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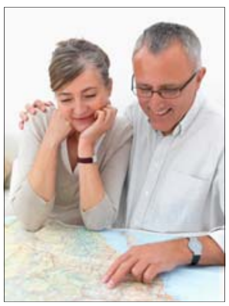
Two More Important Choices For Retirement Living

Choosing a town to live in after you retire and deciding whether you want to be completely independent or to live in a retirement community are both crucial parts of planning for your life after work. But there are also other factors to weigh, and two of the most important may be the proximity of medical care and how far you'll be from your children, grandchildren, and other members of your family.



Aging almost inevitably brings a need for more medical care, and having top-quality physicians and hospitals nearby could help you enjoy a longer and healthier retirement. Some retirement communities and private retirement locations—such as a single-family home in a small town—may be exactly what you're looking for in other regards but aren't located near specialized medical care. A retiree with heart disease, for instance, is likely to want quick access to a cardiologist and a hospital capable of performing angioplasty or open-heart surgery.

It may cost less to live in a remotely located retirement village than in a city that gives you access to top medical facilities. But having lower living expenses will be little consolation if you're not able to get the care you need.

Consider the case of a Florida couple who decided to retire to the mountains of northern Arkansas—where it's beautiful, remote, serene, and inexpensive to live. They purchased a two-story, 2,000-square-foot home built into the side of an Ozark Mountains foothill for $68,500 in late 2004. The nearest hospital, not to mention the nearest cardiologist, is an hour's drive away, however. And the closest hospital may not be the best hospital.

The two retirees had a second hospital choice that had a better-trained, more qualified staff, better equipment, and a greater ability to handle trauma and heart attack victims in the emergency room. That second hospital is almost an hour and a half drive away from their home, however.

The husband suffered a heart attack in 2006 and was taken to the closer of the two hospitals. He received a stent, recovered, and is alive and well today. He knows, however, that he was lucky, and the incident played a role in the couple's decision to leave their beautiful mountain abode, located in the middle of a hardwood forest, and move back to Florida, close to top-notch doctors and health-care facilities.

The other factor in their decision to move back to Florida was the distance from their family. Together they have seven sons, a daughter, 13 grandchildren, and seven great-grandchildren—and all but three of them live in Florida. It was a two-day drive from northern Arkansas to the Tampa Bay area of Florida, where the couple had lived before they relocated and where two of their sons still live.

They were jolted into reality when one son was divorced in 2008 and was awarded joint custody of his two

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New Face At FSA: Please Welcome Kim Scott!

Last year FSA celebrated its 30th Anniversary since incorporating in 1982. That said, we are humbled to know it wasn't possible without you. 2013 and beyond offers exciting new challenges and opportunities and we thank you for your trust and confidence in our team. After all, we do our best work together. It's been rewarding over the years to hear you express the peace-of-mind that comes by setting and achieving your financial goals.

It is exciting to see the next generation (your children) seek financial help and advice in their lives. Our firm was founded upon the belief that our clients come first and we remain dedicated to providing the best advice and service possible. It is also rewarding to build a great team along the way. We feel very fortunate, and having the right people on your financial team is critical to your FSA experience.

Well. . . we've found another gem.

We're delighted and honored to introduce our newest addition to the FSA Team – Kim Scott. After growing up in VA, she graduated from Virginia Tech with a Finance degree concentrating in Financial Planning. She earned the CERTIFIED FINANCIAL PLANNER™ (CFP®) certification shortly thereafter. Kim comes to us from a financial planning firm in Greensboro, NC where she delivered financial advice. Her invaluable experience will be an asset to FSA. Kim will be assisting Dave and me in serving you. Have a quick question? Need something researched? Need advice? Kim is now part of our team—and yours.

Please join me and the rest of our team in a big WELCOME to our newest member!

Jim Joseph, CFP®
Vice President

Crash Course On Paying For College

There's good news in the mail: Johnnie or Susie just got accepted into a top college. Naturally, you're proud of your child. But now comes the hard part—figuring out how to pay for four years of education at an elite school.

Tuition costs at private institutions, in particular, can seem staggering. Still, there are ways to send your son or daughter to a great college without bankrupting your financial future. Start with these five steps:

1. Compare and contrast financial aid offers. There's no standard format for the wording of award offers, so carefully review the information in each one your child receives. Typically, the offers will list financial aid from several sources, including school scholarships, work-study programs, and federal loans, and also will note your "expected family contribution," calculated from the information you provide on the Free Application for Federal Student Aid (FAFSA). But some schools provide more information than others, so try to compare apples to apples.

2. Do the math. Once you determine how much aid each school will provide, figure out how much *you* will have to provide. Incorporate the amounts you expect your child will be able to cover—perhaps for such things as books, meals, and entertainment—into your calculations. That will give you a better handle on what you're really facing.

3. Expand the hunt for financial aid. Don't give up just because your child isn't a star athlete or a computer genius. You can find scholarships to fit a wide range of niches and groups on websites such as Fastweb.com, SchoolSoup.com, and SallieMae.com. In addition, students may qualify for state aid. Also, many corporations offer scholarships to children of employees. And remember to reach out to civic, religious, and ethnic groups within your community.

