. And review your credit card statements monthly to see where you are spending—you're sure to come up with ways to spend less and save more.

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# COMPOUNDING YOUR WAY TO WEALTH

Do you want to be wealthy? Most people do. It usually takes a lot of patience to become wealthy, however. Most of us will not win the lottery, earn astronomical salaries playing for the NBA or create a business in our garage that turns into Microsoft or Google. But if you are patient and use time to your advantage, you can accumulate wealth. You even could be a millionaire one day.

## COMPOUND INTEREST

One way to reach this goal is by investing and saving wisely. Investing or saving in funds or accounts in which the interest is compounded eventually will double your money. The earlier you start your savings plan and the greater the interest rate, the sooner your funds will double.

Let's use an example to illustrate how compound interest can work to your advantage. How long will it take an initial investment to double at interest rates of 2 percent, 6 percent and 8 percent that are compounded annually? You really don't need a complicated formula to figure this out. All you need do is divide each interest rate into the number 72. Thus, it will take 36 years for your money to double at 2 percent compounded annually (72/2=36); 12 years at 6 percent (72/6=12); and nine years at 8 percent (72/8=9). So if you invest $10,000 in a fund at 8 percent interest compounded annually, the fund will grow to $20,000 in nine years.

## RULE OF 72

Investors call this formula for doubling money the Rule of 72. It approximates how much time it takes for money to double at any interest rate that is compounded annually. You also can use the rule to figure what interest rate you need to reach a target. For example, if you would like to see your money double in 10 years, divide 10 into 72 to find the interest rate of 7.2 percent.

Actually, your money will double much faster if you invest it in an account that compounds quarterly or monthly. You also would be wise to periodically deposit money into an account. That way, not only does the base—or original amount of money—double over time, so, too, does each additional amount.

## PLANNING FOR WEALTH

Thus, a 22-year-old who invests $10,000 at 2 percent interest and adds $300 each month for 45 years will have almost $300,000 by age 67. If the money earns 6 percent interest, the amount would be roughly $1 million by age 67 and nearly $2 million if the interest rate is 8 percent. (We aren't considering interest rate fluctuations, inflation, fees or taxes here. Banks, for example, periodically adjust their interest rates up or down for savings accounts. Inflation lowers the value of money. And account fees as well as federal and state taxes on the interest earned each year can reduce overall earnings.)

## MAKE THE MOST OF A 401(k)

A way to realize the gains that interest earned over time can provide is to contribute the maximum to tax deferred accounts like a 401(k) retirement savings plan. With a 401(k), your contributions are automatically deducted from your paycheck and reduce your current taxable earnings. You defer paying taxes on your plan contributions and earnings until you begin to make withdrawals, typically in retirement.

Many employers match employees' contributions, which equates to getting free money from your employer. Employer contributions are added to your own savings and are not subject to the employee contribution limits.

A good savings and investment program should be part of your plan to accumulate wealth. Other things that you can do to help you toward that goal include getting a decent job, home ownership and the wise use of credit. If you do those things, it's possible to reach retirement age with at least $1 million in assets—and probably much, much more.

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# INVESTING IN YOUR FUTURE

People invest to create wealth. For some, this means thousands of dollars; for others it could mean millions. Common investment goals include saving for a new, larger or second home, a child's education and a secure retirement.

The key to good investing is diversification or asset allocation. While this sounds complicated, it's not—it just means that you shouldn't put all of your eggs in one investment basket. Rather, you ought to create a smart, well-balanced investment portfolio.

## IT'S ALL IN THE MIX

Asset allocation refers to the percentage of your portfolio dollars invested in the three different investment classes—stocks (also called equities), bonds and cash equivalents (such as money market funds and short-term certificates of deposit). Studies show that asset allocation is the single most important factor in long-tern investment performance.

