

When is a Prenup a Great Valentine's Day Gift? When it's Time to Remarry

No, it's not exactly candy and flowers. But for couples attempting another try at marriage, a prenuptial agreement can either set the groundwork for a new and trusting relationship, or a good reason to call it a day.

It's actually not the agreement by itself that makes the difference – it's the process. When two parties sit down to formalize a prenuptial agreement with their respective attorneys or mediator, it requires both sides to make full disclosure of their current financial situation and long-term money goals.

Prenuptial agreements can be considerably more complex for couples making a repeat trip down the aisle. Money issues are not just a matter of full disclosure between two people – in remarriage, they can affect a much wider audience including parents, siblings, children from previous marriages. In some cases, there are sizable business and personal assets gathered before the upcoming wedding day that must be protected.

It is always wise to consult a financial adviser, such as a CERTIFIED FINANCIAL PLANNER™ professional, to set the ground rules for this process, though legal documents that hold up in court generally need review by respective family law and estate attorneys.

Here are the primary issues any remarrying couple should discuss:

What about our families? Note we're not just talking about kids, though they're typically the center of the discussion. Indeed, if couples are bringing children from previous marriages into a blended family, it's necessary to establish not only how they will be supported and educated, but also what percentage of the family assets they will be entitled to in case their biological parent dies. There may be alimony and other support arrangements already in place for ex-spouses and children from earlier marriages as well as elderly parents to support. All of these financial requirements need to be spelled out beforehand.

Is there debt? And if so, how much? The first money conversation should take place at a table with both sides showing their savings, investments and debt figures – every dime. Both should start the process of talking about how that debt should be paid off – by the person who accrued it or by both potential spouses. Couples also need to decide how they will handle debt going forward – jointly or separately.

Are there investments? If so, how will they be handled once the couple is married? Will they be held after the marriage in joint tenancy, and what will the process be to effect that? From a tax perspective, does it make sense to do anything specific with those assets before the wedding? And after the wedding – assuming debt is being dealt with – how will you maximize those investments?

What about our businesses? If one or both spouses run their own companies or partnerships, that's an urgent call for prenuptial planning since it may relate to a large asset that affects the future of many family members. Depending on the size and complexity of the operation, some advisors might encourage couples to go through a formal valuation process of those assets to

establish a base of wealth going into the marriage. A prenup could spell out who will get future percentages of those assets if the couple splits – this is particularly necessary if the goal is to keep the company in the hands of the founding family.

How will we handle daily expenses? This is a universal question in any marriage, the first or the sixth. Couples need to agree on how they'll share accounts and pay bills. The most common option is to create one joint account. Others work with three accounts – one joint and then one for each individual.

What about insurance? Life, health, home, and disability – all coverage that singles hold separately needs to be reviewed and consolidated to make sure the couples and their families have adequate coverage after the wedding.

What about our estates? There should be separate wills and supporting documents on who will get what investment, personal and business assets with updated beneficiaries – particularly when children from first marriages are involved. Particularly in blended families, it's necessary to spell out who gets Grandma's jewelry or Grandpa's business. And no matter how young or old the couple, health directives need to be made.

What about retirement? Retirement discussions go beyond money. Couples should decide how they want to live in retirement, whether they'll continue to work and what will happen if one or both get sick. This is a particularly important discussion if one spouse is significantly older than the other and may retire years ahead.

What about our tax status? It makes sense for couples to consider their tax status before they marry, particularly if there are sizable business or personal assets being brought into the marriage or past tax liabilities. In any event, remarrying couples should involve a tax expert in all pre-marital financial planning.

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When Considering Long-term Care Insurance, Don't Forget the Tax Issues

With Baby Boomers marching *en masse* into their senior years, the question of whether or not to buy long-term care (LTC) insurance is taking center stage.

The first move is to take a look at current annual long-term care costs in your area (http://longtermcare.genworth.com/comweb/consumer/pdfs/long_term_care/Cost_of_Care_Survey.pdf) and ask yourself that if you had to spend anywhere from one to three years in the worst-case scenario – needing 24/7 nursing home care – could you afford it out-of-pocket based on today's figures? Depending on where you live, such a burden might be well over \$120,000 a year.

This is where a meeting with a financial expert comes in handy. Your age, your current finances and your family health history are variables that should be discussed in planning a health care safety net, and not just for your end-of-life years. (Long-term care needs can surface on an intermediate basis as we age as well.) As LTC insurance products have matured, they have generally gotten better for most individuals, but they still require expertise to choose the coverage that matches the individual.

A basic LTC insurance policy pays for assistance with activities of daily living including eating, dressing, bathing, toileting, incontinence and transferring (bed to chair, etc.). Each policy lists the types of services that are covered under nursing home care and under home health care. Homemaker services are generally covered and other services as listed in the policy.

But within the specific discussion of long-term care insurance, potential buyers should also know the tax ramifications of buying such policies as well. LTC policies come in two varieties – tax-qualified and nonqualified. Today, most LTC policies are qualified, which means they follow the 1996 Health Insurance Portability and Accountability Act (HIPAA) and therefore any payments made on those policies are tax-free, the same as benefits under a traditional health insurance policy. It always makes sense to ask – and see the language guaranteeing the policy's tax status – so you know you're not at risk of the IRS declaring those benefits as ordinary income.

