

# Your FINANCIAL HEALTH

A digest of money management tactics for the family physician

Summer 2006

*A Family Affair:*

## Families and Finances – Generations Working Together

Mom and Dad are retired, getting older. On one hand, they are concerned whether their assets will last long enough to provide for them in the uncertain future. On the other, they want to help their children and grandchildren now and leave at least some inheritance for them in the future. A dilemma.



Their adult children are not sure what to do. On one hand, they want to help assure that Mom and Dad are financially secure, no matter how long they live. On the other, they have their own financial concerns and, when it gets right down to it, would rather see their parents' assets passed to them and not be consumed by nursing home costs, medical expenses and taxes. A dilemma.

**This scenario is being played out** with millions of families across the country today. The situation can be complicated because each family is unique in terms of assets, goals and relationship dynamics. So, there are no cookie-cutter recommendations that are right for every family.

Still, there are steps you can take to help create a win-win situation for each generation. Consider the following as guidelines, starting points.

### SUGGESTIONS FOR ADULT CHILDREN

**If you have a family, you already face many financial challenges** from all directions. For example, even if you are fairly prosperous, money may be tight. For whatever the reason, Americans spent more money than they earned in 2005. They haven't done that since 1932 and 1933, during some of the darkest days of The Great Depression.<sup>1</sup>

That might have something to do with the cost of raising children. The U.S. Department of Agriculture estimates that families making \$70,200 a year or more in 2004 will spend a whopping \$269,520 to raise a child from birth through age 17.<sup>2</sup>

That doesn't even include the cost of college, which continues to climb. (See the article on page 2, "Warning: College Aid Scams on the Rise.")

**What can you do** to create a win-win situation for your parents without financially hurting yourself? Here are some suggestions:

**1. Remember, your parents' money is theirs, not yours.** They can distribute it or spend it as they see fit. Never assume that you know what they want or that you have any right to the assets they have worked long and hard to acquire.

**2. Communicate.** Ask what they want and explain what you would like to see happen.

**3. Offer to help** if your assets permit. It is not uncommon for adult children to supplement their parents' income, perhaps through a rent or mortgage subsidy or gifts.

**4. Consider long-term care insurance** and, if necessary, help your parents pay premiums. This can be one of the most direct ways to benefit both generations. It helps your parents meet their expenses and maintain their independence while preserving your inheritance.

### SUGGESTIONS FOR RETIREES

**You face challenges unique in history.**

One risk is longevity. If you are married and age 65 or older, reports the Life Insurance Marketing and Research Association, there is a high probability that either you or your spouse will live into your nineties.<sup>3</sup> In the past, most people did not spend decades in retirement. Today it's highly likely they will. Many will live past 100. While this is good news in many respects, it also means you run a real risk of outliving your retirement assets.

#### What you can do:

**1. Plan.** Don't leave outcomes to chance. Simply put, the law favors those who plan.

**2. Get help.** Tax and inheritance laws are complex. Many people do not understand the ramifications of their decisions. Talk to a good estate planning attorney.

**3. Do an estate inventory.** Many people are surprised by how large their estates really are. Review your assets and consider what you want to do with them...both now and after you are gone.

**4. Protect your retirement income.** This can assure that you maintain your dignity and independence in retirement. Just as important, it assures that you do not become a financial burden on your children.

*Continued inside...*

**5. Update your will.** This provides your instructions from beyond the grave. If you do not have a will – or if it is not current – talk to your attorney. Otherwise, the state in which you live – not you, not a surviving spouse and not your children – decides what happens to your assets after your death.

**6. Consider trusts.** They can be crafted to reflect your specific needs and goals. Trusts can help shelter assets from nursing homes and creditors. Plus, they can help keep your estate out of probate, passing it along to intended beneficiaries.

**7. Review your life insurance.** Adequate life insurance can protect your surviving spouse after you are gone, free up assets for use during your lifetime, and deliver an immediate estate to your heirs, delivering money that would not otherwise be available. Just as important, you select the beneficiaries and decide how the money is distributed to them.

**8. Decide if you want to help your family now.** Your options include lifetime gifts, contributing to college tuition plans (including Coverdell Education Savings Accounts and Section 529 plans) and more. Caution: Do not deplete your own assets while helping your family.

**If possible, work together.**

However, life being less than ideal and some families being less than perfect, that is not always possible.

The key is to plan, do what you can, and work together toward common goals.

