

Your FINANCIAL HEALTH

A digest of money management tactics for the family physician

Winter 2005

Your Disaster Checklist

Are You Prepared For An Emergency?

The hurricanes that struck the Gulf Coast have driven home the nation's vulnerability to disaster. Whether it comes in the form of a major storm, tornado, flood, wildfire, or act of terror, or an individual emergency such as a house fire or auto accident, being prepared can make the difference between life and death.

for three days, non-perishable foods, a can opener, and adequate supplies of medications. The idea is to be able to survive if you find yourselves cut off from rescue.

A get-away plan that includes a grab-and-go bag with copies of all important documents (insurance policies, credit

cards, phone numbers of family members and financial professionals, vehicle titles, etc.), cash, and energy bars. When packing this bag, assume all records left behind will be lost. If you have pets, make arrangements for them in advance, since shelters will not allow them.

A long-term plan to protect documents and property.

This should include taking photos of your home and valuables for insurance purposes and putting them in a safe deposit box. Plus, review and update your homeowner's insurance. Consider whether it should include a living expense clause in case you are prevented



from returning to your home for an extended period of time. Also, decide if you need flood insurance, which is not covered by most homeowner policies.

A long-term plan to protect family members. Select or update guardian information for minor children. Set up a living will for yourself and your spouse. Update life and disability insurance coverage.

The bottom line: Do not leave your family's welfare to chance. A few basic precautions made well in advance can make the difference between a quick recovery and long-term suffering if a disaster strikes.



Here is a list of things you should do to protect yourself, your family, and your property.

Make sure you have...

A family emergency plan. It should include escape routes from the house in case of fire, with a designated rallying point (such as at a neighbor's house). In case of big disasters, such as hurricanes, designate a meeting place away from your area, as well as a contact person who can coordinate communications. This might be a relative in a neighboring state.

A home survival pack that includes first aid kit, portable radio, flashlight and fresh batteries, enough bottled drinking water



Discuss Family Matters at Holiday Gatherings

The holidays are about gratitude and family. For many families scattered across the country, this is the only time each year the clan gathers. Enjoy the festivities, good food and holiday traditions. But this year, also schedule some time off to the side so parents, siblings and adult children can discuss important family matters. This is also a good time to discuss disaster planning, described in the previous article.

Why? Because families tend to wait until it's too late to discuss important issues...until after the one person who knows the answers isn't able to provide them. How will the bills be paid while Dad is in the hospital? Has Bob designated a healthcare power of attorney? Where is Mom's will? Who was supposed to get Grandma's wedding ring? Has anybody found the key to the safe deposit box? Was Aunt Clara really promised the good crystal?

At first glance, this may not seem like joyful holiday fare... not a great topic for discussion around the dinner table. You're right.

However, these important issues can affect all family members. Not addressing them in advance can result in a costly and time-consuming scramble to locate documents and information and attempt to clarify wishes. Just as bad, if family members cannot agree over key decisions, bad blood can result, causing wounds that may never heal.

There are at least three advantages to discussing key financial and family issues:

1. Parents can explain their decisions and concerns and keep their loved ones in the loop.
2. Other family members can express *their* own desires and concerns.
3. Such discussions can strengthen family bonds, bringing loved ones closer together.

So, ask family members to adjourn to the den or family room for just 30 minutes of discussion before the football game or right after the Monopoly game.



(You might also give them the heads-up in advance so they can come prepared.)

Here is a checklist of topics to cover. (Copy and use it in the meeting, adding items as needed.) All adult family members should complete it before meeting. Then use each item as a platform for discussion.

- Do I have an updated will? (All adults should have one, not just senior family members.)
- Are there specific family heirlooms I would like to receive someday (or give to a specific family member)? These decisions can be included in your will.
- Do I have guardians (not just Godparents, who have no legal standing) for minor children?
- Do I have a contingent power of attorney to manage my financial affairs if I become ill? If you have a spouse, he or she can usually act on your behalf; however, it never hurts to spell out your instructions in black and white.
- Do I have a living will and health care power of attorney?
- Are my life insurance, IRA and annuity beneficiary designations current?
- Are all my important documents in one place, such as a safe deposit box? Also,

are designated family members' names on the signature card?

- Do I have a list of important information, such as bank and other account numbers, life insurance policies, retirement accounts, and other assets, along with the names and contact information of my attorney and other professionals (also best kept in your safe deposit box)?
- Do I need to contact my attorney and other professionals to update my will and other plans? This is key. Talking about these issues is important, but taking follow-up action is crucial.

Then plan to meet again next year, as part of a family gathering – perhaps for an hour after Thanksgiving dinner or over breakfast on News Year Day. Make it a pleasant ritual.

