

volume 30, number 1

financial monitor



Total Insurance Services

3175 Commercial Ave.

Northbrook, IL 60062

847-205-1777 Phone

847-205-1919 Fax

Check out our new and improved website at

<http://www.totins.com/>

What You Need to Know about Financial Fraud

Many of us grew up in a world where it was customary to be friendly, courteous, and trusting. Unfortunately, assumptions concerning these standards of conduct can sometimes get us into trouble. Con artists offering a variety of too-good-to-be-true investment “deals” are banking on the willingness of trusting individuals. Unfortunately, many people experience financial difficulties, thus making them more vulnerable to financial fraud.

With the multitude of contact options, ranging from the phone to the Internet, scammers have virtually an unlimited number of opportunities to obtain another individual’s personal information. Common scams include e-mail chain letters that promise a pyramid of payoffs that always fall apart once the victim has bought into the system. Another is one in which a foreign prince, doctor, or chief e-mails the victim and claims to need assistance transferring his riches to an American bank account. The victim may be promised as much as 30% of the transferred millions and is asked to pay the perpetrator a fee to prove his or her honesty.

Fake charities are another common scam. Kind-hearted donors may be swindled into paying large sums to a cause that benefits only the con artist. Phone calls and postal mail can be used to offer individuals the chance to “win” the lottery or claim a sweepstakes prize. In the end, these supposed winnings only end up causing financial loss and heartache. Topping off all of these scams are fraudulent investment opportunities wherein the victim may be promised fantastic returns on capital from “lucrative” oil and gas leases, rare coins and metals, etc.

Too often, these scams go unreported because of the shame victims experience once they realize they have been had. And that’s just what scammers are banking on. The FINRA Investor Education Foundation teamed up with WISE Senior Services and the AARP to study economic fraud. In a report entitled, “Off the Hook Again: Understanding Why the Elderly Are Victimized by Economic Fraud Crimes,” several discoveries were made that can be applicable to people of all ages. One focus of the report was the psychological tactics typically used by cons to increase their success rates and decrease their chances of being reported. Victims may be led to believe that their only option is the one being presented in the scam, or the scammer may befriend the victim knowing

continued on page four

in this issue:

Rent or Own: You Decide

The Retirement
Community Alternative

Advance Directives
for Your Future Care

Rent or Own: You Decide

If you're considering whether or not to buy your first home, it can be an exciting and time-consuming process. For many, the purchase of a home is the largest purchase they will ever make. Therefore, it's not a decision to be taken lightly. If you feel that you will be better off *financially* as an owner instead of a renter, one important question remains: What mortgage amount could you afford?

A qualified financial professional can help you analyze your situation. However, you can also use the following worksheet to help you arrive at an estimate:

Income

Job-related income _____
 Investment income _____
 Yearly bonuses _____
 Additional income _____

Total Income _____

Expenses

Yearly taxes _____
 Monthly savings _____
 Groceries _____
 Insurance _____
 Medical bills _____
 Car payments _____
 Car expenses _____
 Credit card bills _____
 Student loans _____
 Child care _____
 Clothes _____
 Recreation _____
 Vacation _____
 Charitable donations _____

Other _____
Total Expenses _____
 Subtract total expenses
 from total income _____
 This amount is your discretionary
 income.
 Discretionary income
 divided by 12 _____

This amount is your monthly disposable income after expenses have been paid and savings deposits have been made. Now that you know the amount available, you can decide how much can go toward a mortgage payment. Remember to budget for the additional expenses that come with homeownership, including utilities, property taxes, homeowners insurance, and home maintenance.

Once you've determined your budget, you're in a better position to determine the type of mortgage that best suits your needs. Mortgages come in two basic forms: the **fixed-rate mortgage** and the **adjustable rate mortgage (ARM)**. A fixed-rate mortgage has a fixed interest rate that never changes, and your loan payment will remain the same for the duration of the loan. An ARM has an interest rate that can fluctuate with the market and the economy.

Obtaining a mortgage is often half the battle. Another challenging aspect of buying a first home is the task of saving toward a down payment. Generally, the more money you put down, the better the interest rate you can receive. If the amount of your deposit is under 20%, your lender may also require **private mortgage insurance (PMI)**. If a 20% deposit

seems out of reach, here are some points to consider:

- Explore the possibility of buying a less expensive purchase, such as a condo or smaller home that may need some do-it-yourself repairs. Sometimes even the simplest home improvements can greatly increase a home's value.
- A lease-option contract will allow you to rent a home for a certain amount of time, with the option to buy at a specific price within a given time frame.
- **Individual Retirement Accounts (IRAs)** allow for a penalty-free qualified first-time homebuyer distribution up to \$10,000 toward the purchase of a first home. Married couples may withdraw \$10,000 each. For traditional IRAs, withdrawals will be subject to taxation, and for Roth IRAs, the five-year ownership requirement must be met to avoid taxes and penalties. It should be noted that withdrawing from retirement accounts has the potential to affect the amount you're able to save for retirement. The importance of a *disciplined* savings program cannot be emphasized enough in view of your overall financial situation.
- Borrowers who have difficulty meeting stricter lending requirements may be able to secure a loan through the Federal Housing Administration (FHA).

