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Factors In Researching An Assisted Living Facility

Do you have elderly parents or in-laws who still live alone? They may have started to show signs of needing assistance on a regular basis, and before the situation becomes dire—with a fall resulting in a broken hip or worse,—it makes sense to investigate other living options for them. One popular choice is an assisted-living facility, or ALF.

As the name implies, an ALF is a residence that provides assistance with daily living activities such as cooking, cleaning, laundry, and transportation to doctor appointments. Set-ups vary widely, with some centers offering a range of accommodations on the grounds, from standalone homes to small, studio apartment-like units with scaled-down kitchens and living areas. Residents can usually choose how much help they receive, and are often self-reliant for most of their needs. Typically, a facility will offer security and around-the-clock access to healthcare as well as a full schedule of meals and recreational activities.

It's seldom easy to convince parents who are still mentally competent to pull up stakes and move to an ALF. They may hate the idea of moving away from friends and family, and dread going somewhere that will mean losing much of their independence. And they may have unrealistic expectations about what their new lives will be like. Though ALFs are designed to provide residents with essential services, the staff isn't there to wait on people hand and foot.

Because one ALF may be very different from another, finding a good fit may take considerable research. The range of costs is wide, from as little as $25,000 a year to more than $100,000 annually in some parts of the country. And while long-term care insurance may help with expenses for several years, most long-term care policies have a cap on total payouts and years of payment.

In exploring the pros and cons of facilities in a particular area, consider these questions:

What is the staff like? As important as the physical amenities are, the people may make even more of a difference. Look for a place whose staff members appear genuinely interested in residents, have the requisite qualifications and experience, and seem well equipped to handle emergencies.

What level of care will your relative require? Though you'll certainly have a say in this matter, many ALFs make an initial analysis of a prospective resident's needs and then recommend certain services. The higher the level of care, the greater the expense.

Is the facility comfortable? Sometimes, a smaller, cozy environment is preferable to being in a larger building. And what are the grounds like? Are there beautiful outdoor spaces that are well maintained throughout the year?

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Tax Time: A Great Opportunity To Do Spring Cleaning!

Tax time is here, people! For you wait-to-the-last-minute folks, it's time to gather your documents and reconnect with your tax preparer or else start plugging numbers into the computer yourself. However you do it, you have until Tuesday, April 17 this year to get your taxes done.

This time of year also provides a good opportunity to dust off those old files and purge the unwanted. The paperwork is so easy to just pile up when they arrive or stick them in a drawer "for later." You don't want to end up on one of those "hoarder" shows, do you?

And when you have all those documents out deciding what to keep and throw away, take the opportunity to review your documents. This could include your total assets, monthly spending, current mortgage rate, estate documents, and your life, car, home, and liability insurance coverage.

Speaking of life insurance, read the article in this issue about the hidden pros and cons of term policies. There are even a few links if you want to shop online.

On the same topic of doing a perennial "once over," enjoy the article called "12 Financial Resolutions for 2012," which speaks directly to some financial housecleaning we can all make our own. You may even find an opportunity to take advantage of the low mortgage rates out there and refinance your existing mortgage.

We can certainly help you navigate through everything. Just let us know!

Happy reading!

Jim Joseph, CFP®
Vice President

12 Financial Resolutions For 2012

Now that we're well into the New Year, are you ready to take control of your financial life? These practical suggestions could help you do just that.

1. Draw up a budget. Spending more than you earn always ends badly, so resolve to learn to live within your means. Commit to a reasonable monthly plan that is neither unattainably strict nor just spending as usual.

2. Prioritize your debt. One budget item will be loan repayment, and while you may be locked into long-term commitments on a mortgage and car loans, you have much more control over credit-card balances and other short-term borrowing. To improve this part of your balance sheet, start with high-interest liabilities.

3. Review investment allocations. Does your portfolio mix of stocks, bonds, and other investments make sense in light of your financial goals, investing timetable, and ability to tolerate market ups and downs? Checking in now could be particularly important in today's uncertain economic environment. (Just keep in mind that while asset allocation is a sound investment principle, but it won't protect you from losses in declining markets.)

4. Boost your retirement nest egg. Being able to live well in retirement is an investing priority for most people, and the new year is a great time to increase payroll deductions for a 401(k) plan at work or to put more into an IRA. (Contributions for the 2011 tax year can be made until April 17, 2012.)

5. Set aside money for a rainy day. Could you cope with an unexpected emergency? Try to keep a cushion that will last three to six months.

6. Dust off old insurance policies. An annual review of life, home, and auto policies could help ensure that you have the right amount of coverage.

7. Incorporate estate tax changes. This could be the last year for generous exclusions from gift and estate tax liability, with an individual exemption for 2012 of $5.12 million. So talk with your attorney to get your estate plan is up to date.

8. Close unnecessary bank accounts. Banks have been ramping up fees, and if getting rid of unneeded accounts saved you $10 a month, say, investing the savings at an annual 7% rate could give you almost $12,000 after 30 years.

9. Go paperless with your financial records. Keeping track of bank and investment accounts electronically is faster and more secure.