Caution: Family meetings may not work for every family. If you believe such gatherings may prove contentious, arrange to talk privately with individuals. Either way, be sure to review your needs and take appropriate action.

In the right circumstances and if all heirs cooperate, such family meetings can be an effective way to mix business and pleasure during the holidays...and ensure that everyone's interests are understood and considered.

The Revolution in Term Life Insurance

You've seen the ads on television – term life insurance for just a shade more than pocket change. Well, they're true. Term insurance has come into its own. Today, term insurance is not just an alternative for those who cannot afford permanent cash value coverage, but as a cornerstone planning tool. Best of all, whether you are 35 or 55 or older, term insurance may be a cost effective solution to your insurance needs.



Term vs. Cash Value

Cash value life insurance has many benefits. It generally comes with a level premium that does not increase and coverage will not terminate until age 100. Plus, it accumulates cash value that can be accessed during the insured's lifetime. Its versatility and longevity make it the product of choice for many people.

The drawback? The cost. Since cash value life insurance comes with all the bells and whistles and meets multiple purposes, initial premiums can be multiple times higher than for many term products.

Then there is today's term life insurance - streamlined, sleek and cost effective. In the past term was strictly a stopgap solution – recommended only for the young, those with temporary needs and/or a budget too tight to afford cash value coverage.

Today, that's changed. Products have been designed to function cost-effectively for individuals even at increasing ages and with long-term needs, as well.

Why more people are selecting term life insurance today:

• **A variety of product design choices** that let you pretty much build your own insurance portfolio using the different types of term life.

1. Renewable Term which allows your premium to increase annually (or at 5 or 10 year anniversaries) as your death benefit remains constant.

2. Level Term which guarantees your

premium and your death benefit to remain constant for 5, 10, 15 or 20 years.
3. Decreasing Term where the premium remains level but your death benefit gradually reduces to zero as you get older (often used as mortgage cancellation coverage).

Many people purchase and drop policies as their needs change, stacking term policies together.

• **Price.** Primarily due to competition, term insurance has become a commodity and is now sold as such. Term insurance offers the purest form of insurance coverage, providing the highest death benefit for the fewest initial premium dollars. Additionally, sales commissions are much lower for term than for whole life and other cash value policies. (Word of caution: When shopping for term insurance, be aware that some policies tack on annual fees that can significantly bump up your total cost. Figure in all costs when making a decision. Plus, make sure the insurance carrier has a proven history of financial strength with a reputation for good service and fairness to policyholders.)

• **Competitive rates at higher ages.** In the past, term rates began to skyrocket as we entered our 40s. Today, due primarily to increased life expectancy, term insurance premiums often remain relatively reasonable well into our 50s and renewability is guaranteed well into our senior years.

• **Term insurance frees up more discretionary cash** for other needs, such as accumulation. Given the choice of (purely for example) paying \$4,500 a year for a cash value policy and paying \$500 a year for a term policy with an identical death benefit, many people are choosing to put that \$500 toward term and designating the other \$4,000 for an IRA, 529 College Savings Plan or 401(k) Plan at work, managing their own wealth accumulation programs.

• **Insurance needs often do decline as we age and accumulate wealth.**

One key reason (and this is different than in the past) is that estate taxes are lower today than at any time in the last 30 years. Previously, life insurance was essential for those dying with estates of any size. Today, with all but multi-million dollar estates not subject to federal estate taxation, that need is reduced.

Note: Term insurance is not for everyone. Make sure the policy you buy is guaranteed renewable, and that the policy administration fees do not keep adding up year after year.

Your Academy offers quality term life insurance products at competitive rates.

For more information go to www.aafp.org or call 800-325-8166.

There is no obligation and no salesperson will call.

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Financial Footnotes

Caution: Great deals on used cars may not be. Many cars sat underwater for days or weeks in hurricane flood waters this year (AP 9/19/05). Very often, their electronic systems are beyond repair. Some wholesalers buy them up for parts and then ship them out of state for re-sale. Before buying a used car, have your mechanic check it out. Also, get the serial number and run it by such online record bureaus as www.carfax.com or www.autocheck.com.



Be cautious about housing speculation, known as "flipping." With the 2005 home price boom (especially California and Florida), some people are buying homes with little money down and balloon loans, looking for a quick sale and fat profit. Between hurricanes and rising interest rates, the risk is high. Savvy investors recommend against speculation. Recommendation: Put money into existing home improvements or carefully selected investment property, with long-term potential.

A quick review of home safety can save lives. For information about protecting your home, your family and your other valuables, contact the National Safety Council at (800) 621-7619.

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