4. Consider a payment plan. Frequently, colleges provide tuition payment plans that charge little or no interest. You may have to pay just a small up-front fee. Contact the school for the necessary arrangements.

5. Explore loan options. If your family must borrow money, start with federal loans, which typically have the lowest interest rates. Currently, a subsidized federal Stafford Loan offers a fixed interest rate of 3.4%, while the federal PLUS loan features a 7.9% rate and Perkins loans have a fixed interest rate of 5%. Apply for these when you fill out the FAFSA. As a last resort, you might turn to private loans, but be aware that the interest rates on those tend to be higher.

This is just a quick lesson on navigating the financial aid waters. Some schools provide better aid than others. Call us for a referral to a professional who can help in deciding which way to point. ●

Dust Off Life Insurance Policies

When was the last time you reviewed your life insurance policies? If you're like most people, you've probably stashed your policies in a drawer, filing cabinet, or safe deposit box where they've been gathering dust. But you should review your policies periodically to see whether they still meet your needs. Depending on the outcome, you might adjust your coverage.

In particular, you should examine your policy if you've experienced one or more major "life events" during the past year. What sort of events are we talking about?

- There may have been a birth, death, or disability in the family.
- You got married, divorced, or separated.
- You bought or sold a principal residence, vacation home, or other real estate property.
- Your child completed college or graduate school.
- You acquired property as a joint tenant.
- You have switched jobs, retired, or started up a new business.
- There was a significant economic change affecting your business operation.
- You need to revise the beneficiaries of your insurance policies due to a change in circumstances.

Note that other changes that might trigger a life insurance review could be less obvious. For instance, you may need additional coverage if you're now taking on financial responsibilities for an elderly or disabled relative. Conversely, your financial responsibilities may decrease somewhat if you have finished paying off a home.

Furthermore, you should try to view your family's needs as if you were buying life insurance for the first time. It's your current and future circumstances that are the critical factors—not how things were last year

New Law Poses Tax Risks For Wealthy Investors

It will take time for investors to absorb exactly what happened—and what did not happen—in the new tax law enacted to avert the "fiscal cliff." Under the new law, called the American Taxpayer Relief Act (ATRA), favorable tax rates on different types of investment income generally were preserved, but certain upper-income investors will face tax increases, beginning in 2013.

When you combine the ATRA changes with the new 3.8% Medicare surtax—also making its debut in 2013—you could be hit with a rate as high as 43.4% on a portion of your investment income.

Consider the following three main new tax law provisions:

1. Ordinary income. The existing federal income tax rate structure—with rates of 10%, 15%, 25%, 28%, 33%, and 35%—continues for most taxpayers. But ATRA adds a new top tax of 39.6% for single filers with income of more than $400,000 and joint filers with income above $450,000. That means that a short-term capital gain on the sale of a stock you've owned for a year or less—a profit taxed at ordinary income rates—could trigger the 39.6% federal rate.

2. Capital gains and qualified dividends. Under ATRA, the maximum tax rate for net long-term capital gains and qualified dividends remains 15% (0% for investors in the lowest tax bracket). If the law hadn't passed, the tax rate for capital gains would have soared to 20% (10% for investors in the lowest tax bracket), and dividends were scheduled to be taxed at ordinary income rates. Despite the reprieve for most investors, however, those who exceed those same high-income thresholds—$400,000 for single filers and $450,000 for joint filers—now will pay a maximum 20% tax rate on long-term capital gains and qualified dividends.

3. Medicare surtax. This "add-on" tax actually was included in the 2010 health care legislation—the Patient Protection and Affordable Care Act—rather than ATRA. But it also takes effect in 2013, and it can be just as lethal to upper-income investors as some ATRA changes. A 3.8% Medicare surtax now will apply to the lesser of "net investment income" (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds a threshold amount—$200,000 for single filers and $250,000 for joint filers. These figures will not be indexed for inflation.

For this purpose, NII is defined to include interest, dividends, capital gains, rents, royalties, nonqualified annuities, income from passive activities, and income from the trading of financial instruments or commodities. Certain items are excluded from the NII definition, including wages, self-employment income, Social Security benefits, tax-exempt interest, operating income from a non-passive business, and distributions from qualified retirement plans and IRAs.

Now let's see how these tax changes might affect taxes on investment income:

Example 1. You're a joint filer with an annual MAGI of $170,000 consisting mainly of wages. This puts you in the regular 28% tax bracket. At the end of the year, you realize short-term capital gains of $10,000 and long-term capital gains of $40,000, for a total of $50,000 in NII. Because you don't exceed the threshold for ordinary income, your short-term gains still are taxed at the 28% rate. And you don't exceed the threshold for capital gains either, so your long-term gains are taxed at the 15% rate. Finally, the lesser of your NII or excess MAGI is zero, so you don't have to pay the 3.8% Medicare surtax.