Also, in some cases, tax-qualified LTC policies may be declared a form of health insurance, which means that the premiums may be declared as part of your overall medical expenses and if you itemize you may be entitled to a deduction based on your age and if your total medical expenses exceed 7.5 percent of your adjusted gross income. Premiums on nonqualified policies are completely nondeductible.

For qualified LTC policies the tax-deductible portion of the yearly premium is inflation adjusted. For 2007, \$290 is deductible at age 40 or less, \$550 at age 41 through 50, \$1110 at age 51 to 60, \$2,950 at age 61 through 70 and \$3,680 at age 71 and older. It's good to have a discussion with your tax and financial adviser to make sure you're not subject to the alternative minimum tax (AMT).

For self-employed individuals, LTC tax breaks are more attractive. For LLC owners, partners or

sole proprietors, all the premiums can be deducted for a qualified long-term care policy subject to certain age-based limits.

This is why it's a particularly good idea for self-employed individuals – or individuals planning to become self-employed after they retire from their current jobs – to ask their tax and financial experts about LTC insurance after they reach age 50.

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Headed for College? Whether It's You or Your Kid, It's Time to Check the Rules on Financial Aid

On Jan. 1, students became eligible to file their Free Application for Federal Student Aid (FAFSA) online for the 2008-09 school year. Even if you feel you've planned well for your child's education or hope you'll have enough when he or she enrolls, it's a good idea to learn about financial aid well in advance.

Why? Because more than 60 percent of all college students now apply for some form of financial aid, and those numbers will go higher as college costs rise. A financial expert can give you personalized counseling on college planning and where financial aid might fit in.

In 2008, key deadlines are as follows for the 2007-08 school year:

- FAFSA on the Web applications must be submitted by midnight Central Daylight Time, June 30, 2008.
- Corrections on the Web forms must be submitted by midnight Central Daylight Time, September 22, 2008.

For the 2008-2009 school year:

- FAFSA on the Web applications must be submitted by midnight Central Daylight Time, June 30, 2009.
- Corrections on the Web forms must be submitted by midnight Central Daylight Time, September 15, 2009.

It's also time to check your own chosen state and schools' financial aid deadlines, which typically arrive sooner than the FAFSA deadline and have a separate application process. (For an overview of state financial aid deadlines, go to http://www.fafsa.ed.gov/before003a.htm#state_deadlines. Some states start as early as this month, and they'll want a completed FAFSA with any additional materials they require.)

Keep in mind that many private schools also require something called the CSS/Profile to determine financial aid eligibility at that level. To learn more about that form, go to <https://profileonline.collegeboard.com/index.jsp>.

It makes sense to learn about the FAFSA now, even if your child isn't going to college for at least a year. The FAFSA assesses the student and parents' income, investments, and other financial resources, and arrives at a number called the EFC, short for Expected Family Contribution. This is the amount the family is expected to pay before becoming eligible for need-based aid. The online version allows you to test those numbers in advance.

Some financial planners have specific training in college planning that can help you at any stage of the savings game. For more information, go to www.PlannerSearch.org for a list of planners that specialize in college planning.

It's important to know that the U.S. Department of Education is phasing out the paper version of the FAFSA, so you need to visit <http://www.fafsa.ed.gov/> for full instructions to apply online. If you or your child don't have access to a computer at home, you'll want to find one at a public

library or other location with adequate security so you can feel comfortable about sending your financial data online. If you're a student or a parent, here are the main tools you'll need to complete the form:

1. The student's Social Security number
2. Driver's license number
3. The student's recent tax information
4. The parents' most recent federal and state tax returns (for students registering as dependents)
5. Bank account and investment information
6. Documentation forms for resident aliens.

Applicants also need to indicate their school choices so the government can forward financial data to those schools. It is important for both the student and parent to apply for PIN numbers even before starting the FAFSA application. PINs allow you to "digitally sign" the form, significantly speeding up the process. But they take several weeks to arrive, so apply early.

The majority of financial aid comes in the form of loans, so you or your child will have to pay them back. But the loans are often subsidized, meaning you don't have to pay interest or principal on the loan until after the student graduates or quits school. That's a big help to cash flow. Furthermore, the student may receive work-study for 15 or 20 hours a week. Many colleges, particularly private schools, kick in grants or merit scholarships from endowment funds. You'll have to become a student of these options, but a trained financial expert can help you with short cuts.

Students who have already applied for financial aid with a FAFSA don't have to redo the form from scratch each year. The Renewal FAFSA, which is available at www.fafsa.ed.gov, retains much of the data in the original form (demographics, mainly) and allows updates for financial data like adjusted gross income, taxes paid and asset information. Students must file the renewal FAFSA each year if they want to be considered for aid.

One more thing. Did you know that in case of a borrower's death or disability, federal student loans are forgivable by the federal government? That means that in the case of the student's death, parents, spouses or other family members won't be saddled with that debt.

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