SOCIETY FOR FINANCIAL EDUCATION AND PROFESSIONAL DEVELOPMENT
Enhancing financial and professional growth...

2120 Washington Blvd., Suite 400
Arlington, VA 22204
(703) 920-3807 • (703) 920-3809 Fax
www.sfepd.org

financial $UCCESS

SPRING 2011

Consider Long-Term-Care Insurance

Life expectancies have increased significantly and are expected to continue to increase in the future. As people age, they are more likely to develop conditions that limit their ability to live independently. However, it is estimated that only 14% of households have purchased long-term-care insurance (Source: *Long-Term Care Costs and the National Retirement Risk Index*, March 2009).

How likely is it that you'll need long-term-care insurance? It is estimated that approximately one-third of individuals age 65 and older will require at least three months of nursing home care, 24% more than one year of care, and 9% more than five years (Source: *What Is the Distribution of Lifetime Health Care Costs from Age 65?*, March 2010). Those figures do not include individuals who require home-care services. In 2008, the average annual cost of a nursing home was $71,000 (Source: *What Is the Distribution of Lifetime Health Care Costs from Age 65?*, March 2010).

Who needs long-term-care insurance? If your assets, not including your home, equal at least $2 million, you can probably fund long-term-care costs with those assets, although you may not want to deplete your assets for this care. Those with very few assets will probably be covered by Medicaid. It is the people between these two extremes who should consider long-term-care insurance. This coverage may be especially important for women, who tend to outlive their husbands.

If you're considering long-term-care insurance, review these points:

Continued on page 2

Your Emergency Reserve Fund

How much cash do you need to deal with short-term emergencies, such as a temporary job loss, a major home repair, or a large medical bill? A common rule of thumb is that you need a cash reserve equal to at least three to six months of living expenses, preferably kept in liquid investments.

However, like most rules of thumb, this one does not take into account your individual situation. Your needs will depend on your age, health, job outlook, and ability to borrow quickly in an emergency. You will probably need a larger reserve if you work at a seasonal job, own your own company, or rely on commissions or bonuses; expect to be laid off or lose your job; or are the sole wage earner in the family.

You may need a smaller reserve if you have the ability to borrow significant sums quickly, such as through a home-equity line of credit; or you have more than one source of income. Even if you lose one of those sources for some time, you will have other income to fall back on.

You should check the adequacy of your cash reserve on an annual basis. ❍❍❍

FR2010-1026-0376

Long-Term Care

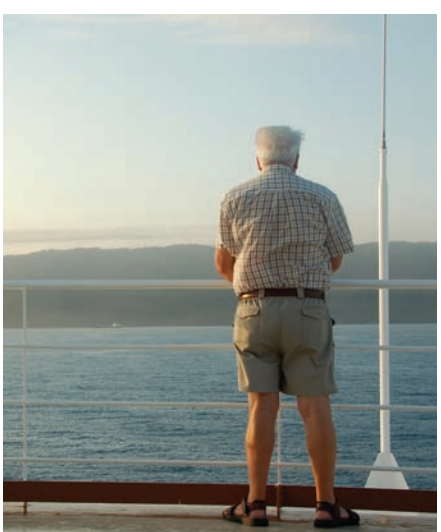
Continued from page 1

Purchase the insurance at a relatively young age. You should probably purchase the insurance by the time you are in your 50s or early 60s. After that, the premiums become much more expensive. Also, if you develop a serious health condition, you may not be able to purchase the insurance.

Check for inflation provisions. Since you may not receive benefits for many years and costs for long-term care have been increasing significantly in recent years, check inflation protection in your policy. You can obtain simple or compound inflation protection. Simple protection increases the benefit amount by a specific percentage of the original benefit each year. Compound inflation increases the benefit on a compounded basis, so it provides substantially more protection. Another option is to make sure your policy contains an annual renewal option, so you can buy additional coverage in the future.

Obtain insurance from a stable insurance company. You want to obtain insurance from a company that is sure to be around for the long term.

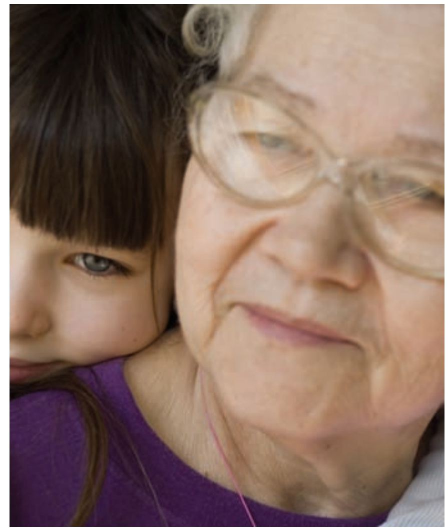
Make sure the policy terms are reasonable. Many people choose a benefit period of three years to cover the average nursing home stay. However, due to the substantial costs associated with long-term care, you may want to select a longer period. Benefits should be paid in as many situations as possible, including skilled care, intermediate care, custodial care, home health care, and adult day care. Many people prefer to remain at home for as long as possible, so make sure that the policy covers a wide range of home services. Review the waiting period carefully to ensure a good balance between premium costs and out-of-pocket costs.



