

# Your FINANCIAL HEALTH

A digest of money management tactics for the family physician

Summer 2003

## “I just bought a new home!”

### Congratulations!

**The feeling is unique!** You're a bit nervous about the step you've just taken, but you're also downright tickled. Whether this is your first fixer-upper or that dream house you've been talking about for years, a new home is much more than a piece of real estate: It is a milestone.

If you are like many people, your home is your greatest asset and your greatest financial commitment. It's a responsibility. The good news is that you got the house, and you were approved for the mortgage (probably at the best rates in decades). The bad news is that now you have to make those payments every month...for more years than you may care to think about.

**Homes are not cheap.** The median price of existing homes as of February this year is \$161,600, up from \$133,000 three years earlier. New home prices are even higher.<sup>1</sup>

Therefore, it should come as no surprise that the biggest check many homeowners write each month goes to their mortgage lender.

And that's just the beginning. Don't forget to factor in property taxes, routine maintenance costs, emergency repairs, monthly utilities, and planned improvements. When all these are tallied up, they can easily equal, if not exceed, the mortgage payment.

**Still, your home is about much more than just dollars and cents.** Your home represents your life and your lifestyle. It is a safe haven where, at the end of a long day or week, you can kick off your shoes and settle in, relax and answer to no one. It represents roots and belonging, memories of holidays, of being a member of the community, a place where your kids get to know the neighbor's kids...and you get to know their parents. Most of all, it's just, well, home...a place you love to vacation away from and then can't wait to get back to.

That's why it is so important to protect your

**investment** in money and quality of life. Because your new home is a valuable asset, a major financial commitment, and a uniquely personal place where your family's life unfolds, there is no better time than now to make sure that nothing happens to it if something unexpected happens to you.

**What to do: Make sure your life insurance and disability insurance coverage reflect your new financial responsibilities.** Key question: Is your insurance adequate so that, if you die or become permanently disabled before the mortgage is paid off, the money will be there to either continue making payments or to retire the loan in its entirety?

Otherwise, your family might face grim options. Will they have to continue making house payments without the benefit of your income? What was a manageable, budgeted expense for you might be an onerous burden for them.

**How bad could it be?** Let's say you borrowed \$200,000 on a 30-year mortgage at 6% interest. Your monthly principal and interest payment come to \$1,200. Not too bad, really. However, consider that the total interest you will pay over the term of the loan will add up to more than \$328,000. That number is in addition to the \$200,000 principal, meaning you will repay a total of \$528,000 on a \$200,000 mortgage. If your mortgage is for \$400,000, you can double those numbers, figuring that you will repay a total of \$1,056,000 over 30 years. That's quite a debt load to leave to your family if something happens to you.



*continued inside...*

# In praise of the role of parents

**You're important** to your children. That's why Mother's Day and Father's Day are such big deals. Sentimental Love Ya' Mom cards and silly World's Greatest Dad trophies aside, it's nice to be honored by the kids. And though you may not be perfect - no one is - you deserve it.

**As a parent, you're many things** to your children - from boo-boo kisser, bank teller (cash, please!) and chauffeur; to problem solver, disciplinarian and advice giver.

**But your hardest role may be protector and provider.** As you know all too well, it takes money, a lot of it, to raise your children. That's what boosts a parent's role from consequential to crucial.

Here are three financial facts about raising children that are hard to ignore:

**1. Children are expensive.** On average, it costs \$249,180 to raise one child from birth to age 18 in a household with an income of at least \$65,800.<sup>1</sup>

**2. College isn't cheap, either.** Average college costs this academic year, including tuition and expenses, run \$18,273 at four-year private institutions and \$4,081 at public universities.<sup>2</sup>

**3. Providing a safe, comfortable home for your children also costs money.** Home costs are at an all-time high, and mortgages still run 30 years. (See related article, this edition of *Your Financial Health*.)

As a doctor, you go to work every day and put in long hours to take care of your family. For most parents, this is one way you show love - by paying the bills, making sure your loved ones have a nice home in a safe neighborhood, and assuring them that they'll have all of what they need

and most of what they want, even if that means spoiling them just a little. This also means making sure they can go to college and graduate without a ton of debt hanging over their heads.