<sup>1</sup> "National Savings Rate Now in the Red," by Martin Crutsinger, The Associated Press, January 31, 2006

<sup>2</sup> "Raising Your Quarter-Million Dollar Baby," Money Central, (undated, visited site February 4, 2006, <http://moneycentral.msn.com/content/CollegeandFamily/Raisekids/P37245.asp>)

<sup>3</sup> "Retirement Risk Matcher," Life Insurance Marketing and Research Association, 2005

# Warning: College Aid Scams on the Rise

College students and their parents have enough financial pressures. Now, according to the FTC, the number of con artists preying on financial-aid seekers has doubled in the last five years.<sup>1</sup>

It's easy for cash-strapped students and their parents to be taken, convinced to sign contracts and pay a fee for the promise of aid. Fortunately, it's also easy to become a savvy financial-aid shopper and not only sidestep scams and fees, but also tap into a wealth of available grants, scholarships and interest-deferred loans.

**The financial-aid dilemma:**

First, there is the high cost of higher education. The average annual cost for tuition and fees at a public university in the U.S. for the 2005-2006 year came to just under \$5,500,<sup>2</sup> or around \$22,000 for four years. This does not include housing and other costs, which can more than double the sticker price. Second, aid seekers face a crazy maze of grants, scholarships and loans. This makes confused and desperate parents ripe for rip-offs.

**What you can do** to avoid becoming a victim:

1. Never pay for information. It's all free, available from a number of sources.
2. Don't believe guarantees made by search firms.
3. Educate yourself. Start with The College Board, a not-for-profit information clearing house. (Go to [www.collegeboard.com](http://www.collegeboard.com).) Then check out books on scholarships and grants.
4. Meet now (and regularly) with your student's high school guidance office. This is the greatest source of information and advice.
5. Apply for every possible scholarship and grant even remotely available to you.

**The good news:** It's all worth the effort. College is a good investment. According to U.S. Census Bureau statistics, people with a bachelor's degree earn over 70 percent more on average than those with only a high school diploma. Over a lifetime, the gap in earning potential between a high school diploma and a B.A. (or higher) is more than \$1,000,000.<sup>3</sup>

<sup>1</sup> "College financial-aid scams prey on those who need it most," The Associated Press, January 13, 2005

<sup>2</sup> "2005-2006 College Costs," The College Board, <http://www.collegeboard.com/parents/article/0,3708,715-716-0-21385,00.html>

<sup>3</sup> The College Board



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Don't Skip Over This Article...

# Take Control of Your Disability Protection



**There are two potential problems with disability income insurance.**

**Number One:** Most people either have too little protection or none at all. Disability is sometimes referred to as the “forgotten risk,” even though the danger of disability can be high, as illustrated in the chart below.

monthly benefit. (On the other hand, if you pay your own premiums, benefits are generally received income tax-free.)

## Probability of suffering a long-term disability prior to age 65

Age	Odds of Becoming Disabled	Compared to the Risk of Death
30	46.7 %	4 times higher
40	43.0 %	2.9 times higher
50	36.0 %	2.3 times higher

Source: 2006 Field Guide to Estate Planning, Business Planning, & Employee Benefits

A disability can be just as financially deadly as death. In fact, disability is often referred to as “economic death” because consumption of assets continues, but production of income ceases.

**Number Two:** Many people do not recognize the limits of the insurance they have, especially if it is employer-sponsored coverage.

**If you have employer-sponsored DI benefits, did you know...**

- **The amount** may be less than you need, not reflecting overtime income or bonuses. You should have enough to replace between 50% and 75% of your gross income.

- **The benefits** will be taxable if your employer pays the premiums. Based on federal and state taxes, this could eat up as much as \$1,500 of a \$6,000

- **The waiting period** between the time you become disabled and you begin receiving benefits may not reflect your needs and situation. Find out if your plan’s waiting period is three months, four months, six months or longer.

- **The coverage may not be portable.** If you change employers, you could end up without any coverage.

**Suggestions:** Take a few minutes today to review your disability insurance needs.

1. If you currently have coverage, especially through work, review the terms and benefits. Talk to someone in the Human Resources Department, if necessary.

2. Consider adding coverage. Many of our members have employer coverage supplemented by Academy insurance.

3. Make sure the waiting period is right for you.

4. Make sure it covers you as a family physician, to age 65, with benefits payable if you cannot perform “the normal duties of your profession” rather than on your ability to perform *any* type of work.

5. Don’t trust your financial independence to luck. Protect your family’s standard of living with adequate, quality disability income insurance tailored to your individual situation and needs.

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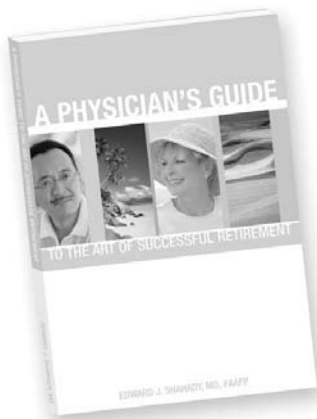
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# Your FINANCIAL HEALTH

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## DID YOU KNOW...

The Family Physician Insurance Program is celebrating 55 years of serving Academy members? Watch your mail for some good news that can benefit you.

## Your FINANCIAL HEALTH

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