volume 28, number 1

financial monitor

TOTAL INSURANCE SERVICES, INC.

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/

in this issue:

Insurance Needs for Dual Income Families

The concept of the "traditional" American family is continually changing. The dual income family—with spouses each maintaining separate careers and contributing to the financial success of the household—has now become commonplace.

To keep up with the high cost of living and rate of inflation, two incomes are often required to meet overall family expenses. Many people are asking themselves, "How will we save for our retirement, pay for our children's education, and help our aging parents handle some of their financial burdens?"

The Cost of Working

Although it may seem as if dual income families have more disposable income to pay for life's necessities, appearances can be misleading. Families with both spouses working often lose *some* portion of the second paycheck to extra expenses, such as unreimbursed childcare, domestic help, job-related transportation, business attire and dry cleaning, and take-out meals. These additional expenses add up and can eat away at that second income.

Childcare concerns are especially critical when both parents work outside the home. Quality childcare is a major expense for many families with working parents—after housing, food, and taxes. It is this cost that often reduces the income that could be used to help fund education or retirement.

As American companies continue to restructure their business environments in a challenging economic climate, some dual income families may face the possibility of living on a single or reduced income for an unspecified period of time. For those who need the additional income to help pay for basic expenses, a loss or reduction of one income could have a serious impact on the family finances.

Protecting Your Family's Future

Have you thought about how *your* family would protect its income if either working parent should die or sustain a disability? One strategy may be to purchase a permanent **life insurance** policy that will pay a benefit upon the death of the insured spouse. There are several advantages to life

continued on page four

What You Should Know About Reverse Mortgages

You're probably familiar with the TV ads featuring actor Robert Wagner promoting the benefits of a **reverse mortgage** to an intended audience of "house-rich" but "cash-poor" homeowners ages 62 and over. A reverse mortgage could allow you to convert part of the equity in your home into cash without having to sell your home if you need to supplement your retirement income, pay for home improvements or medical bills, or pay off an existing mortgage.

Due to the potential benefits of securing a loan that requires no repayment until the last borrower sells the home, moves permanently, or dies, you may be among the many eligible homeowners who may be considering a reverse mortgage to help meet financial needs in retirement. The loan advances aren't taxable, and in general, don't affect your Social Security or Medicare benefits. Also, you retain the title to your home, and aren't obligated to make monthly repayments.

However, the decline in home values and resulting 2008–2009 collapse of the mortgage market has had a significant impact on reverse mortgages. Although these recent developments in the housing market have certainly created more loan options for consumers, reverse mortgage costs have increased, and the process of choosing a loan has become more complex. To help protect older consumers, the Federal Trade Commission (FTC), the American Association of Retired Persons (AARP), and the U.S. Department of Housing and Urban Development (HUD) have stepped up their outreach efforts to inform homeowners about the different types of reverse mortgages available in today's marketplace, and what the best payment options are.

Since there's a lot to consider with a reverse mortgage, let's take a closer look at reverse mortgages and the costs involved.

These are the three types of reverse mortgages that are currently available:

1) **Single-purpose reverse mortgages,** offered by nonprofits, and some state and local government agencies, are the least expensive option for low-to-moderate income homeowners. However, they're limited in availability, and can only be used for a specific purpose to be determined by the lender, such as home improvements or property taxes.

2) **Federally-insured reverse mortgages,** also known as the Home Equity Conversion Mortgage (HECM), are financed by HUD and widely available. However, they're typically more expensive than a traditional home loan and come with higher upfront costs. On the other hand, there's no income or medical requirement, and you're free to use this loan as you wish.

   HECMs usually come with greater loan advances at a lower total cost compared to other types of reverse mortgages. Another HECM feature includes being able to live in a nursing home or other medical care facility for up to 12 consecutive months before the loan must be repaid.

   Before you apply for a HECM, you're required to meet with a counselor from an independent government-approved housing counseling agency. The different HECM loan payment options, along with those of other types of reverse mortgages, would be fully explained to determine the most appropriate choice according to your age, the appraised value of your home, and current interest rates. Although counseling agencies generally charge a fee for their services, it can be paid from the proceeds of the loan. You will not be refused a counselor, however, if you're unable to pay the fee.

3) **Proprietary reverse mortgages** are *private* loans that are financed by private companies. Depending on the lender, you may be required to meet with a counselor prior to applying for a proprietary reverse mortgage. As with HECMs, proprietary reverse mortgages tend to have higher costs, but if you own a higher-valued home, you may be eligible for a greater loan advance. Remember, the *more* you borrow, the *higher* your costs will be.

It's important to consider all the conditions that could make a loan due and payable regardless of what type of reverse mortgage you may choose. Before making your decision, ask a counselor or lender for details on the **Total Annual Loan Cost (TALC)**, which projects the annual average cost of a reverse mortgage and the itemized costs. This way, you can shop around for the best deal to help meet your financial needs.

