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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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Sound Advice: What Would Warren Do?

I recently attended the Berkshire Hathaway annual meeting in Omaha. My cost of attendance was the 20 miles of driving to a free parking spot on the Iowa side of the river. I then enjoyed the spectacular view as I walked across our new $20 million foot bridge to the Nebraska side.

At the meeting, I was surrounded by people who apparently traveled great distances at great expense to sit in the presence of one of the richest men in the world. Mr. Buffett is obviously a brilliant individual; however, there is another secret to his success that we can find by observing his life.

Mr. Buffett could obviously afford the best home in America and give himself bonuses that trump even the largest ever reported on Wall Street, but he chooses to build wealth in a different way. Relative to his net worth, he lives in a modest home and draws a modest salary. He reported at the meeting that he has never sold a share of his own stock and reinvested all the earnings back into his company's portfolio.

The next time you are faced with a financial decision you might ask yourself, "What would Warren do?"

Ron Dickinson

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 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 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. ●

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

Finding An Advisory Firm You Can Trust

These are perilous times for investors looking for a trustworthy financial advisor. Clients of even the best advisors have suffered setbacks as the stock market lost half its value, and those who work with representatives of big investment banks and brokerages have been left to wonder why they're taking advice from firms that erred so badly with their own investments. But the worst blow to the very concept of a trusted financial advisor may have come from the Bernard Madoff scandal. Madoff stole almost $65 billion from 4,800 clients, many of whom had assumed their money was safe largely because of who Madoff was—a pillar of the Jewish community of which so many of those clients are also a part. In a world in which he could betray them so spectacularly, is there really anyone you can trust to handle your money?

That's a question our firm takes very seriously. We have always tried to operate openly and transparently, but in today's uncertain world, no one should take a firm's integrity solely on faith. Just as it's our responsibility to practice "due diligence" before recommending any outside investment manager or custodial firm, it's your job to look closely at any advisory firm you're considering. We will gladly talk with you about our policies and processes and provide any documentation you might require. Here are several criteria to use in evaluating our firm or any other advisor.

Is the firm a fiduciary? A financial advisor who is legally and ethically required to put your interests first is known as a fiduciary. Registered Investment Advisors, or RIAs, operate as fiduciaries, and must disclose to you how they're compensated and any potential conflicts of interest that might arise during your relationship. Other advisors who are not RIAs may also embrace fiduciary responsibilities. But under a recently enacted Securities and Exchange Commission (SEC) rule, non-fiduciaries must now make this disclosure: "Our account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits, and our salespersons' compensation, may vary by product and over time."

Is it independent? The biggest names in financial services have been tarnished by the global financial crisis. Investment banks and brokerages have collapsed under the weight of their own investments in collateralized mortgage obligations and other debt securities. Though the firms' personal financial advisors weren't responsible for the companies' dire miscalculations, they operate in the same corporate culture and often are encouraged to recommend the firms' proprietary investment products. Independent financial advisors, in contrast, aren't subject to a larger firm's foibles. Those who are fiduciaries have only one goal—to help clients achieve their objectives.

Where does it hold your assets? Madoff and other schemers tend to minimize their involvement with outside firms that might notice irregularities in their operations. Madoff's firm, despite its large size, self-custodied assets, which should have been a red flag for investors. Responsible advisors, in contrast, work with custodial firms such as Charles Schwab, Fidelity, Pershing, or TD Ameritrade that hold client assets and provide regular account statements and constant access to account information. Those companies' participation adds an extra layer of security for your holdings.

What kind of relationships does it have with clients? Particularly during these turbulent times, you're bound to have questions about the economy, investment markets, your financial plan, and the safety of your assets. Your advisor should be there to provide answers, to meet with you when you have concerns or problems, and to provide regular communications through a newsletter, email updates, or the firm's website.

Our firm is a fiduciary and we safeguard client assets by holding them at a respected custodial firm. We operate independently and are free to recommend any investments we believe will serve your financial goals. We communicate frequently with all of our clients and are always available to answer questions or concerns. We strive to offer outstanding financial guidance and to relieve any worries you might have about how we invest your money. If you would like to discuss how our firm operates and what it can do to earn your trust, please give us a call. ●

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, recommend strategies for replacing what you might lose from Social Security, and show you strategies for reducing the amount of taxable Social Security benefits. ●

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. ●

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. ●