The rationale for this strategy is simple—not all investment classes of assets move up and down at the same time and rate. In some years, stocks generate the best returns, while in others, the bond market is the place to be. Investing is not a single event; it's an ongoing process.

## DRIVEN BY LIFE CIRCUMSTANCES

No one investment mix is right all of the time—you must re-evaluate them as your income and other life circumstances change, such as having children or changing careers. For example, an allocation of 80 percent stocks and 20 percent bonds that worked well for you in your prime earning years may be inappropriate as you enter retirement.

Your investment goals, timeframe and tolerance for risk all figure into choosing an asset allocation that is right for you.

Your investment time horizon—the number of years before you will need the money to fulfill your financial goal—is another important factor. The further off your investment goal is, the more aggressively you can invest, since you have more time to weather the market's swings.

As your investment horizon grows closer, your investment strategy should gradually become more conservative, shifting the focus from capital growth to capital preservation. Finally, your tolerance for risk represents your ability and willingness to grin and bear declines in the value of your investments.

## INVESTMENT OPTIONS

### Short-Term Investments

- *Certificate of Deposit (CD)*—A specialized deposit where interest is earned at regular intervals until the CD matures, at which point you get the money you originally deposited, plus the accumulated interest payments. Usually the same interest rates as a short- or intermediate-term bond.

- *Money Market Funds*—A specialized type of mutual fund that invests in extremely short-term bonds. Usually pays better interest rates than conventional savings accounts, but not as good as certificates of deposit.

- *Savings Account*—Savings accounts earn a small amount in interest (4 percent and under), making them little better than a piggy bank when it comes to long-term investing. However, you should try to keep enough in the account to cover six months' worth of expenses in case of a financial emergency.

### Long-Term Investments

- *Mutual Funds*—A way for investors to pool their money to buy stocks, bonds or anything else the fund manager decides is worthwhile.

- *Stock*—A way for individuals to own parts of businesses. A share of stock represents a proportional share of ownership in a company. As the value of the company changes, the value of the share in that company rises or falls.

- *Bonds*—From an investor's point of view, bonds are similar to CDs, except they are issued by the government or by corporations instead of banks. They are known as "fixed income" securities because the amount of income they generate each year is set at the time the bond is sold.

**Retirement-Specific Investments**

- *401(k)*—A voluntary retirement plan through your company where you set aside a percentage of your wages before taxes and invest them for your retirement. Some employers will match their employees' contributions up to a certain percentage. Contributions and interest accrued are not taxed until the funds are withdrawn. Annual contributions are limited. Some companies also may offer Roth 401(k) plans. Employee contributions to a Roth 401(k) must be after-tax dollars and are not tax deductible. However, you will pay no taxes on the funds when you withdraw them. Companies that match employee Roth 401(k) contributions do so with pre-tax dollars, and the employer's contributions are kept in a separate account that is taxed upon withdrawal.

- *Individual Retirement Account (IRA)*—A personal retirement savings plan with a variety of tax benefits. Contributions and interest accrued in a traditional IRA are not taxed until the funds are withdrawn, and in some cases, contributions are tax deductible on your federal income tax return. Contributions to a Roth IRA must be after-tax dollars and are not tax deductible. However, you will pay no taxes on the funds when you withdraw them. There are certain limitations on all IRAs.

- *Social Security*—Nearly everyone who receives a paycheck pays a portion of their wages into a trust fund by paying Social Security taxes. Employers contribute an equal amount. After working a certain number of years, you are eligible to apply for your Social Security benefits—which include retirement money, as well as disability, family and survivor's benefits. The amount of your retirement benefits depend on how much you earned, the number of years you worked and the age at which you choose to start receiving your benefits.

## REVIEWING YOUR INVESTMENTS AND ASSETS

It's important to think about asset allocation as an ongoing process, not as an event. You should check your asset allocations at least once a year and rebalance as necessary. As you review the holdings in your investment portfolio—including personal investments as well as 401(ks, IRAs and other retirement vehicles—keep diversification in mind.

