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Don't Go It Alone—Why Planning Is A Family Affair

Having one spouse handle most family financial matters may feel like an equitable division of labor—with the husband, say, monitoring accounts and making investment decisions while the wife manages other household affairs. But it's an approach that could be damaging in the long run. Divorce or death could plunge the remaining spouse into unfamiliar waters—unable, perhaps, even to find crucial information about life insurance and retirement accounts. And if children have been left out of financial discussions, they may fail to appreciate the family's situation and be ill prepared to take on adult financial responsibilities.

Like it or not, most women will one day handle their own finances. According to the Social Security Administration, women live four years longer during retirement than men do, on average, and they comprise almost 60% of Social Security beneficiaries. At age 65, only 43% of women are married, compared with three out of four men. Divorce plays a major role as well. In 2005, the marriage rate was 7.5 per 1,000 people, according to the U.S. Census Bureau, while the divorce rate was 3.6 per 1,000.

It's not that most women are financial novices. According to a recent survey by Oppenheimer Funds, six in 10 wives balance the family checkbook, while more than half pay household bills. The same survey found that 43% considered themselves somewhat or very knowledgeable about investing. Yet that still leaves more than half of women facing a steep learning curve if they're suddenly forced to handle investment responsibilities.

And even when both spouses are around, having one of them take responsibility for a family's finances can be perilous. If family members don't understand their economic situation—how much money comes in each month, what gets spent on fixed expenses as well as discretionary purchases, what the family's short- and long-term saving goals are—it's difficult for them to behave responsibly, and arguments about spending are likely. And if the husband, say, has sole charge of family investments, he may take more risk than if both spouses were responsible for their investments. Taking a flyer on a stock tip is easy when you're sitting alone at your computer; explaining why that sure bet tanked is much harder, as you'll have to do if you and your spouse regularly review account statements.

Failing to bring children into the financial loop could also have unhappy consequences. In many families, money spent on the kids accounts for a large part of the budget, and showering them with extras—from sports camps and music

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Say "Hello" To A New Face Here At FSA!

Without further ado, I'd like to introduce Ashley Sauers, our executive assistant and the newest member of our team. Ashley joined us in early April and handles everything from scheduling appointments to assisting with your calls. If you want to schedule a consultation, Ashley is happy to set it up. We're delighted to welcome her and feel blessed that she chose FSA and know you'll pass along a warm welcome the next time you have talk with her.

Another positive change is the electronic delivery of your quarterly statements and tax information. Going forward, you will be able to access your reports and account information from fsainvest.com and either print them out or save them to your computer. If you are not able to access your information online and would like to continue receiving reports in the mail, let us know.

In this issue, the articles focus on minimizing risk and becoming financially efficient. Whether it's making sure you're covered with an umbrella policy or determining if long-term care insurance is right for you, you'll learn how to decide what's needed. And enjoy reading about the value of a 401(k) and the importance of making sure the whole family is included in conversation about the family finances. Little discussions today will pay off greatly down the road.

Happy Summer!

Jim Joseph, CFP®
Vice President

Take Out Umbrella Insurance For A Rainy Day

Into each life some rain must fall. That's why it makes sense to acquire "umbrella" insurance.

Homeowner's insurance covers a multitude of ills involving your principal residence. Similarly, auto insurance will pay to fix a damaged bumper—and the dent in the car you ran into—after you've kicked in a deductible. But each of these policies is usually limited to no more than $500,000 in coverage for losses that you suffer or cause.

An umbrella insurance policy, also known as excess liability coverage, extends your personal liability coverage beyond normal policy limits. It's really protection against worst-case scenarios, unlikely but possible events that could wipe you out financially. Here are answers to common questions about this insurance.

Who needs excess liability coverage? An umbrella policy is a good idea for most affluent individuals, especially those who own a home, frequently drive a vehicle or have teenage children who are driving; operate a home-based business or serve on boards of nonprofit organizations; employ domestic staff; or maintain a high public profile.

How much coverage do you need? Though this depends on your personal circumstances, an umbrella policy of at least $1 million is probably a good idea. Consider the following when determining how much coverage you need: 1) physical assets 2) investable assets 3) future earnings 4) potential inheritance 5) the legal environment 6) risk profile and 7) potential for loss.

Most top property and casualty (P&C) insurers will provide coverage of up to $5 million, and if you're particularly worried about personal liability claims, you can get higher policy limits (up to $100 million) from a handful of firms.

What does it cost? Umbrella insurance is relatively inexpensive. Typically, you'll pay between $250 and $500 a year for coverage of $1 million. Every extra million may run you about $150. That means, at the high end, you can probably figure on spending around $1,100 a year to maintain a $5 million policy.

What's covered? This differs from policy to policy, but umbrella insurance usually can fill in the cracks around other insurance. For example, your auto policy might not cover you for an accident overseas, but an umbrella insurance policy probably will. The policy might also provide protection against sexual harassment claims and personal injury "torts" such as discrimination, libel, and slander. And if your car skids into a Rockefeller and you're hit with a $5 million judgment? Having this insurance could save your house, your savings, and your financial future.