10. Do what you love to do. What better time to resolve to trade a dead-end job for one that utilizes your skills *and* fuels your passions?

11. Educate yourself. The more you know about investing and other financial matters, the more likely you'll make informed decisions.

12. Develop a plan. You'll be more likely to keep your financial resolutions if you put them down in writing and track your progress throughout the year. ●

Come To Terms With Term Life Policies

For some people, permanent life insurance—which includes whole and universal life policies, among others—is a good financial fit. Very often, however, a less expensive option—term life insurance—works even better. As the name implies, this type of policy provides coverage for a specific term, usually a level-premium period of 10 to 30 years (which is then often renewable to age 80 or beyond). That limitation means you pay less in premiums, though the cost advantage generally decreases as you get older.

Unlike permanent or "cash value" life insurance, which lets you build up cash value in your policy, term insurance provides only a death benefit and is often referred to as "pure" insurance. A big advantage of term insurance is its simplicity. Permanent life policies come in myriad forms, and may put the investment portion of your premium into fixed or variable investments. Fees vary widely depending on the type of policy and the riders and options you choose. Though often touted for the ability to promote saving through required premium payments, whole life and other permanent policies may be inferior to other retirement savings vehicles such as employer-sponsored plans or IRAs. In contrast, term policies are easy to understand—you make a specified payment in return for a promised death benefit.

Term insurance often appeals to those who are in the prime of their careers but who have multiple financial commitments, for mortgage payments, retirement and education savings, and other obligations. Term insurance lets such policyholders cheaply guarantee financial security for their families in the case of an untimely death.

The face amount of a term policy—its death benefit—remains the same throughout whatever number of years the policy is in force. For most level-premium policies, the insurer can't adjust that amount, the length of the term, or the

Retirement Planning At Age Fifty

Vincent and Norma Riccardi both turned age 50 this year, and their midlife crisis has nothing to do with longing for a return of their salad days. Rather, they're looking ahead—and they're worried they haven't saved enough for retirement.

It's not that they've been financially irresponsible. They both earn a decent living, together making $200,000 a year, and they have faithfully contributed to college savings plans that will pay for their children's higher education. They just haven't been able to set aside as much for the future as they would have liked. In other words, they're in the same boat as many other people their age.

Vincent and Norma have $100,000 in savings in a taxable account, and another $200,000 in tax-deferred retirement plans. They hope to retire at age 65 (15 years from now). According to the online calculator of *Money* magazine, the couple would have to sock away $75,800 annually from now until retirement to be able to count on 80% of their current yearly income after they stop working, a typical goal for retirees. That's an annual savings rate of 37.9%—a highly unlikely proposition.

But there are a few ways the Riccardis can improve on that situation. If they continue to do most of their saving in tax-deferred accounts, such as 401(k) plans and IRAs, their money will go further, and their future Social Security benefits will also reduce the amount they have to save. For 2012, 401(k) participants can direct up to $17,000 of salary into their accounts ($22,500 for people over 50), and they can put an additional $5,000 ($6000 for people over 50) in an IRA (though at the Riccardis' income level, their IRA contributions won't be deductible).

For simplicity's sake, assume that Vincent and Norma remain in a 28% federal income tax bracket and a 6% state income tax bracket for the next 15 years. They've already saved $300,000 in their various accounts, and if together they contribute another $20,000 a year to their 401(k) plans until age 65, and they earn a hypothetical 5% rate annually on all of their investments, they will accumulate a total of $1.53 million (inflation-adjusted to $968,000 based on an annual 3% inflation rate).

Note that the Money calculator assumes investors will turn over 20% of the holdings in taxable accounts every year, generating long- and short-term taxes. It explains that retirement goals will be reached faster if investors trade less and hold tax-efficient mutual funds.

In this case, the Riccardis ought to be able to do better than a $1.53 million nest egg. Suppose they manage to double their annual 401(k) and IRA contributions to $40,000 a year. Assuming that same 5% annual interest rate on all investments, after 15 years, the Riccardis will have amassed $1.96 million (inflation-adjusted to $1.24 million), enabling them to enjoy a more comfortable retirement.

Of course, the returns cited here are for illustrative purposes only and are not indicative of any particular investment or strategy. Any investment includes inherent risks and there is no absolute protection against loss of principal in a declining market.

When it comes to your personal situation, there may be several ways to improve the odds of retiring comfortably.

• You could make increased regular contributions and "catch-up contributions" to your retirement plans. These are allowed for those who are age 50 or over. For 2012, they can defer an additional $5,500 for their 401(k), while IRA owners can kick in $1,000 more than the normal $5,000 limit. These figures are indexed annually for inflation and should continue to rise.

• Revisit your investment mix. There's a tradeoff between risk and reward, and your portfolio should balance your need to preserve your savings with the possibility of reaching goals more quickly by adding investments that might achieve higher returns. Of course, this is generally not recommended if retirement is imminent.

