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The Financial Planning Newsletter

Wesling Financial Planning Services

Unbiased Advocates for Your Sound Future

Disability Insurance: Are You Ready for Disaster?: One-fifth of this nation's population will actually become disabled for a year or more before reaching age 65, according to the Social Security Administration (SSA). The most common causes of long-term disability are heart disease, back injuries and cancer, followed by stress, anxiety and depression according to the U.S. Department of Education and the National Institute on Disability and Rehabilitation. Below are tips from the National Association of Insurance Commissioners.

Determine how much money you'll need to cover all of your critical expenses (such as housing, food, utilities and transportation). Generally, consider having long-term disability insurance that covers about 60 percent of your annual income.

Those with pre-existing health conditions, such as a back problem or heart ailment, may have to purchase a policy with an “exclusion” rider. If the disabled person can provide documentation that the pre-existing condition has improved, the insurer may remove the rider after a specified time period.

Your occupation is crucial in obtaining coverage. If possible, depending on your occupation, you want to get an “own occupation” definition.

Typically, younger, healthier people pay lower disability premiums. If you purchase disability insurance at a young age and can get a "non-cancelable" policy, your coverage can't be cancelled and the premiums can't be raised once your medical exam has been approved and your policy issued, assuming your premiums are paid on time. Also, consider buying an option to increase coverage without additional medical underwriting if you’re young or if you expect your earning power to increase.

Most long-term disability insurance stipulates a waiting period, such as 90 days (the most comment), 180 days or one year before benefits are paid. Disability insurance also stipulates a benefit period; for example, one year, two years, five years or until age 65. The longer the waiting period, the lower the premium will be. Conversely, the longer the benefit period, the higher the premium will be.

Don’t count on help from the long-term disability benefits through the Social Security Administration. They only pay under the following specific (and dire) circumstances: "…if you cannot do work that you did before and we decide that you cannot adjust to other work because of your medical condition(s). Your disability must also last or be expected to last for at least one

year or to result in death." And you must be disabled for at least 5 months. SSA disability is an "any" occupation definition of disability.

Keeping Your Inheritance: Successful estate planning takes into account two generations, not one. The first generation needs to make a clear, sensible plan and the second needs to be involved in the planning. Without proper planning, your estate can be eaten away in ways ranging from the simple to the complex. They include:

Failure to leave a will: Most Americans know what a will is. So why won't they take the time to make one? The estimated numbers of Americans without any kind of will is staggering – between 60 and 70 percent. Without a will in place, some or all of the estate may be transferred to Probate Court, and a complete stranger could decide the future of your inheritance.

No plan for incapacity: An 80-year-old grandmother sinks into dementia. A 30-year-old father of twins is left in a coma after a car accident. Anyone can be left incapacitated at any age with no clear game plan for spouses or heirs (see the Disability Insurance article on page 1). This wastes money, time and creates great emotional hardship. Advance health care directives designate health-care decision makers and delineate their powers, and leave very precise instructions about life support and other treatment options.

Failure to coordinate or update beneficiaries: Any child who has struggled to settle a parent's estate is very likely to have had problems with beneficiary designations on retirement accounts, investments, insurance policies, savings accounts and bonds. Many people think beneficiary designation occurs at the creation of the will -- not true. Beneficiary designations should be reviewed every few years for accuracy or when a major life event requires a change, especially death or divorce.

No attention to special situations: If both parents die, how will substantial assets or life insurance proceeds be managed for minor children? If there is an adult child with a disability, is a Special Needs Trust or other directive in place? If a parent, friend or sibling dies without instructions for your pet, who will get the pet? Please, not the animal shelter! Your last wishes are as unique as you are and should be considered part of the estate planning process. As an heir, you should insist on those provisions so assets can be distributed with maximum speed and minimum disagreement.

No Power of Attorney or inadequate joint name provisions: An incapacitated relative not only needs someone properly designated in his or her directives, but they need that person to have proper access to funds. To provide for this, a durable power of attorney can be filed with the account custodian, or joint names can be listed on the accounts so bills can be paid.

Failure to update: Anytime there's a divorce, a change in permanent residence or a major life transition, it's a good reason to review your estate plan.