You want to make sure your portfolio isn't dominated by one stock or sector. For example, even within your stock class you should diversify among different industries, large and small companies, and domestic and international companies.

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# MAKING COLLEGE A REALITY

Escalating college costs doesn't mean a college education is out of the question. The best way to ensure that funds are there when you need them is to plan ahead and start saving now.

However, if you got a late start on college savings or saw your investment portfolio dwindle in the latest economic downturn, don't despair. There are a variety of options available.

## 1. IMPLEMENT A SAVINGS BLITZ

Depending on how much time you have before enrollment, redoubling your efforts may enable you to close all or part of the gap between your resources and tuition bills. And by continuing to tighten your belt during college years, you may be able to foot at least some of the bill through current income. In addition, some schools offer tuition management services that, for a fee of about $50, allow you to spread the school's annual tuition into eight or 10 monthly payments.

In addition, state-sponsored savings plans—such as the Section 529 savings plan—offer significant tax breaks and other advantages. While contributions to a 529 plan are not federally tax deductible, the earnings grow tax-free. Distributions from a 529 plan are also tax-free, as long as the money is used to pay for higher education expenses.

Most plans allow you to invest a lump sum, deposit funds periodically or sign up for an automatic investment program that deducts a specified amount from your bank account monthly.

Generally, there are no income limitations for opening a 529 plan. Everyone is eligible to participate and the contribution amount is substantial. Since most states don't have an annual cap, it's possible to contribute the maximum gift allowance each year without triggering any gift taxes.

You can find out more about 529 plans by visiting the College Savings Plan Network (*www.collegesavings.org*), which is affiliated with the National Association of State Treasurers.

## 2. APPEAL FOR ADDITIONAL FINANCIAL AID

There are three major types of financial aid: scholarships or grants that do not have to be repaid, student or parent loans that must be repaid (usually after graduation), and work-study arrangements.

Financial aid is based primarily on two factors: the school's cost of attendance—which includes tuition and fees, room and board, personal expenses, books and transportation—and your family's ability to pay. That means if two families have exactly the same financial circumstances (and that is highly unlikely), one student could receive financial aid, and the other not, simply because one school costs more.

When you apply, the financial information you provide is keyed into a federal formula that takes into account your family income, assets, family size, number of children in college and other factors. It also calculates the amount you and your family are expected to contribute toward the education cost. If this amount is less than the total cost of attendance, you've demonstrated need and are eligible for aid. If your family has special financial circumstances, such as high medical bills or loss of employment, that are not apparent in the numbers you submit, you should send letters of explanation to the financial aid offices of the colleges to which you apply.

## 3. SEEK SCHOLARSHIPS

You don't have to be a straight-A student or a star athlete to qualify for a scholarship. Many are available to students with special interests or skills. For example, scholarships are available to high school students who promote vegetarianism and students who can do duck calls. Of course, these scholarships aren't always easy to find. The Internet is a good place to start or the department office for your major.

## 4. TURN TO GOVERNMENT LOANS

Although some parents are reluctant to take on additional debt, federal student loan programs can be a relatively inexpensive source of education funds. Federally funded Parent Loan for Undergraduate Students (PLUS) allow creditworthy parents of college students to borrow up to the full amount of tuition. PLUS loans also are available to graduate and

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professional degree students. Undergraduate students may directly apply for Stafford loans.

Information about interest rates and repayment schedules for PLUS and Stafford loans is available at *www.studentaid.ed.gov.*

### 5. TAP YOUR HOME EQUITY

With mortgage rates at historic lows, a cash-out refinancing or home equity loan are attractive alternatives that offer a lump sum payment you can use to meet college costs. This strategy works particularly well for families that have insufficient cash flow, but a good deal of equity in their homes. As an added benefit, the interest you pay may be tax deductible. However, borrowing against a home is a decision to be taken seriously—failure to meet payments could put your family's home at risk.