Example 2. You're a single filer with an annual MAGI of $500,000, consisting mainly of wages. This puts you in the new top tax bracket of 39.6%. At the end of the year, you realize short-term capital gains of $25,000 and long-term capital gains of $75,000, for a total of $100,000 in NII. Your short-term gains are taxed as ordinary income at the 39.6% rate. In addition, you exceed the threshold for capital gains, so your long-term gains are taxed at the 20% rate. Finally, the lesser of your NII or excess MAGI is $100,000, triggering a Medicare surtax of $3,800 on top of your other taxes.

Accordingly, the new tax rules could affect the rates you pay on investment income. And while taxes alone never should determine your investment decisions, it makes sense to factor them in when you're considering what and when to buy or sell. Depending on your situation, you might accelerate income or capital gains into the current year to avoid higher taxes next year, or you could postpone income or gains to next year to avoid higher taxes this year. We can work with your tax advisor to help you decide what makes sense in your situation. ●

or several years before. And don't forget to review all of your life insurance policies, including any group coverage that your employer (and your spouse's employer) might be providing.

Needless to say, this is an on-going process. A main function of life insurance is to replace lost income that your family relies on if you should die prematurely. When your financial obligations are small, the amount of life insurance coverage you require is also small. However, as those obligations grow, so does your need to acquire more coverage.

Typically, your life insurance needs will be at their greatest when your children are relatively young and you're in the midst of your career. Once your children have flown the coop, or you have retired, your insurance needs will likely not be as great.

Best approach: Assess your life insurance needs at regular intervals. You may want to do so at the start of a new year or on some other "anniversary" date. In any event, don't let too much time go by without a regular check-up. ●

Find Extra Benefits In DI Insurance

The odds that you'll suffer a disabling injury or illness are far greater than the likelihood of you dying prematurely. A disability income (DI) insurance policy, used to supplement life insurance coverage, could help protect you from loss of income if you're unable to work. Indeed, a DI insurance policy might provide even more benefits than you expect.

Typically, a private DI insurance policy can pick up some of the slack if you're disabled for an extended time. Should you no longer be able to work, you will begin receiving a monthly disability benefit. Normally, the benefit is a predetermined amount, unlike employer-provided coverage, in which the benefit equals a percentage of compensation.

As with life insurance, DI terms can vary widely from policy to policy. Some key variables include the amount of the benefits you'll receive; the length of the coverage; the requirements for receiving full benefits; the definition of "disability"; the length of the waiting period before benefits begin; any cost-of-living adjustments; availability of partial benefits; and possible non-cancellation features. Naturally, the cost of the premiums also will vary, depending mainly on those variables.

But don't assume that you must be bedridden to collect any benefits. Frequently, a DI insurance policy will provide "residual benefits" in the event you can work some of the time or if you're slowly getting back on your feet. Some policies even offer benefits after you've returned to work if you are earning less than you did before your disability.

The residual benefits generally kick in when the loss of income is greater than 20% of previous earnings and the decline is due to the medical condition underlying the disability. This feature could be especially valuable to small business owners, including self-employed entrepreneurs, and professionals in fee-based practices, such as physicians, attorneys, and accountants.

For example, suppose a surgeon recovering from a severe illness returned to practice but was able to see fewer patients. If the surgeon's income was reduced from $50,000 a month to $30,000, the residual benefit could restore income to 80% of the pre-disability level—in this case, $40,000 a month. Similarly, if the side effects of chemotherapy make it too hard for a litigator to appear in court or for a CPA to handle a company's books, the residual benefits can soften the economic blow.

To see what your coverage may or may not include, take a close look at existing DI policies or any new policy you're considering and have your insurance agent explain the residual benefits section. The policy might be more valuable than you imagined or the residual benefits may be too restrictive. Those provisions could be a key component of your DI insurance coverage. ●

More Important Choices

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children. That was a development the parents hadn't anticipated when planning their retirement. It also was something that would change their lives, again.

To add to the urgency of the situation, the son now was working six days a week and needed someone to care for his children on the days that he had custody. His mother was the most logical choice, but she now lived in Arkansas.

Hence, the couple decided to move back to the Tampa Bay area, not only to be near the divorced son but also so they'd have a good team of cardiologists and one of the best heart hospitals in the region close at hand. Finding a suitable retirement home set off a frantic search that ended rather quickly when the couple bought a duplex in an over-55 community.

Selling their home in Arkansas didn't go quite so smoothly, however. They had bought their mountain hideaway when real estate prices were still rising steeply, and by the time they were ready to sell, the local market was slumping. They were fortunate that their retirement home had not cost that much in the first place. By being patient, and not accepting low-ball offers, they were able to recoup their investment in the house a year after they'd offered it for sale. Meanwhile, they'd done well at the other end of their relocation, selling their first Florida home in 2004, near the top of the boom, and returning in 2008, when home prices were plunging.

Your situation won't be exactly like theirs, of course. But you could well face some of the same considerations in choosing where to spend your retirement. Having access to good health care and being able to reach out and touch your loved ones are very important, especially as you grow older. ●