Why isn't it more prevalent? Unlike homeowner's or auto insurance, umbrella insurance traditionally has been viewed as a luxury, and it's not mandated by law. But it is fast becoming essential in this litigious society. For an annual personal liability review, please call our office. ●

Caveat Emptor: Long-Term Care Policies

Most long-term care (LTC) insurance policies today are much better than those offered in previous decades. Still, there remain potential drawbacks, and would-be buyers need to make sure they know what they're getting and that it suits their needs.

Many early LTC policies paid benefits only for "skilled nursing home care" for a limited period of time. Moreover, there were often stringent requirements to qualify for benefits, such as having to spend three days in a hospital before going into a nursing home.

Most states now require LTC policies to provide benefits for all levels of care, and competition among insurers has led to innovations that make LTC insurance a significantly better value. Yet these policies remain complex and expensive, and getting the right mix of benefits means understanding the LTC landscape. Consider these factors:

Range of coverage. Most policies offer benefits for care in a variety of settings, including at home, in an assisted living facility, and adult day care as well as in a nursing home. Payment may vary with the setting, so make sure the specified amounts cover the cost of care in your area. And beware of hospitalization requirements, because only about half of nursing home admissions follow a hospital stay.

Benefit triggers. Usually, LTC benefits are available once the insured needs assistance performing a specified minimum number of activities of daily living (ADLs) —commonly including eating, bathing, dressing, "toileting," continence, and mobility. Better policies kick in when someone requires help with just two or three ADLs. Some policies also begin coverage when there is "cognitive impairment."

Waiting period. Most policies specify a 90-day waiting period

Benefits Of 401(k)s Far Outweigh Negatives

To paraphrase Mark Twain, the news of the death of the 401(k) plan has been greatly exaggerated. If you halted contributions to your company's retirement plan after the stock market plummeted late in 2008, it may be time to resuscitate your account.

No one could blame you for feeling the heat. The Standard & Poor's 500 stock index declined by a whopping 56% from its peak in October 2007 to its trough in March 2009, resulting in comparable losses for numerous 401(k) plan participants whose portfolios weren't well diversified. About 6% of 401(k) participants had to withdraw funds from retirement accounts in 2008 to meet pressing financial needs, and almost 5% stopped contributing to their 401(k) account altogether. Still, in bad times and good, the benefits of using a 401(k) to save for retirement far outweigh the perceived negatives.

There are risks, of course. The value of your investments will fall from time to time, and the performance of your retirement portfolio depends not only on the investment choices you make but also on market movements beyond your control. There are no guarantees you'll make money or even escape with your principal intact. And, unlike defined-benefit pension plans, 401(k)s aren't insured by the Pension Benefit Guaranty Corporation. Furthermore, while your employer may contribute to your account, you could lose that money if you change jobs or retire before you're "vested." But since employer contributions are essentially free money for your account, that's hardly a negative.

Finally, distributions from your plan during retirement will be taxed at ordinary income rates—and if you take withdrawals early, before age 59½, you'll probably owe a 10% penalty as well.

However, the list of 401(k) pros is much longer than the list of cons.

1. Over long periods of investing for retirement, your account is likely—though not certain—to gain value. Even when markets fall, it can be a blessing if you have a long-term time horizon because your continued regular investments let you accumulate shares at low prices, setting yourself up for big profits when the market rebounds.

2. Your 401(k) offers several investment options, and you're usually the one calling the shots, not your employer. Many plans include prepackaged portfolios with broadly diversified investments, and professional advice about investments is often available.

3. Contribution limits are generous. For 2010, you can put as much as $16,500 in your account, or $22,000 if you're age 50 or over. In contrast, the annual limit for IRA contributions is only $5,000 ($6,000 if you're age 50 or over).

4. Contributions to a traditional 401(k) may be made as pre-tax salary deferrals, which reduce your taxable income and the amount you owe the IRS. Nor are you taxed on investment earnings until you withdraw funds from your account.

5. Employers often match a portion of employee contributions with company-paid contributions based on a percentage of your salary. And once you meet the 401(k)'s vesting requirements, that money is yours to keep.

6. The impact of long-term, tax-deferred compounding can magnify annual contributions into a sizeable nest egg. For example, if you put $20,000 in your account each year and average a 7% return, your account will be worth about $1.3 million after 25 years.

7. When you retire or change jobs, you can roll over the assets in your 401(k) tax-free to an IRA or the qualified plan of your new employer. That preserves the tax advantages of your retirement plan. For some, it will also make sense to roll over the assets to a Roth IRA.

8. Because you pay into Social Security only until you reach a specified income ceiling—$106,800 in 2010—once you've crossed that threshold, you could use payroll savings to increase your 401(k) contribution without reducing your paycheck.

9. Because your company's 401(k) plan is protected by the Employee Retirement Income Security Act (ERISA), it cannot be garnished by creditors or assigned to others (except in domestic court cases involving a divorce decree or a child support order).