• Consider working a little longer. For example, the Riccardis can't receive their full Social Security benefits until age 67, and staying on the job those two extra years will allow them to save more; at the same time it reduces the number of years during which they'll have to depend on retirement income. Even such a relatively small shift can make a major difference in retirement prospects. More importantly, their Social Security benefits would not be reduced for life.

Everyone's situation is different, and coming up with a retirement plan that works for you may involve considering several alternative scenarios and mixing and matching a combination of factors—your saving rate, your investment strategy, your retirement needs, when you'll leave the work force—to come up with a plan that works for you. We can provide expert guidance. ●

amount of the premiums. When the term expires, however, your insurance coverage ends. Many term policies guarantee you the chance to renew the insurance for an additional term, but the new premiums will be higher, reflecting your shorter life expectancy.

The cost of a particular term policy depends on your age, your health, and other factors. Typically, when you apply for a policy, you'll have to answer detailed questions about your medical history and risk factors—policies for smokers usually cost more, for example—and you'll have to pass a medical examination. (Some term insurance policies, approved in most states, enable you to obtain coverage without taking a physical.)

To find a term policy, you can shop online or you can work through an insurance agent. Choose a highly rated insurance company that will be around if and when your heirs need to collect on your policy. ●

Shop For Quotes Online

Several online sites let you compare term policies from a variety of insurance companies.

The sites include:

- www.term4sale.com
- www.quickquote.com
- www.equote.com
- www.lifeinsurancerates.com
- www.freelifetermquote.com

Is It Finally Time To Refinance?

During the past few years, mortgage interest rates have continued to flirt with historic lows, and Freddie Mac (the government-sponsored Federal Home Loan Mortgage Corporation) announced that during the week ending October 6, 2011, the average rate for a 30-year loan dropped to 3.94%, the lowest rate ever according to the National Bureau of Economic Research. Meanwhile, the average rate for 15-year fixed mortgages dipped to 3.26%—also a record low.

It appears that loans at rates hovering around the 4% mark, or even lower, should be available for at least the short term. So that begs the question: If you haven't refinanced your mortgage yet, why not? The answer is that there's more to refinancing than just low interest rates.

Deciding whether to refinance is all about finding your break-even point—the time when you'll actually begin to save money after taking into account all relevant factors, including tax ramifications, the fees you pay to refinance, and the difference in monthly mortgage payments. If you'll hit the break-even mark during the time you expect to be in your home, refinancing probably makes sense.

How do you determine the break-even point? Online calculators are plentiful, but some may leave out crucial factors. To make sure you're taking everything into account, do your own arithmetic using these five steps.

1. Add up the refinancing expenses. This may include fees for attorneys, loan application and origination, home appraisal and inspection, deed recording, title insurance, credit reports, and any "points" you pay to obtain a favorable rate.

2. Find your monthly savings amount. Simply subtract your current monthly payment from the amount you'll owe if you refinance.

3. Calculate the tax cost of refinancing by multiplying the monthly savings amount by your combined federal and state income tax rate. Generally, mortgage interest is deductible on your federal return, so if your interest costs drop, so will your deduction.

4. Subtract the tax cost from the monthly savings amount. That will give you your net monthly savings.

5. Divide the cost of refinancing by the net savings to find the number of months it will take to pay off the refinancing expenses. This is your break-even point.

For example, if your cost is $5,000 and your net savings is $1,000, it will take only five months to break even. Unless you're planning an immediate move, refinancing makes sense. However, if your cost is $10,000 and your monthly savings is only $250, it will take 40 months—more than three years—for refinancing to pay off. That may be a tougher call. If you have questions about whether it's finally time to refinance, we can help you crunch the numbers and consider the impact of such a move on your overall financial situation. ●

Assisted Living Facility

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What activities are available to residents? Typically, an ALF will include amenities such as a small gym or workout room, a library, and a chapel. It may offer religious services and activities ranging from live entertainment to bingo and card games. And there may be field trips for those who want to shop or attend concerts or sporting events.

How's the food? Usually, an ALF will serve three meals a day and post daily or weekly menus. Is there sufficient variety, and do the meals seem nutritious and appetizing? Do residents have the option of eating in their rooms?

Does the facility comply with state and local licensing requirements? Does it rank highly in evaluations by state or local agencies? You can also check with the Better Business Bureau to see whether any complaints have been lodged against the operator.

How is security handled? Among an elderly population, personal property may go missing for a variety of reasons, some related to residents' cognitive lapses. But it's crucial to know that your relative will be safe and secure.

What are the hidden costs? Don't forget to factor in charges for haircuts, manicures, TV and phone services, and a range of other add-on expenses that tend not to be listed in facility brochures. Also, be sure to ask about projected fee increases, and the cost of a short- or long-term transfer to a facility's nursing home.

Convincing a relative that it's time to get more help and then choosing an ALF can be an extremely emotional process that puts stress on everyone involved. If you anticipate a move and are able to do most of the homework ahead of time, it may help you and your relative feel more comfortable with the idea and reassure you that you've made the best choice. ●

Financial Services Advisory   One Church Street, Suite 901, Rockville, Maryland 20850   (301) 949-7300   Fax: (301) 949-7034