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Paying for College With Your Kids' Help: The World War II generation got a taste of higher education through the G.I. Bill and made it a point to supplement or pay their kids' tuition. It was a struggle, but a far more manageable one than it is today. Figures from the University of Texas in 2005 showed that since the 1960s, the price of a public higher education has risen from about five percent of median family income to more than 17 percent today.

Based on the current pace, that number could rise to 30 percent of median family income by 2020. Private universities could approach 50 percent.

Scary numbers indeed. That's why it makes sense for families to make college affordability a family effort - with both parents *and* kids pitching in. There's a bright side to involving your child in the process of saving for college. They'll get an early education in money decisions that will have a direct impact on their future. Parents need to determine if their primary financial goal is retirement planning, or college saving, so they need to start with the following points:

- What parents will need to support their retirement;
- What they can contribute to their child's college fund based on time to retirement and to freshman year;
- The best savings strategies for parent and child based on the tax situation for both;
- A primer on college financial aid in all its forms. Depending on the child's need for financial aid, parents need to know what kind of assets they should hold in their child's name and in what types of accounts for the best chance of securing financial aid if it's needed.

Involve your child in the discussion. Start talking with your child about their financial contribution through money from part-time jobs, savings or, as a last resort, debt after college. Lack of money isn't the only reason kids may be asked to contribute or shoulder debt. Blended families with ex-spouses who either don't want to make a contribution or haven't agreed to pay tuition as part of a divorce settlement can be a sticking point. Whatever the reason may be, present it honestly to your child.

Tackle the FAFSA first. The dreaded Free Application for Federal Student Aid (FAFSA) is a necessity if you believe there will be some shortfall in paying for college after savings, grants and scholarships. It's a good idea to fill it out even if your needs aren't immediate; family finances can change for the worse. Your child won't qualify for federal student loans until you fill out this form. To speed the process, get your taxes done as early as possible in the year your child will need the funds. Colleges typically dole out money on a first-come, first-served basis, so you'll need your income documentation in order. Once the FAFSA is processed, the Department of Education determines financial need and the parent's EFC, or the expected financial contribution. If parents can't cover the EFC, the student has to come up with a way to close the gap. There's a way to rough out what your EFC might be – go to http://finaid.org/calculators/quickefc.phtml.

Start looking for free money. On the community level, you might find corporations, associations and other groups that offer scholarships and grants for local students, particularly

those going off to state or local schools. Students can generally find out about local opportunities through their high school guidance counselor. If the student works for a company on a part-time basis, there might be college support there. Also, the College Board (www.collegeboard.com) Web site features a good online clearinghouse for scholarships, grants, internships and loans, as well as www.fastweb.com.

Getting Married, Here's a Premarital Financial Talk Agenda: As many of you know, we provide financial analysis for people contemplating or going through divorce. Still, we would like to see fewer and fewer divorce clients and more and more happily married ones.

Discussions should begin with both sides showing all of their incomes, expenses, savings, investments, real estate properties and debts. All of them. When it comes to debt, discuss how it will be repaid and who is responsible. When it comes to savings and investments, discuss how and when those resources would be expended in the future. All of this pertains to the importance of a budget.

Titling of assets is key. Most married people hold jointly owned assets with the "right of survivorship." In certain cases joint tenancy should be avoided. These cases included large estates that may be subject to estate taxes. Another instance is if the upcoming marriage is a second marriage, and there are children to protect from the first marriage. Further, jointly owned property can be subject to the creditors of either party, so beware of past liens or bankruptcies.

Where people want to live, especially during the golden years is a crucial component of this discussion. Affording that future residence may mean a savings plan to achieve this goal.

Handling money is a "must discuss" item. Sharing accounts, expenses, incomes and investments can cause a lot of headaches. Avoid these problems as soon as possible by being open and honest in these discussions.

Be sure to talk about the different areas of finances including insurance (especially disability and life insurance), estate issues, retirement planning, tax considerations, college planning (if applicable) and approaches to making major purchases (such as a home or car).

People often ask about prenuptial agreements. Some may see them as a lack of faith in the relationship. Others may see them as a set of ground rules for a healthier financial relationship. In either case, look to see if one of the future spouses has a disproportionate amount of wealth (such as a business) or a disproportionate amount of debt (including a recent bankruptcy).

Success in life has nothing to do with what you gain in life or accomplish for yourself.
It's what you do for others.

-Danny Thomas (1914-1991)