

FOLLOW THIS FINANCIAL PLANNING STARTER KIT

You no doubt have heard of the benefits of personal financial planning, and you probably want to better manage your personal finances. Yet it all seems so overwhelming. You're not sure where to start. Beef up your retirement accounts? Invest in mutual funds? Buy insurance? Look for ways to cut taxes? Budget? Get a will?

To help, here's a financial planning starter kit. It establishes priorities for anyone at any financial stage of life, from freshly minted college student to retiree, who has done little or no financial planning.

Establish or review a financial plan. At its most basic, a financial plan is a *written* set of goals and strategies and timelines for accomplishing these goals: buying your first home, funding or managing a retirement nest egg, funding college for your children, paying off debts.

Writing out this plan, whether on a yellow pad or with the help of a financial advisor such as a CERTIFIED FINANCIAL PLANNER™ professional, motivates you to carry out the other aspects of your financial life. It provides direction, sees you through the inevitable rough spots, and makes the most efficient use of your financial resources.

Review your plan periodically to adjust for changing financial circumstances or desires, or life events such as marriage, job loss, retirement, birth of a child, or a death.

Organize your financial records. It's difficult to successfully manage your finances if you don't know what those finances are. How much money do you *really* have in your investment accounts or what type and how much insurance do you have?

Beyond collecting and organizing the usual financial records such as investment accounts, bank and tax records, and estate planning documents, don't forget to inventory your household possessions. This documents not only their value for planning purposes but provides a list for the insurance company in the event your possessions are lost in a theft or natural disaster.

Calculate your net worth. Once your financial records are organized, calculate your net worth. This is your total assets, from investments and home equity to the value of your personal belongings, minus liabilities such as your mortgage, car and student loans, and credit card debt.

Net worth is the best measurement of the state of your financial health. Many of your major spending, saving, and other financial decisions are made, or should be, based on your net worth. You'll want to monitor and benchmark your progress in building your net worth in order to achieve your financial independence. Don't guess at this. Most households get it wrong.

Build an emergency fund. Ideally, you'll accumulate enough cash in it to see you through three to six months of bare-bones living should you lose your regular sources of income. Planners often recommend that retirees have two to five years of cash equivalents such as certificates of deposit and short-term bonds so they don't have to sell equities in their retirement portfolio during down markets.

Establish a spending plan. Again, regardless of your financial stage of life or your net worth, maintaining a spending plan that balances income with spending and savings should be a financial priority. It provides a way to keep on an even keel all the other good work you're doing financially. A spending plan identifies the key areas where you want your limited income to go, and identifies wasted spending. It also can provide an early warning sign of impending financial problems.

Reduce or minimize consumer debt. Debt drags down the rest of your financial efforts like a heavy anchor. If your consumer debt (excluding your mortgage) is eating up 15 to 20 percent or more of your monthly budget, make reducing it a priority.

Draft four key estate planning documents. Every adult should have (1) a will; (2) a financial durable power of attorney, which appoints someone to handle your finances if you are unable to; (3) a living will, which declares what life-sustaining medical treatments you want should you be incapacitated; and (4) a health care durable power of attorney, which appoints someone to watch out for your medical interests.

Have proper insurance. Managing your risks is essential to your long-term financial security. Insurance, from medical and disability coverage to life and homeowner's, protects you from financial catastrophe. Don't skip it, or skimp on it, to "save money."

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FINANCIAL PLANNING FOR GRANDPARENTS RAISING GRANDCHILDREN

Are you raising a grandchild? Careful financial planning can help you manage what often can be a financially challenging time for grandparents.

Grandparents raising grandchildren is on the rise. According to figures compiled by AARP's Grandparents Information Center, 6.3 percent of the nation's children under the age of 18 live in a grandparent-headed household, an increase of 30 percent from 1990 to 2000.

The causes for this situation are many, including parents in prison, drug-addicted parents, divorced parents, death, neglect, abuse, joblessness, and illness. Grandparents usually assume the responsibility for their grandchildren out of love. But that doesn't negate the financial burden that typically falls on the grandparents. Beyond the additional expenses associated with raising a child, grandparents may have to quit jobs to care for grandchildren or come out of retirement to earn additional money.

Here are several financial tips from CERTIFIED FINANCIAL PLANNER™ practitioners to minimize the financial impact.

Plan ahead. You may not have the luxury of time, or you may not feel you have a choice in the matter. But if it's possible, know exactly what you're getting into financially *before* you take on the responsibility. What are your financial options? Will the parent or parents be contributing support? Is the grandchild a problem child who might create liability issues for the grandparent?

Learn your legal options. If care of your grandchild will be long term or permanent, you'll want to look at your legal options. The legal relationship to your grandchild will affect a host of financial concerns, including your ability to obtain financial assistance from government agencies or certain services such as medical care for your grandchild.