### 6. FOCUS ON LESS EXPENSIVE SCHOOLS

Comparison shop when looking at schools. In some instances, location may cause one school to be more reasonably priced than another. Also, public state colleges are less expensive than private schools, particularly when the student qualifies for resident tuition rates. Attending an in-state school also can defray travel expenses and long-distance phone bills. Another popular option is to attend a community college for the first year or two and then transfer to a brand-name four-year school.

### 7. NO RETIREMENT LOAN

A word of caution from CPAs: Do not use retirement savings to pay college tuition. More resources are available for funding an education than for financing a retirement. In addition to the tax implications of withdrawing from retirement savings, you're giving up valuable earnings.

# PROTECTING YOUR FAMILY WITH INSURANCE

How will your family cope should you have a serious health problem or become incapacitated? Can you cover the costs of assisted living or long-term care facilities? Will your spouse and children be able to live comfortably in the event of your death? Like it or not, we all must consider such eventualities and be prepared for them. While it is always a good idea to have a reserve of funds for emergencies, most of us cannot put aside enough money to cope with major problems. That's where insurance comes in. Health, disability, long-term care and life insurance policies can provide the necessary funds to cover such situations.

## HEALTH INSURANCE

Health insurance has become increasingly complex and expensive, but plays an important role in protecting your family's physical, and financial, well-being. Without adequate health insurance coverage, a major illness or accident could wipe out your savings and put you into debt. While some employers provide group health insurance programs for their employees—usually some type of managed care program—others do not. And while these plans usually cover your immediate family—spouse and children—they do not cover extended family. Most employers plans include a cost-sharing arrangement where employees are required to pay for part of their monthly premiums, while the employer pays the rest.

If your employer does not offer group health insurance, or if you are self-employed, individual health insurance policies are available, but be sure to shop around to find one that meets your needs in terms of coverage and cost. Being self-employed does not restrict you to individual coverage in California if you have a full-time employee. However, most insurers will not accept a person working with no employees as a "group." If you belong to a professional association, however, you may be able to get a group policy through it.

Whether you're looking for health insurance for yourself, your family or aging parents, shop around to find one that meets your needs in terms of coverage and cost.

### Types of Managed Care Plans

*HMOs (Health Maintenance Organizations)* have historically been the least expensive and least flexible policies available. In return for lower premiums and co-payments, you must see only approved doctors and will need to get permission from your primary care physician before seeing a specialist. HMOs usually cover preventive care. However, with record increases in medical premiums, it's always smart to comparison shop, as HMOs sometimes may not be your least expensive option.

*PPOs (Preferred Provider Organizations)* offer an incentive to stay within their network of doctors by requiring smaller co-payments for these doctors. However, PPOs will allow you to see any doctor outside of their network and usually allow you to see specialists without prior approval, but you'll have to pay a higher percentage of your co-insurance. Usually, some preventive care is covered.

*POS (Point-of-Service) Plans* are similar to a PPO, with the major difference being that a POS usually requires you to use a primary care doctor to get referrals to specialists if you want the plan to pay for them. Preventive care services usually are covered.

### Additional Options

*Flexible-Spending Accounts—FSAs* allow employers and employees to use pre-tax dollars to pay for certain personal expenses that aren't covered by insurance, such as out-of-pocket health care costs (e.g., deductibles and co-payments) and dependent care (e.g., day care, senior in-home care).

*COBRA*—Usually, if you lose your job, you also lose your health insurance. COBRA, or the Consolidated Omnibus Budget Reconciliation Act of 1985 requires most employers to give you the opportunity to continue your health insurance for up to 18 months, at your expense.

*Medicare*—If you qualify for Social Security, you are automatically covered by Medicare Part A for in-patient type benefits, such as hospital care, skilled nursing, home health care and hospice care. You also can voluntarily apply for low-cost Medicare Part B, which covers doctor visits, outpatient hospital care, physical therapy and medical equipment, and ambulance expenses.