Carefully review the level of assistance needed to qualify for benefits. Typically, benefits are paid when you are unable to perform two of six activities of daily living, including bathing, eating, using the bathroom, moving back and forth from a chair to a bed, and remaining continent. Typically, benefits are also triggered when a cognitive impairment, such as Alzheimer's disease, requires substantial supervision.

Determine how benefits are paid. Some policies pay a set daily amount regardless of your actual costs. This may be a good alternative if you are staying at home and want to compensate a friend or family member for helping you. Other policies will only pay your actual out-of-pocket expenses up to a daily limit or may only pay reasonable and customary costs. Find out how you prove you're entitled to benefits. Some plans require an in-house doctor to review your health, while other plans allow your own doctor's review.

Review new policy provisions. Long-term-care policies are relatively new, so policy riders are evolving. Make sure to check out new provisions, such as the ability to combine a life insurance and long-term-care policy, an accelerated premium provision that allows you to stop making premiums after a certain number of years, or a provision that returns premiums if you die without using benefits. Also look into partnership policies that allow you to qualify for Medicaid after exhausting the policy's benefit while keeping more assets than normally allowed by Medicaid.



Consider sharing a policy with your spouse. Some companies now offer policies that allow spouses to share the policy that can operate in several ways. Spouses may take out separate policies, with a rider allowing the spouses to use each other's unused benefits. Another alternative is to purchase one policy that both spouses can use. A third alternative gives each spouse a specified amount of benefits plus a third amount that can be drawn on by each spouse.

Check the policy's tax status. A qualified policy allows you to deduct a certain percentage of the premium, depending on your age, as a medical expense on your tax return. Medical expenses are deductible to the extent they exceed 7.5% of your adjusted gross income. Also, payouts from qualified policies are received free from federal income taxes.

Please call if you'd like to discuss your options for dealing with long-term-care costs. ❍❍❍

Does Buy and Hold Still Make Sense?

More and more financial experts are claiming that the buy-and-hold strategy of investing has run its course and that it doesn't make sense in today's volatile market. Several general conclusions can be drawn. First, over a period of decades, stocks have been a good investment; the indexes have risen. Second, because of the financial collapse in 2008 and the resulting damage to individual investors, there is an enormous reluctance to "trust the system" and to "get back into the water." Third, individual investors are holding extraordinarily large amounts of their assets in cash or cash equivalents.

Investors who have held exclusively to a buy-and-hold strategy during the past decade probably aren't happy with how their portfolio is performing. But does it really mean buy and hold is dead? Not yet.

A diversified buy-and-hold portfolio strategy still works over a long enough period of time and can minimize risk, but it also needs to be actively managed. It is not termed "buy and forget." Rather, the goal of a buy-and-hold strategy is to find a mix of attractive investments and purchase them with the intention of holding onto them for an extended period of time — all with an eye on the long-term horizon. This goal is still valid. Yet the buy-and-hold strategy should also involve active portfolio management to ensure that assets are properly allocated. An investor's "horizon" may be 10 to 15 years, or it may be 18 months. That time horizon dictates when stocks should be sold.

And though active management is key, changes should only be made when necessary. For example, you should sell a stock if a development in the competitive environment causes you to question a company's future prospects. Proceeds from individual bonds will need to be reinvested at maturity. You should also be aware of whether your investments are lagging that of their peers. If that situation persists, then it might be time to redirect your investments.

Investors who pay attention to their allocations tend to find opportunities to sell one asset class high and buy another asset class low. Regular, periodic monitoring of the portfolio is what is recommended by most experts. The idea is to check often enough so that you are aware of what is happening, but not so often that you are constantly tempted to tinker with your portfolio. This kind of proactive buy-and-hold strategy will keep you from trying to guess where the market will trade at tomorrow or next week, which often leads to underperformance.

Buy-and-hold investing and active trading are not mutually exclusive. Many investors experience great success — and lower their risk — with a diversified buy-and-hold strategy for the majority of their portfolio holdings, while allocating a small portion for active trading. ❍❍❍

Financial Decisions Regarding Your Children

Caught up in the day-to-day routine of raising your children, it's easy to forget to take care of other financial decisions involving them, including:

✔ **Naming a guardian for your minor children.** If you and your spouse both die without naming a guardian in your will, the courts will appoint one and will supervise your children's property. As your children grow, review your guardian choice periodically.

