

Self Quiz

Live better on less by taking a proactive approach to money management

Financial stability is not based on how much you earn, but on how well you manage what you have. The secret: Take a planned, proactive approach to money. If you know how to spend your money and what you want to accomplish with it, you can increase your economic quality of life significantly.

Take the following self-quiz to see how effectively you are managing your resources. Check the box if your answer is "yes".

Do I function without long-term financial goals?

Goals help impose order on how you spend and how you save. For example, if you know you want your mortgage paid off by age 65; a \$40,000 college fund by your child's eighteenth birthday; or \$500,000 in supplemental retirement money by age 67; you can then map out a strategy to achieve those goals. The bottom line: You cannot achieve goals unless you have them.

Do I refuse to follow a household budget?

Drafting a budget can be tricky. Sticking to it can be even tougher. Still, hammering out and following a workable budget is the single best way

to get the best value for the money you earn and spend each month. It can boost your standard of living overnight.

Am I reluctant to sit down and pay my bills?

More telling, do I ever get behind on my bills? These are crucial, telltale questions. When money is tight, paying bills can be a painful process. The solution is to make tough decisions: stop adding new debts; relentlessly pay off existing debts. Tear up credit cards and make sacrifices. In the long run, you will be better off financially, with more money to spend.

Do I use credit cards for routine purchases?

Unless you pay off the balance each month, you will pay a lot of interest for a little convenience. You'll also find that credit cards (and debit cards) are the number one contributor to building an out-of-control spending habit. Put away the credit cards. A good rule of thumb: If you can't afford to pay cash, you can't afford to buy it.

Do I borrow money for luxuries?

If so, break the habit. Start saving now...and pay cash for that next cruise.

Do I have less than three months' income set aside for emergencies?

One cornerstone of long-term economic stability is having a cushion of cash. If you live from paycheck to paycheck, adjust your spending and build a reserve fund. This will help avoid the need to tap into money set aside for long-term goals.

Am I not sending money ahead for retirement?

You help guarantee your future financial security when you send money ahead for retirement.

Am I too busy to shop around for the best deal?

A round trip plane ticket from Chicago to New York can run as high as \$1,800...or as low as \$150. Shop around. Effective money managers have a simple rule, whether looking for a new car, computer or an airline ticket: get three prices. Especially with the internet, you can save thousands of dollars for a few minutes of research.

Do I make unplanned withdrawals from my savings or checking account?

Smart money managers make one stop at the bank or credit union a week. This forces them to pre-plan their spending and manage their money better. However, if you withdraw an additional \$25 a week for pocket money, that adds up to \$1,300 a year you have squandered.

Do I neglect my insurance needs?

Inadequate property/casualty, auto, health, life and disability insurance can result in major out-of-pocket expenses when a crisis strikes that can damage or destroy your quest for financial independence.

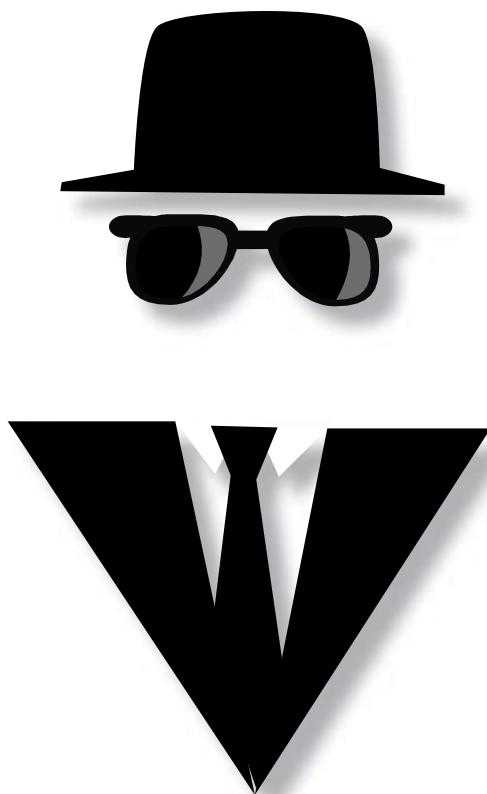
How did you do?

Two or fewer checks: Good!
Three or four: Not bad, but work on it.
Five or six: You are skating on thin ice.
More than six: Danger! Change your spending habits immediately.

For information about your Academy's life and disability insurance policies, available only to members, contact AAFP Insurance Services at (800) 325-8166. There is no obligation, and no agent will contact you. (www.aafpins.com)

Fraud Protection Bureau

The Medical Information Bureau Protects You



You most likely hesitate when someone asks permission to check into your background. So, when you apply for life, disability or health insurance, and the insurer requests authorization to obtain further information, it's only natural that you, too, have some questions.