**You do it because it's your responsibility,**

because you love them... because you're a parent. You do it to protect them.

That's also the number one reason parents own life insurance. Because your job - the responsibilities - don't end, even if something happens to you.

As a doctor, you've seen the scenario: a man or woman with a family who dies way before his or her time. (Note the following chart.<sup>3</sup>) The odds are that it might not happen. Still, it's not a good idea to gamble with your family's financial future.

**The bottom line:** What could happen to them if something happened to you? Yes, there's the emotional loss. But there's also the lifestyle change, a potentially dramatic reduction in their standard of living, the end of everything you have worked for regarding your children.

That's why parents buy life insurance. Life insurance can provide funds to provide the necessities as well as the little luxuries you want them to have. Life insurance is something you can buy and then forget about - but it will make a huge difference if it is needed. Because, though your children may only say it on special occasions such as Mother's Day and Father's Day, the fact is, you are important to them.



<sup>1</sup> "Facts About Children" 2003 Field Guide to Estate Planning, by Donald F. Cady, CLU, J.D.

<sup>2</sup> "2002-2003 College Costs," The College Board (www.collegeboard.com)

<sup>3</sup> "Facts About Fathers" and "Facts About Mothers," 2003 Field Guide to Estate Planning

Parent's age when child is born	Probability of death before child enters college		Probability of death before child graduates from college	
	Father	Mother	Father	Mother
25	1 in 26	1 in 33	1 in 18	1 in 23
30	1 in 19	1 in 24	1 in 13	1 in 17
35	1 in 13	1 in 17	1 in 9	1 in 12
40	1 in 9	1 in 12	1 in 6	1 in 9

# WOMEN & MONEY

## The New Realities

It's no longer a novelty, the idea of women heading up multi-national corporations, practicing medicine and law...bringing home the bacon big time. And that new reality is no more apparent than in medicine, where more than half the students entering med school these days are women.

**One key factor: Women are discovering that education pays,** as the following chart shows:

### Median earnings for women age 18 or older by educational attainment

Education Level	Median Income
High school graduate	\$22,780
Some college	\$27,420
Bachelor's Degree	\$36,559
Master's Degree	\$45,283
Professional Degree	\$57,565

Source: U.S. Census Bureau. 1998 figures (the most current available), released October 1999

**That's one reason women are going to school** in record numbers. According to Census Bureau statistics:<sup>1</sup>

Of women age 25 to 29, 89% have completed high school (versus 87% for men); and 30% have completed college (compared to 28% for their male counterparts).

Women comprised 56% of all college students in 1998, earned 57% of all masters' degrees in 1997, and received 44% of all law degrees, 41% of all medical degrees, and 41% of all doctorates.

**That education translates directly into income and opportunity.** The median income for women has risen to \$29,215 (though still below the median income for men, which is \$37,906). Plus, women who have earned professional degrees have a lifetime earning average of \$2.9 million (vs. \$700,000 who have not attained a high school diploma).

Just as telling, the number of women starting and heading up businesses is growing. Fully 38% of women business owners who started firms within the past decade have achieved at least \$500,000 in annual revenues.<sup>2</sup> Plus,

15% of married women today earn \$3,000 (or more) annually than their husbands.<sup>3</sup>

**That's the good news. The bad news?** While women have made significant financial strides in the last decades, many are failing to protect their "investments" in themselves and their income-earning ability.

**Many have less life insurance than they need.** While studies show that 59% of

women have at least some life insurance, the average death benefit is only about half the amount owned by men.<sup>4</sup>

**If you're a woman, what should you do?**

**1. Recognize the need for protection.** Look at the other articles in this edition of *Your Financial Health*.

Did you read that article about "I Just Bought a New Home?" Well, it applies to you, not just men. The same goes for the article, "In Praise of the Role of Parents." The needs are clear.

**2. Review and adjust your life insurance protection.** How much do you need?

That's up to you. One rule of thumb suggests between five and seven times your annual income. So, if you earn \$120,000 a year, you might consider between \$600,000 and \$840,000 of coverage.