✔ **Purchasing sufficient insurance.** You should obtain enough life insurance to provide for your children until they are adults. Determine how much is needed for living expenses, hobbies, medical expenses, and college. Include a financial cushion so there is plenty of money for unanticipated expenses. Also ensure you have adequate disability income insurance, so your family's lifestyle won't be disrupted.

✔ **Saving for college.** Determine how much you need to save for your children's college educations. You may have difficulty saving the amount needed to fully fund a college education. However, there are other sources to help fund those costs, such as borrowing and financial aid. Thus, your goal may be to accumulate 30%, 50%, or some other percentage of the total cost of college.

✔ **Teaching money basics to your children.** As you teach these lessons to your children, keep in mind that how you treat money is probably the most significant influence on your children's views about financial matters.

✔ **Saving for your retirement.** Don't feel guilty thinking about your own retirement when your children still need your help. One of the best gifts you can give your children is the knowledge that you will be financially independent during retirement.

✔ **Gifting assets to your children.** If you plan to leave assets to your children after your death, you may want to start making annual gifts, up to $13,000 in 2011 ($26,000 if the gift is split with your spouse), to any number of individuals without paying federal gift taxes. You can then teach your children how to handle those gifts and share in their joy from the gifts. ❍❍❍

Loan Carefully

Responding to a request for a loan from a family member or friend can be difficult. Carefully consider such a request before agreeing to loan money. Consider these points:

Make sure the loan won't damage your relationship with that person. If the person doesn't return the money, how will you handle the situation? Loaning money can put significant stress on a relationship. You may feel uncomfortable asking about missed payments. They may expect you to be more lenient about enforcing repayment terms if problems arise. And, if they get in a situation where they can't repay the loan, misunderstandings and resentment can occur on both sides. You don't have to make the loan, but explain your reasons for not doing so to prevent hurt feelings. The person may feel you don't care about him/her, when the real reason is you can't afford to make the loan at that time.

Put the arrangement in writing. If you decide to loan the money, put all the terms in writing, including the principal balance, interest rate, repayment terms, due dates, and provisions for late payments. You may even want to have a lawyer draw up a formal agreement. With a formal repayment schedule, you may feel more comfortable asking about repayments if the person falls behind.

Exercise caution before cosigning a loan. When you cosign a loan, you sign a legal document accepting responsibility for the entire debt. If the primary borrower falls behind in payments, the creditor can come to you immediately looking for payment. The creditor does not have to exhaust legal remedies with the primary borrower first. The debt will be listed on your credit report, which may impact your ability to obtain another loan. If the primary borrower pays late, that payment history is likely to appear on your credit report.

Ask for collateral. Don't be afraid to ask for a lien on a house or car if you are loaning significant sums. That way, if the person files bankruptcy, your claim will have precedence over general creditors without liens.

Don't keep the loan a secret. If you make a loan to a family member, inform other close family members of the loan and the repayment terms, so they don't feel you are giving preferential treatment to the person who received the loan.

Check Your Progress

- Have any of your financial goals changed?
- Has your net worth increased during the past year?
- Are your budget and cash flow in line with your lifestyle?
- Is your investments' actual allocation in line with your targeted allocation?
- Have you reviewed all of your portfolio's investments?
- Are you saving sufficient sums to meet your financial goals?
- Are you using appropriate retirement savings vehicles?
- Are you saving toward your children's college costs?
- Do you have an emergency fund equal to at least three to six months of living expenses?
- Are you paying down your debts?
- Have your wills and trusts been reviewed recently?
- Do you need to change the amount of your life insurance?
- Do you have sufficient disability income insurance?
- Are you utilizing strategies to minimize your tax liability?

Save the Date — September 29–30, 2011

"By Popular Demand" — **Fourth Annual Financial Literacy Leadership Conference**

Hosted by: Society for Financial Education and Professional Development, Inc.
"Enhancing Financial and Professional Growth…"

Where: Crystal Gateway Marriott • 1700 Jefferson Davis Highway • Arlington, VA 22202

The Fourth Annual Financial Literacy Leadership Conference will give you the opportunity to gain important information, strategies, and partnerships to help you enhance the financial literacy of your constituent group, institution, organization, or community. The theme of the conference is: "Financial Literacy: In Practice." There will be financial education experts, senior administration officials, and special guest speakers, along with key panelists, to present and discuss issues and strategies that have never been discussed before in a forum of this kind. Moreover, you will have the opportunity to present your perspective and interests regarding matters that will help you become more effective in the delivery of financial education.

Visit our website at www.sfepd.org in coming months for more information.