*Medicare Part C (Medicare Advantage)*—This offers Part A & B coverage through HMOs, PPOs or other private plans. Medicare Part D is optional coverage for prescriptions.

*Medicaid*—A joint federal-state program, Medicaid—or Medi-Cal as it is known in California—provides medical assistance to various low-income individuals, including those aged 65 or older, disabled or blind. You must meet your state's medical and functional criteria, and there are income restrictions.

You can learn more about the Medicare and Medicaid programs at *www.cms.hhs.gov.*

## LONG-TERM DISABILITY INSURANCE

One can never anticipate when tragedy will strike, whether in a car or household accident or a debilitating illness. And statistically speaking, most people of working age have a greater chance of being disabled than dying. Yet more people have life insurance than disability insurance.

Long-term disability insurance replaces a portion of the salary you were earning before you became disabled. Single and self-employed individuals should seriously consider disability policies if they have no other income source—or if you are the main breadwinner for your family.

Here's what you need to know to get sufficient coverage at an affordable price:

*Benefit Amount:* Disability insurance typically pays 60 percent to 80 percent of your income should you become disabled.

*Term of Benefits:* You can choose disability coverage that pays for one year, two years, five years or all the way until age 65—or even for life. Keep in mind that premiums increase as the term increases.

*Elimination Period:* Policies usually have waiting periods ranging from 60 days to two years before benefits can start. The average is 90 days.

*Noncancelable:* While they cost more, these policies prohibit the insurance company from canceling your policy (unless they stop covering everyone in your occupation) or raising your premium.

*Guaranteed Renewables:* Cannot be cancelled, but the company can raise the premium by increasing rates for an entire class of policyholders.

*Own Occupation or Any Occupation:* Own occupation coverage pays benefits if you can no longer work in your specific occupation—this is popular with doctors, attorneys, etc. Any occupation pays you if you are unable to work in any occupation for which you are reasonably suited/trained.

While purchasing a private disability insurance policy is your best bet, there are available government-sponsored disability benefits:

*Workers' Compensation*—Disability benefits are paid to covered workers whose illness or injuries are work-related. The amount and disbursement of benefits varies from state to state.

*Social Security Disability*—The Social Security Administration (SSA) offers two programs. Social Security disability insurance pays limited benefits to qualified individuals under 65 regardless of income. Supplemental Security Income (SSI) pays benefits to qualified individuals with limited income over 65, or who are blind or disabled. Neither covers partial disability.

*Veterans Benefits*—Members of our armed forces and veterans are entitled to disability compensation for health problems associated with their military service.

*Federal Employees Retirement System*—Federal employees covered under the Federal Employees Retirement System (FERS) and with at least 18 months of service credits are eligible for disability benefits.

## LONG-TERM CARE INSURANCE

The average cost of a private room in a nursing home is about $200 a day, or roughly $75,000 a year, according to a survey by the MetLife Mature Market Institute. And by 2020, 12 million older Americans will need long-term care, including nursing home stays, according to the U.S. Department of Health and Human Services.

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How can families handle this expense? Health insurance pays the cost of the care you might need to recuperate from an illness or injury. A long-term care insurance policy, on the other hand, covers the many needs of those who are chronically ill. This may include nursing home stays as well as adult day care costs and assistance at home for those who can't care for themselves.

### The Best Candidates

Long-term care policies are best for people who aren't wealthy enough to be able to pay for a lengthy nursing home stay or in-home care out of pocket, but who do have enough assets to disqualify them from government assistance. Long-term care insurance will help prevent depleting savings—and wiping out children's inheritance—for those who are disabled or face a debilitating lengthy illness. Having a long-term care policy may also provide greater control over the care that is received.