**The bottom line:** If you're a woman, go to, stay in, or return to school, and encourage your sons and daughters to do so as well. Education helps assure independence, options and financial security. As for you, protect your investment in yourself and in your education by owning adequate insurance.

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That's where insurance comes into play. Life insurance in an adequate amount can retire the mortgage at your death, relieving your family of that monthly obligation. Just as important, it can help assure that your family will have free and clear title to their home. This turns a potential liability into a rock-solid asset.

Also, life insurance can provide the money to help cover those other expenses, including property taxes, and the ongoing costs of maintenance and upkeep.

Then there is disability, sometimes referred to a "living death" (because a disabled person, though living, is considered to be economically dead). Though disability insurance does not pay a lump sum, it can help replace your income if you are unable to work due to a disabling illness or injury.

Without adequate insurance, your family might be forced to sell your home and relocate to more affordable housing, if something happened to you. Life insurance and disability insurance create the cash to allow your family to make choices based on their goals and dreams, not their debt load.

**The bottom line:** Home ownership is both a major achievement and a major responsibility. May your new home be a place of warmth, happiness and good memories for many years to come. But first, take care of these important details so that you and your family are protected from the unexpected.

<sup>1</sup> "February Existing-Home Sales Ease From Record," National Association of Realtors (March 25, 2003) (Web site: <http://www.realtor.org>)

<sup>1</sup> "Women's History Month," U.S. Census Bureau, February 14, 2003 ([www.census.gov/Press-Release/www/2003/cb03ff03.html](http://www.census.gov/Press-Release/www/2003/cb03ff03.html))

<sup>2</sup> "New Generation of Women Entrepreneurs Achieving Business Success," Center for Women's Business Research, August 21, 2001 (web site: [nfwbo.org](http://nfwbo.org))

<sup>3</sup> "U.S. Adults Postponing Marriage, Census Bureau Reports," United States Department of Commerce, June 29, 2001 ([www.census.gov/Press-Release/www/2001/cb01-113.html](http://www.census.gov/Press-Release/www/2001/cb01-113.html))

<sup>4</sup> "Trends in Life Insurance Ownership Among Americans," LIMRA International, 1999

For information about your Academy's life insurance 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](http://www.aafpins.com)

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

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## YOUR AT-A-GLANCE MORTGAGE PAYMENT PRIMER

MONTHLY PAYMENT AND TOTAL REPAYMENT (PRINCIPAL & INTEREST) PER \$1,000 BORROWED		
RATE	15-YEAR TERM (Total Repayment)	30-YEAR TERM (Total Repayment)
5%	\$ 7.91 (\$1,423)	\$ 5.37 (\$1,933)
6%	\$ 8.44 (\$1,519)	\$ 5.99 (\$2,158)
7%	\$ 8.99 (\$1,618)	\$ 6.65 (\$2,395)
8%	\$ 9.56 (\$1,721)	\$ 7.34 (\$2,642)
9%	\$ 10.15 (\$1,827)	\$ 8.05 (\$2,898)
10%	\$ 10.75 (\$1,935)	\$ 8.78 (\$3,161)
11%	\$ 11.37 (\$2,047)	\$ 9.53 (\$3,431)
12%	\$ 12.01 (\$2,162)	\$ 10.29 (\$3,704)

This chart is for illustration purposes only.

### The chart illustrates:

1. The approximate amount you will pay per \$1,000 of borrowed money at different interest rates over both 30 and 15 years on a fixed mortgage.
2. The total amount you will repay (principal and interest) per \$1,000 of borrowed money over the life of the loan.

### How to use the chart:

Take a 15-year, \$100,000 mortgage at 8%. The monthly principal and interest payment will be \$956 (\$9.56 X 100). Total payments (principal and interest) you will pay over the 15-year life of the mortgage adds up to \$172,100.

## Your FINANCIAL HEALTH

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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](http://www.aafpins.com)  
Email: [insurance@aaafp.org](mailto:insurance@aaafp.org)

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