With a little research and creativity, and the help of a qualified financial professional, you can become fully prepared for the steps ahead when buying a home for the first time. Such deliberation may take some time, but the multiple rewards of homeownership can make it worth every effort. ■

The Retirement Community Alternative

Whether you are on the verge of retirement or it is years away, many of your current financial decisions are shaped by the questions of *where* you will live in the future and *how* your financial and social needs will be met. In addition to decisions about your own future, you may have aging parents who need help working through the complexities of choosing their own retirement housing.

Changing Needs

Your housing needs can be affected by any number of life changes, including seeing your children move out of the family home, experiencing changes to your health, or facing the loss of a spouse. Each of these life changes can raise questions regarding the physical layout of your

home, the maintenance required to take care of it, and the location of necessary resources, as well as the need for continued social interaction.

If you have lived in the same neighborhood for many years, the thought of moving can be both difficult and emotional. In addition to a lifetime of memories, your family home offers the comfort of familiarity and an important sense of community. It also may be completely paid off by the time you retire. However, its size and maintenance requirements may become increasingly difficult to manage. The family home could also become isolating, especially after lifelong friends have moved away, or if located in an area with little or no access to social support systems.

Alternatives

Retirement communities are enjoying increased popularity as an alternative means to meet the housing needs of older adults. Many retirement communities offer an array of services, with costs directly related to the level of direct care provided. A complete community may have independent living options with condominiums and apartments; supervised assisted living for those who need help with basic daily activities, but not full-time skilled nursing care; and a nursing home wing for those individuals requiring more intensive medical care, all conveniently situated on one campus.

There are a number of advantages to such living arrangements. The security of knowing that medical care and support services are readily available and a resident can shift from independent living to a nursing home

level of care without having to make difficult moving decisions is the main attraction of retirement communities. Financial concerns may also be alleviated in a total life care community, particularly if providing for later health care has been done *before* the need arises. In addition, most retirement communities offer planned activities and transportation to meet a variety of recreational and social needs. Many active older adults enjoy the socialization among peers that a retirement community provides.

Periods of Adjustment

Although these communities are designed to meet the needs of older adults, isolation from family and prior friends may involve an adjustment period for some people. For example, structured group activities to interact with others may impose on some people's sense of privacy, while others may dislike the idea of being confined to living solely among people their own age.

One of the most important questions to ask when visiting a community is *who* decides when the resident needs a higher level of care. This issue alone can affect an individual's sense of self-esteem and independence, as well as the cost of care. When couples move into a retirement community, it is important to consider how the necessity for an increased level of care for one spouse may affect the independence of the other spouse.

The decision to enter a retirement community involves a lot of thoughtful planning. Knowing *in advance* some of the factors involved may help facilitate the decision-making process for you and your loved ones. ■



Advance Directives for Your Future Care

Estate planning traditionally focuses on minimizing taxes and directing the disposition of assets after death. However, as you prepare for the future, you may also want to consider your needs before death. **Advance directives** are legal instructions that express your wishes regarding financial and health care decisions in the event that you become unable to communicate them.

A **durable power of attorney** grants authority to another person to make legal and financial decisions on your behalf, even in the event of mental incapacity. The powers granted can be broad or limited in scope, covering such areas as

insurance, investments, retirement plans, government benefits, and general money management.



In contrast, a **health care proxy** appoints an agent to make *health*

care decisions. In addition, a **living will** is a set of instructions for a health care provider, stipulating the extent to which measures should be taken (consistent with state statutes) to maintain your life. Both directives come into play *only* when you are unable to make your own health care decisions.

Advance directives are essential estate planning tools for everyone, regardless of age. In the absence of such documents, court intervention (with the accompanying time and expense) may be necessary to carry out your financial and health care decisions. ■

what you need to know about financial fraud

continued from page one

that people are less inclined to ask friends hard-hitting questions. Another ploy is a request for help from the scammer, which taps into the victim's sympathy. Or the scammer may claim famous investors are also buying into the property, or the product is in such high demand and so rare that the victim is lucky to have even heard about it in the first place.

Con artists may also use their assumed authority to coerce victims into letting the con make the decision for them; offer no-risk, guaranteed results; intimidate the victim by playing on his or her fears; or procure more and more payments

by telling victims they are committed to the investment and must continue to invest in order to not lose the sums they have already paid.

On paper, these tactics might sound entirely transparent; in reality, they are often extremely effective. Anyone can become a victim, regardless of age. The FINRA study also revealed that fraud techniques may be tailored to the psychology of the individual. Financial education alone may not be enough to put an end to fraud, since one of the study's major findings indicated that fraud victims are more financially educated than non-victims and more willing to listen to sales

pitches. In addition, victims are more likely to have experienced negative life events, such as job loss, divorce, or the death of a spouse.

Anyone approached with a "must-act-now" deal is advised to walk away and do some research. Be skeptical, question why the offer is being made to you, and contact the Better Business Bureau to learn more. Don't waste time listening to cold-call sales pitches, and make sure to get second opinions from friends and family before taking action on any "hot" deal. In the end, follow the old adage: If it sounds too good to be true, it probably is. To learn more, visit www.consumerfraudreporting.org. ■

The information contained in this newsletter is not intended as tax, legal, or financial advice, and it may not be relied on for the purpose of avoiding any Federal tax penalties. You are encouraged to seek such advice from your professional advisors. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for any insurance or financial product.

Financial Monitor is written and published by Liberty Publishing to help keep you up-to-date on the issues which may affect your financial well-being. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. For specific advice on how to apply this information to your particular circumstances, you should contact your insurance, legal, tax, or financial professional.