### Qualifying to Collect

To receive payments on a policy, it's not simply sufficient for a loved one to decide that the policyholder is no longer able to care for themselves. Instead, the person covered must be unable to perform at least two of the regular activities of daily living set forth in many policies. These activities typically include bathing, dressing, eating and getting around the house alone, among others.

### Be Aware of the Options

There is not just one type of long-term care policy. There are many choices within each policy, including what's covered under what circumstances, and each one will affect the cost of premiums. For example, some policies reimburse for a variety of types of care, while others might cover only nursing homes, assisted living arrangements or in-home care. The policy premium will vary, too, based on what maximum daily or monthly benefit coverage amount you want to receive. Another variable is the policy benefit period, or how long the insurer will pay for your care. You'll have to consider, as well, the elimination period, which is the amount of time you'll have to wait until your payments begin.

Your age will also affect premium cost. Payments will likely be lower for those in their 50s, for example, than for those in their 60s, but they are likely to rise as you get older.

## LIFE INSURANCE

If there is an individual who depends on you for financial support, your financial plan should provide a source of income for your spouse and dependents when you die. Life insurance fills this need and can also serve estate planning purposes, such as paying estate taxes.

### Choosing Coverage

There are a number of factors to consider when determining the amount of life insurance coverage you need, including how much you can afford in premiums, how much coverage your family will need, the period for which they will need coverage, and whether you want pure protection or are looking for an investment as well.

### The Great Debate—Term vs. Permanent

Term insurance provides the largest death benefit for your premium dollar. Term policies provide pure income protection at a low cost. As the name implies, you can buy it one year at a time or for a specific period. If you die within the term selected, a benefit is paid to your beneficiary. If you outlive the term, no death benefit is paid. The cost of term insurance rises as you age.

There are two basic types of term policies: annual renewable policies and level premium policies. The former increases each year and the latter allows you to lock in a premium for a fixed number of years.

Some top-rated insurers also offer return-of premium term policies. These pay a death benefit in the event you die during the term of the policy, but if you survive the policy, you get a refund of all the premiums you paid over the life of the policy. They cost a bit more, but you get the dual benefit of risk protection and recouping your "investment" should you not need the death benefit.

Permanent life insurance combines a death benefit with an investment. Permanent policies—such as whole life, universal or variable life—allow for part of your premium to be invested, thus building cash value. For this reason, the premiums can be several times higher than for the same amount of term insurance.

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Any earnings accrued through a permanent life policy are tax-deferred until you cash in the policy or are tax-exempt if paid to your beneficiaries upon your death. However, earnings could be significantly less with an insurance policy than in some other investment vehicles, even certificates of deposit (CDs). Characteristics of each type of permanent life insurance include:

1. WHOLE LIFE INSURANCE
    - The most common type of life insurance. Both the death benefit and premium (which is based on your age and other factors) remain the same, year after year.
    - You can borrow against the policy at a low interest rate, and if the loan is not repaid, the outstanding balance is deducted from the benefit paid at your death.
    - You can withdraw some of your cash value and still remain insured, or you can surrender the policy and retrieve its full cash value.
    - Best used as part of a long-term plan, since commissions and higher initial premiums slow the cash value accumulation in the early years of the policy.
2. UNIVERSAL LIFE INSURANCE
    - Offers more flexibility than a whole life policy, allowing you to vary the amount of the premium and the death benefit. For example, with the same premium dollars, you can choose a lower death benefit and a larger cash buildup, or a smaller cash buildup and a higher death benefit.
    - For this flexibility, you'll pay higher fees and administrative costs.
3. VARIABLE LIFE INSURANCE
    - Allows the policyholder to control the investment of the cash value portion of the policy, choosing from investment options with varying degrees of risks and rewards offered by the insurance company.
    - Earnings generated by the policy are not taxed while the policy is in force.
    - These policies come with a certain level of risk, since the value of the death benefit and the cash buildup fluctuates depending on the performance of the investments you choose.