



Family Wealth Management, Inc.

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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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Couples Lack Team Spirit In Planning For Retirement

Though there is an "I" in retirement, it generally requires cooperation with your spouse to produce mutually satisfactory solutions. But it appears most couples are short on team spirit, a commodity that's especially crucial during these tough economic times.

According to a recent study, more than 80% of the couples surveyed disagreed about a major component of their retirement planning. That includes such factors as retirement age, plans to work while retired, and, most significantly, expected future lifestyles. Also noteworthy was that only 15% said they would feel confident enough about their finances to assume full financial responsibilities on their own.

Many couples in the study acknowledged they are struggling to share financial information and decision-making as they approach the last decade or two before retirement. Some aren't even sure which financial products they own or completely understand those investments. For instance, more than one in four survey respondents couldn't agree whether the couple owned an IRA. Only 38% jointly discussed investment decisions affecting retirement savings.

If you and your spouse are in this predicament, we can help you communicate more openly with each other about your finances and objectives. You're far more likely to secure a comfortable retirement—and will more easily overcome the financial bumps along the way—if you work together.

Social Security Benefit Cuts Are Likely

You've been paying into the Social Security system your entire adult life. At some point, you expect to retire and collect your fair share of benefits. But will the money be there?

Many experts believe Social Security benefits will be reduced or watered down through taxes and other adjustments during the next few decades. Because you may receive less from Social Security, you may need to save more in other retirement accounts.

The Social Security Administration (SSA) says the program's annual costs will exceed its revenues in 2016. And while the SSA projects that the system's trust fund will be able to cover the shortfall through 2037, that's down four years from last year's estimate. And with unemployment still rising—leading to lower tax revenues to fund Social Security benefits—the deficit could worsen, putting pressure on future payments to retirees.

How will Social Security's future play out? The system's financial situation is clearly deteriorating as there are fewer workers to fund retirement benefits for the huge baby boom generation, and there's little appetite for yet

another taxpayer-funded bailout of a cash-strapped government program. Yet the likelihood that Congress would actually approve cuts to a program long known as the third rail of American politics also seems low. If benefit reductions come, it may be through the action of a bipartisan commission charged with solving the system's financial woes.

In the meantime, de facto cuts have already begun. An earlier Social Security commission recommended raising the full retirement age from 65, and current rules are gradually increasing the full retirement age to 67 for those born in 1960 or later. You can still choose to begin taking benefits as early as age 62, but you'll receive sharply lower monthly amounts than if you had waited until today's older full retirement age.

Rising Medicare premiums, normally deducted from a recipient's

Social Security payments, also serve to undercut cost-of-living benefit increases. Moreover, you're increasingly likely to be taxed on a portion of your Social Security benefits. While only about 30% of

current beneficiaries are taxed on benefits, that's projected to rise to 42% by 2020, and high-income retirees may pay tax on up to 85% of benefit payments.

In this volatile environment it is prudent not to rely too heavily on Social Security to provide a large percentage of your retirement income. With the system's future uncertain, your benefits

could fall, and even the loss of, say, \$1,000 a month could have a negative impact on your retirement plan. We can help you reexamine your retirement income projections and recommend strategies for replacing what you might lose from Social Security. ●



Should Retirees Carry A Mortgage?

Your home mortgage is likely to be the biggest debt you ever take on. And if you've moved or refinanced a few times since your first home loan, you may be years or even decades away from owning your house free and clear. But that begs the question: What about retirement? If you're getting ready to retire or already have stopped working, does it make financial sense to keep making monthly payments? Or should you use some of your savings to retire that debt?

Traditionally, paying off the mortgage was a pre-retirement objective, but the recent trend has been to carry the debt longer. A study by the

Center for Retirement Research at Boston College found that in 2007, 41% of households with people in their 60s still had a mortgage, even though more than half owned sufficient assets to repay the loan.

Why would you hold a mortgage in retirement? Depending on your situation, you may value the tax benefits and liquidity. Consider these four critical factors.

1. Investment returns. Recently, the average 30-year fixed rate for mortgages has been between 5% and 5½%. You might keep your mortgage if you think you can do better investing the money you would spend to retire it.

But retirees who invest heavily in low-risk vehicles such as bank certificates of deposit (CDs) and Treasury securities are likely to come up short. And though stocks and mutual funds may provide higher rates of return, they carry greater risks, and if your portfolio plummets, you could have trouble making mortgage payments.

2. Tax breaks. You can generally write off mortgage interest if you itemize deductions. But people who claim the standard deduction—and that's almost two out of every three taxpayers—receive no tax benefit from mortgage interest payments. So if you're not an itemizer, it may make

Should You Convert To A Roth IRA?