Why does the insurer need information? It takes good information to make sound underwriting decisions. When you apply for credit, the lender needs to know about your financial history. (See "The Ins and Outs of Credit Scoring," Your Financial Health, Summer 2004.) It's similar with insurance. When you apply for life insurance, the company needs to confirm health and other pertinent facts.

If you are healthy, you pay a lower rate than someone who has a history of medical problems. This is because, under the science of underwriting, each person pays a rate based on his or her level of risk. When an applicant misrepresents a condition, this drives up costs for everyone else.

One goal is to reduce misrepresentation. This in turn helps keep insurance costs in check, which can have a direct impact on your premium.

A second, even more important goal involves the insurance company's need to remain sensitive to your privacy. Most applicants are honest and straightforward in the information they provide. So, it is crucial that the rights of the majority not be overlooked in the insurance company's efforts to detect misrepresentation.

These dual objectives are met through an organization known as the Medical Information Bureau. Founded in 1902, the MIB is a medical information clearing house supported by more than 600 member insurance companies that share information about applicants.

How the MIB benefits you. The purpose of the MIB is to minimize fraud, thereby minimizing expenses and making products more affordable. This is crucial because effective underwriting requires complete and accurate information. The MIB does not directly contact health care providers for medical records. Nor does the MIB use the data it collects. Instead, it simply receives and sends information to and from member insurance companies. This in turn helps insurance companies detect fraud, misrepresentations and, potentially, abusive claims liabilities.

Still, what about privacy? The MIB and your insurance company protect your medical records in several ways:

1. Nothing is done without your written permission. When you apply for insurance, you will be asked to sign a consent form authorizing the insurance company to request information.
2. All information contained in your MIB file is coded. Codebooks are available only to select personnel in each member company's underwriting department. Codebooks are revised periodically to further assure privacy.

3. An insurance company cannot accept or decline your application based on information received from the MIB. It is forbidden to use this information as the basis for underwriting. The MIB codes are used only as a comparison to cross check against the information on the application. It is an alert only, used to indicate possible inconsistencies. If all information matches, there is no problem. However, if a discrepancy is discovered, the underwriter will go back to the applicant and get more information.

4. The MIB is not a general information clearing house. Employers, hospitals, police departments and creditors do not have access to MIB records. Only member insurance companies can contribute data or read a file's contents.

5. All information is deleted after seven years.

The Medical Information Bureau is one of many underwriting tools insurers employ in the underwriting process. Its purpose is to assure that each applicant's request for coverage is evaluated based on complete, accurate information. By limiting misrepresentation, insurers can competitively price their products, which means that you, the honest insured, will pay lower premiums.

If you have questions about your MIB file:

1. Contact the MIB by writing MIB, PO Box 105, Essex Station, Boston, MA 02112; calling (617) 426-3660 or visiting their website at www.mib.com.
 2. You can dispute information you believe is incorrect.
 3. If a dispute is not resolved to your satisfaction, you have the right to place a letter on file with the MIB.
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Generation X

Redefining Family, Financial Needs

To the men and women of Generation X: You are redefining how Americans live and work. Bursting out of the shadows of the aging baby boomer generation, you Gen-Xers – born between 1961 and 1981 – are creating new family dynamics and a new way to look at careers.

This is nothing short of a “gender and family revolution,” says Stephanie Coontz, with the Council on Contemporary Families. “The rules will never be the same.”¹

You are enjoying the greatest economic freedoms and opportunities in history. At the same time, you face financial challenges unlike any past generation.

What has changed? How do you look at life, work and family?

- **Life is not a straight line.** You see life in phases, full of opportunities and change, based on a long view of a long life. And with good reason. A century ago, Americans could expect to die before age 50. Today, you can expect to live, on average, 77.4 years...and be pretty healthy most of that time.² Most of all, you see the potential of that extra quarter century plus, looking beyond traditional retirement ages. You expect to be active – working and playing – well into your 70s, 80s, even 90s. It is likely that more of you will celebrate your 100th birthdays than any past generation.

- **Work is no longer Job One.** While serious about careers, you are not wedded to the idea of 40 years at one company. Americans change jobs an average of 11 times during their lives, and much of that involves the restlessness of Gen-Xers.³

- **Family is important.** You are having more children. For decades, the norm has been two per family. Between 1995 and 2000, however, the rate of women having three or more children jumped from 11.4 percent to 18.4 percent. Some mothers stay home. Others work. Others take a career break, viewing motherhood as one of several careers they will enjoy during their lives.

All this is creating unique financial needs for Gen-Xers:

The need to build wealth. You may retire; you may not. The goal is financial independence, not just retirement. However, changing jobs and taking family time away from work can dramatically reduce “years of service” with employer-sponsored pension plans and Social Security benefits.