Note that the FTC warns consumers to walk away from potentially fraudulent propositions to purchase other products like long-term care insurance or an annuity as part of a package to get a reverse mortgage. If you suspect that you have been subjected to a deceptive business

continued on page three

Advance Directives: Essentials for All Ages

Traditionally, estate planning has focused on minimizing estate taxes and directing the disposition of your assets after death. Today, managing your financial well-being often includes the potential need for long-term health care. If you were to sustain a debilitating illness, or become mentally incapacitated, which can occur gradually due to a progressive medical condition, or suddenly, from an unexpected accident, who would make your important legal, financial, and health care decisions, and on what authority?

Fortunately, **advance directives**—legal instructions that express your wishes regarding financial and health care decisions in the event that you become incapacitated—can provide much-needed direction under such circumstances.

Legal and Financial Decisions

A **durable power of attorney** grants authority to a designated person to make legal and financial decisions on your behalf, even in the event of incapacity. The powers granted can be broad or limited in scope. Your designated power of attorney can assist you with your personal finances, insurance policies, government benefits, estate plans, retirement plans, and business interests.

Health Care Decisions

Prior to becoming incapable of making important life decisions, a **living will** generally allows you to state your preferences regarding the giving or withholding of life-sustaining medical treatment. Although future changes to the law concerning this matter may occur, in most states, you must have a "terminal condition," be in a "persistent vegetative state," or be "permanently unconscious" before life-support can be withdrawn. The definition of these terms and the medical conditions covered may vary from state to state.

A **health care proxy** allows you to appoint an agent to make health care decisions on your behalf in the event of physical or mental incapacity. These medical decisions are not limited to those regarding artificial life-support.

Advance directives by durable power of attorney, living will, or health care proxy are usually inexpensive and easy to implement. They are essential estate planning tools for all individuals, regardless of age. Without such documents, court intervention, which can involve a great deal of time, expense, and stress for family members, may be necessary.

To learn more about state-specific advance directives, visit Caring Connections, a program of the National Hospice and Palliative Care Organization, at www.caringinfo.org. As with all estate planning concerns, be sure to consult your team of professional advisors to fully understand the impact of advance directives.

what you should know about reverse mortgages

continued from page two

practice, you can file a complaint with your state's attorney general's office and with the FTC online at www.ftccomplaintassistant.gov, or by phone at 1-877-FTC-HELP.

Cancelling the Loan

Normally, you have at least three business days after closing to cancel the reverse mortgage for any reason with no penalty. But your notification to cancel must be sent to the lender in writing, preferably by certified mail with return receipt requested. Keep copies of all your loan-related documents. The lender then has 20 days to return any financing you have paid for up to that point.

Determining whether a reverse mortgage is appropriate for you can be a time-consuming undertaking, but may be well worth the effort to supplement your retirement income for whatever you may need. You can also research the possibility of less costly alternatives. Remember, consider all your options carefully before signing on for a loan, and simply walk away from any high-pressure sales pitches.

Building Your Child's Financial Foundation

It is important to start as early as possible helping children understand the value of money and the responsibilities that go with it. By gradually introducing your child to financial matters, you will provide the opportunity for a child to deal with money directly. Here are some ideas to help build your child's financial foundation:

Take your child with you when you cash your paycheck, make regular deposits to your savings account, or go grocery shopping. Teach your child how to prioritize buying decisions and save money for future goals.

Allow your child to handle his or her allowance independently. However, in order to teach your child self-discipline with spending and saving, stick to a set schedule for paying your child's allowance.

Present opportunities to your child for earning extra cash to spend as he or she wishes, but remember to reinforce the importance of saving at the same time.

By showing your child ways to manage money early on, you will be building your child's financial foundation for the future.

insurance needs for dual income families

continued from page one

insurance plans. For example, policies bought at a younger age may have lower costs, build cash value, and maintain level premiums.

Generally, the cost for life insurance policies is lower when purchased relatively early in life. However, it is important to re-evaluate insurance coverage over time and as your circumstances change. The protection that life insurance policies provide for dual income families can best be calculated by periodically analyzing *all* life insurance needs to determine the best plan for your family.

Now, what about loss of family income due to *disability*? This possibility is not as unlikely as you might think. According to the Insurance Information Institute (III, 2011), 43% of all people age 40 will experience a long-term disability (lasting 90 days or more) by age 65. A debilitating illness or injury that eliminates or reduces your family's primary source of income can be challenging. So, you may want to consider purchasing ***individual* disability income insurance**, which could help replace a portion of lost income in the event the insured spouse sustains a qualifying disability.

Dual income families have become a fixture in today's society. Although individuals may have different reasons for working, most families come to depend upon that second income, whether it is used to meet current or future needs. Therefore, it is important to consider the dual protection that life and disability income insurance policies on both spouses can provide. Be sure to consult a qualified professional about your unique situation.