For the first time, many higher income earners may qualify for a Roth IRA conversion. Before 2010, you couldn't convert a traditional IRA into a Roth in a year in which your modified adjusted gross income (MAGI) exceeded \$100,000. But now, that income restriction has been eliminated. What's more, though converting to a Roth results in income taxes on the amount you transfer, there's a bonus for conversions made in 2010—you get to spread out the income and the resulting tax liability over 2011 and 2012. That not only delays some of the pain of paying for a conversion; it may also save you actual tax dollars, if the lower installment payments keep you from being bumped into a higher tax bracket and tax rates don't increase significantly in 2011 and 2012.

There are good reasons to convert to a Roth. Qualified distributions from a Roth that has been established for at least five years are completely exempt from income tax. You're eligible to receive this tax-free income once you reach age 59½, and qualified distributions are also possible in case of death or disability or to pay first-time homebuyer expenses (up to a lifetime limit of \$10,000). And with a Roth IRA, there's no rule requiring that the distributions must begin for holders of traditional IRAs after age 70½. So if you don't need the money, investment gains in your account can continue to compound

sense to pay off the mortgage. Also keep in mind that the tax benefit of itemized deductions will be reduced if your income is high.

3. Retirement accounts. It's generally not a good idea to pay off your mortgage if you have to invade your retirement accounts to do it. The money you pull out of a 401(k) plan or an

IRA will be reduced by taxes—at ordinary income rates of as high as 35%—plus you'll be hit with an additional 10% penalty if you're under age 59½. And you'll be left with fewer

without being eroded by taxes until a non-spouse inherits the IRA.

Yet these advantages don't necessarily mean you should immediately transfer all of the assets in your traditional IRAs into a Roth. There are numerous variables to consider, and it doesn't have to be an all-or-nothing proposition. It could be beneficial to convert only a portion of your traditional IRA assets. Your answers to these questions could factor into your decision.

1. How will you pay the tax on the conversion? If the money has to come out of the tax-deferred assets you're transferring, it will limit the benefit of the conversion.

2. What's your tax rate? How much you pay now and your expected tax rates during retirement directly affect the conversion equation. While you might normally expect to be in a lower bracket during retirement—thus reducing the value of tax-free Roth income then—federal tax rates are scheduled to revert to higher levels in 2011 and even greater levies could follow for those in top brackets. State and local taxes may also increase.

3. Did you make nondeductible contributions to your traditional IRA? You won't be taxed to convert the nondeductible contributions, but the earnings will be subject to tax.

4. How old are you and other

funds to draw upon during retirement.

4. Refinancing. One alternative to paying off the mortgage may be to refinance it at a lower interest rate. That can reduce your payments, or you could use the opportunity to pull out equity you've built. But the deep decline in real estate values has underscored the risks of financial strategies built around

home loans.

Choosing what to do about your mortgage is a major financial decision. We can help you choose the best approach for your situation. ●

members of your family? This affects how long assets will be able to grow in a converted Roth IRA—and the longer they grow, the bigger the tax advantage. If you have young children who might inherit the income tax-free assets, they may be able to spread out distributions (required after the account goes to the next generation) over many decades.

With all of these factors to consider, deciding whether to convert can be complicated. Suppose, for example, that you are 55, your spouse is 50, and your only child is 25. You have \$500,000 in a traditional IRA and you're in the 33% tax bracket. Assume you're planning to convert to a Roth in 2010, you'll elect the two-year schedule recognizing income and paying conversion taxes, and the money will come from outside your IRAs. The Roth IRA assets will earn 4% annually, and you intend to begin withdrawing \$1,000 per month at age 70.

The Roth IRA Conversion Optimizer, a tool for wealth management professionals, shows that the optimal "net benefit" of this Roth conversion would be \$1.19 million, assuming you transferred all of the traditional IRA's assets.

But changing the scenario slightly results in a different outcome. Suppose you can pay only half of the conversion taxes with outside funds. In this case, converting 100% of the assets would provide a \$725,000 net benefit. However, converting only 60% of the traditional IRA assets would produce a net benefit of \$809,000.

If you don't have any outside funds to pay the conversion taxes and instead use only the IRA's funds, the net benefit of the Roth conversion greatly decreases. In this example, the benefit is only \$231,000 for a 100% conversion and for a 60% conversion it's \$320,000. This demonstrates the importance of using outside funds to pay taxes and why a partial conversion can be ideal when outside funds are insufficient.

The variations can be mind-boggling, but you don't have to crunch the numbers on your own. Give us a call and we'll help you decide what works best in your situation. ●



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

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. If you need help in reviewing a long-term care insurance policy, please feel free to call us. ●

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, 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. ●