A 401(k) plan continues to be one of the easiest ways to save for retirement, and its advantages far outstrip its drawbacks. If you bailed out during the financial crisis, you may have already missed substantial gains during the market recovery. But getting back in now and sticking with your financial plan going forward could help you resume building for a comfortable life after work. ●

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between the time need is demonstrated and the beginning of benefit payments. However, it is important to check the policy's definition of a "waiting period," as it could refer to either calendar days or service days.

Premiums. The younger you are when you begin coverage, the lower the premium, which will also be affected by the range of policy benefits you choose, including type of policy (reimbursement, indemnity, or cash); health status; waiting period; and inflation factor chosen (simple, compound, or none).

Inflation protection. The cost of all health care, including long-term care, is rising much faster than the overall cost of living. So it's essential that a policy increase benefits as costs rise—particularly if it could be years or even decades before care is needed.

Desirable policies are guaranteed renewable for life and cover pre-existing medical conditions. Additional riders and options may be worthwhile, but it's important to weigh the costs of extra benefits. We can help you make sense of this complicated insurance market and help you find a suitable policy at a reasonable price. ●

Fighting For Lower Credit Card Rates

For beleaguered credit card users, help has arrived. The Credit CARD Act (officially, the Credit Card Accountability, Responsibility, and Disclosure Act), signed into law in May 2009, is being phased in, and major new rules went into effect in February 2010. Banks and other card issuers must now give you 45 days notice before a change to your card agreement can take effect, they can no longer raise interest rates on existing balances unless you're more than 60 days late with a payment, and they aren't allowed to hike the rate on a new card during the first year.

But these changes come at a tough time for banks. The recession has pushed millions of consumers to the brink of bankruptcy, and credit card losses are soaring. In advance of the new rules, credit card issuers have raised rates, slashed credit limits, and demanded higher minimum payments. To avoid paying punitive fees and rates, consider these tactics.

Don't be late. If your payment arrives even a day after it's due, you'll likely be hit with a steep fee and a harsh interest rate increase—in some cases to annual rates exceeding 30%. On a $10,000 balance, that comes to more than $250 a month. The simplest way to avoid being hit with these extra charges is to be vigilant about paying up, perhaps by arranging for automatic payments. And if there's no time to mail a check, pay by phone or online. Even if there's a small fee, you'll come out ahead.

Read your mail. Card companies can't make changes without notifying you in writing—but that's what fine print is for. Don't throw away inserts that come with your bill or delete email notifications without reading them. If you don't want to accept a higher interest rate or a lower credit limit, write back to say you're closing the account.

Ask for a better deal. Banks have the right to raise rates and fees arbitrarily. But you have leverage, too, and simply requesting more favorable terms may pay off. Suppose, for example, you're a long-time customer with a good payment record. If you mislaid a bill or you're having trouble meeting your monthly minimum, a call to customer service to explain your situation could win you a reprieve. Faced with the prospect of a defaulted account, credit card companies fairly routinely cut rates and extend repayment periods for responsible cardholders.

Try some legal muscle. Sometimes card issuers are just wrong. They may charge late fees for payments that arrived on time—and then penalize you for exceeding your credit limit. If you dispute a bank action and aren't getting anywhere, ask to speak to a supervisor, threaten to hire an attorney, even consider hiring an attorney to write a strongly worded letter on your behalf. Lawyers' fees aren't cheap, but here, too, a successful resolution could be well worth the cost. ●

Planning Is A Family Affair

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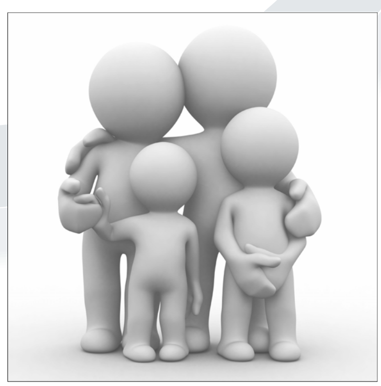
lessons to private school tuition and vacations abroad—may give them unrealistic views about money. Lack of financial grounding at home may be one reason so many kids have problems with credit cards when they head off to college. According to a 2009 study by student lender Sallie Mae, the average student now has four credit cards and debt of more than $3,000. Six in 10 students in the study said they were surprised at how high their account balances had grown, and 40% said they'd charged things knowing they didn't have enough money to pay the bills.

Transparency and a willingness to talk about family finances can go a long way toward minimizing such problems. If family members understand that setting aside a certain amount each month is crucial to pay for the kids' college and the parents' retirement, they may be more inclined to stick to the budget. Having spouses agree on an investment strategy and then reviewing progress and making needed adjustments can also help.



Regardless of each spouse's role in the family finances, maintaining an up-to-date list of accounts, insurance policies, and other financial essentials—and making sure everyone in the family knows where to find the list—can be crucial if the financial decision-maker suddenly dies or becomes incapacitated.

Yet as important as it is for families to work together, many don't. According to a recent study of couples by Fidelity Investments, just four in 10 said they collaborated with spouses on decisions about retirement saving and investing, and only 15% thought that if they died, their spouses would be prepared to take over the family finances. If you need help getting on the same page, we may be able to help. ●