What to do:

- **Pump up contributions to 401(k) and other qualified plans** while working. Contribute enough to qualify for maximum matching contributions from your employer and make sure you stay long enough to become vested. FYI: For 2004, government maximum contribution limits are \$13,000 plus another \$3,000 for those 50 or older.

- **Roll over vested pension money** into your personal IRA when leaving an employer. This keeps the money tax qualified and under your control, building for your future.

- **Maximize IRA contributions.** If married, even if one of you is not working, *each* of you can still contribute \$3,000 to your IRAs this year. Bonus: If over age 50, you can contribute an additional \$500 this year and next.

- **Build non-qualified wealth** through stocks, mutual funds, annuities and other investment options.

The sooner you start, the better.

Time is your greatest ally, especially with tax-advantaged investments. Example: If you are 25 years old and contribute \$250 a month (\$3,000 a year) to your IRA (assuming an 8% return), you will have \$872,750 by age 65. However, if you wait ten years, until age 35, before you start making the same contributions, same assumptions, you will have \$372,590. By starting early, you successfully tax shelter 33.3% more money, increase your total return by 234%, and produce nearly half a million dollars more to spend during retirement!

The need to protect your children. What to do:

- **Tackle the legal legwork.**

Talk to your attorney about your will, guardianship arrangements, powers of attorney and living wills. This protects your children’s rights.

- **Protect their standard of living,** and that of your spouse. Raising one child from birth to age 18 costs \$240,590.⁴ Having an insurance safety net is key to protecting your family’s finances against the ravages of sickness, injury and premature death. Health insurance is essential. So is life insurance. Term life is an economical way to purchase the high amounts that young families need. And don’t overlook the “dollars of dignity” that disability insurance can provide to keep your family finances afloat if you are laid up without a paycheck.

- **Provide your children with a debt-free college education.** Average college costs today – including tuition and expenses – run nearly \$20,000 a year at four-year private universities, and \$4,700 at public schools.⁵ Start saving early. Look into Coverdell Education Savings Accounts (formerly Education IRAs) and contact your broker about 529 Plan details in your state.

If you are a member of what is known as Generation X, you are changing the way America lives and works. You are also changing the way America approaches financial security and financial independence. Go for it.

¹ “For More Parents, 3 Kids Are a Charm,” USA Today, March 10, 2004, page 1

² “U.S. Life Expectancy at All-Time High,” National Center for Health Statistics, February 11, 2004.

³ www.cdc.gov/nchs/releases/04news/infantmort.htm
⁴ “Managing a Job Change,” Heritage Planning, 2000
www.iktax.com/pdf_docs/email/lis/5/0008.pdf

⁴ Consumer Reports, January 2001

⁵ “2003-2004 College Costs,” The College Board
www.collegeboard.com

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AAFP Insurance Services, Inc. • 11400 Tomahawk Creek Parkway • Suite 430 • Leawood, KS 66211

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Caring for America's Aging Population

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Covering management of chronic illnesses, geriatric syndromes, and medication overuse/interactions.

8 Patient Education Handouts *Covering Why Healthy Choices Are Still Important, and much more.*

To see a complete listing of 2004 activities and CME resources visit the Annual Clinical Focus Web site at www.aafp.org/acfaging



You're Already on Our Do-Not-Call List

*A message from J. Thomas Koch, RHU
President, AAFP Insurance Services*

Powerful new telephone solicitation regulations were implemented

last fall by the Federal Trade Commission and Federal Communications Commission that let you sign up for a Do-Not-Call list (www.donotcall.gov).

There is no need to put AAFP Insurance Services on the list. You're already on our Do-Not-Call list. We respect your time and your privacy. So, we won't call you unless you contact us with a specific question and ask that we get back to you.

That is also why we make sure that the information we mail you about our Academy-sponsored insurance products is thorough and complete. Our goal is to leave no questions unanswered. That is because, when it comes to something as important as life and disability insurance, we believe it is important to have all the information you need to make an informed decision. I apologize if we give you too much information; however, I'd rather do that than omit important plan information.

So, don't expect us to interrupt your dinner with a phone call. At the same time, if you have any questions, please call us...though not during dinner.

Sincerely,

If you would like more information about the plans available through AAFP Insurance Services, please let us know: (800) 325-8166.

Your FINANCIAL HEALTH

Your Financial Health is sent to Academy members courtesy of AAFP Insurance Services, Inc. Material for this publication is written by John R. Ingrisano—author, educator and journalist on money management and financial matters. Mr. Ingrisano has served as an advisor to AAFP Insurance Services since 1985.

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AAFP Insurance Services, Inc.
11400 Tomahawk Creek Parkway
Suite 430 • Leawood, KS 66211
Phone: (800) 325-8166 Fax: (800) 223-7463
Website: www.aafpins.com
Email: insurance@aafp.org

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