Options include foster care, adoption, and legal guardianship. Each has its pros and cons, with laws varying from state to state. For example, adoption may cause you to lose financial assistance from one program but gain it from another. Talk to your financial planner and an attorney before making any permanent decisions.

Arrange for health insurance. Finding health care for a grandchild can be challenging. If the grandparents are still working, their employer likely won't cover the grandchild unless the grandchild is officially a dependent on the grandparents' tax return – and even then some employers won't provide coverage. A grandchild can't be covered under Medicare, either.

If care is going to be short term, an individual short-term medical policy can be affordable. More permanent individual coverage will likely be much more expensive, so

you may need to consider government programs for low-income households such as Medicaid or special state children's health insurance programs (CHIPs or similar names). With few exceptions, most states don't consider a grandparent's income when determining income eligibility for these programs, so a grandchild usually qualifies.

Where do you live? This is often another major challenge that especially needs to be thought about before the grandparents commit. Retirement centers, for example, may not allow children. Or the grandparents may live in an apartment or home that's too small to comfortably house children. Building an addition to a home can be very expensive.

Don't sacrifice your retirement. Most financial planners recommend that parents not sacrifice saving for their retirement in order to save for their children's college education. A child can always work and get financial aid to get through school. The same advice applies to grandparents who are still working. Those nearing retirement need to keep saving because financial aid isn't available for retirement.

Take advantage of tax breaks. Most grandparents raising dependent grandchildren under the age of 17 can take the \$1,000 child tax credit per child, unless the grandparents have high income. Working low-income grandparents may qualify for the federal earned income tax credit, and some states offer a similar tax credit. If you pay for childcare, don't forget the childcare tax credit.

Consider outside help. See if local agencies for the aged provide help to grandparents who are caregivers. Low-income grandparents may qualify for the state-run Temporary Assistance to Needy Families program.

Revamp your will and other financial documents. You may want to revise your will and name your grandchildren as beneficiaries on insurance policies, retirement accounts, and other financial assets, particularly if you become permanently responsible for them and you don't want assets going to their parents. Consider the appropriateness of trusts, such as special needs trusts or a living trust.

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PHASING INTO RETIREMENT

Retirement day for most workers might be thought of as racing home from the job, screeching to a halt in front of their house, and never again getting into the work car. But some workers would prefer to take a more leisurely drive home by “phasing” into their retirement.

There is no official definition of phased retirement, but it is widely viewed as a way to segue into full retirement through reduced work hours such as part time, fewer days, consulting, job sharing, or a full-time schedule for a limited number of weeks.

Two out of five workers age 50 or older expressed interest in this concept, according to a recent AARP survey, though only one in five had even heard the term “phased retirement” before it was presented to them in the survey. Four of five workers interested in phased retirement said they would stay longer in the workforce if it was available, and one in three current retirees said they would have worked longer if phased retirement had been an option at their former employer.

The idea of phasing into retirement offers several benefits to workers. Commonly, retirees have returned to work because they hadn’t saved enough to live on during retirement or they lack adequate health insurance until Medicare kicks in at age 65. Phasing into retirement allows workers to reduce the amount they need to save for full retirement, “practice” at retirement by living on a smaller income stream, and further build up their retirement accounts. It also allows them to either continue employer-sponsored health care coverage or earn enough income to pay for transitional private coverage.

Proponents of phased retirement see benefits for workers beyond just financial. Many workers receive important psychological, intellectual, and emotional rewards from work. It gives them a sense of self-worth. Some workers take the attitude of “retire and die” or “you rest, you rust,” which is another common motive for retirees to return to work.

Another benefit of phasing into retirement is social. Colleagues comprise a social network for workers, sometimes off the job as well as on. Full-time retirees sometimes find themselves lonely and bored if they don’t have other social networks.

Some observers have argued that without these psychological and social underpinnings of work, as well as the loss of structured time, retirees may actually suffer a physical decline. Consequently, easing into retirement provides the worker a better chance to find alternatives that will substitute for these benefits, such as new friends, new hobbies, new ways to find psychological rewards.

Despite potential benefits of phased retirement for workers, it is not available to many. A 1999 study by Wyatt Watson Worldwide found only 16 percent of large employers

with formal phased retirement programs.

But a proposed change last fall in federal pension law by the U.S. Treasury Department could make phased retirement more common. The proposed new private pension rules would allow workers to phase into retirement and simultaneously begin collecting a portion of their benefits from their employer's defined-benefit pension plan — something workers couldn't do before. To be eligible, participants must be at least age 59 ½ and must reduce their hours at least 20 percent.

The proposed rules also deal with another major concern for workers thinking about phasing into retirement: its potential impact on the calculation of their pension benefits. Normally, traditional pension benefits (as opposed to payouts from a defined-contribution plan such as a 401(k)) are based on the number of years you work full time and the average amount of wages earned in the last years of work. Phased retirement could, consequently, reduce the amount that's paid out in monthly benefits or a lump sum.

The proposed rules require employers to treat the employee "in the same manner as if the employee were still maintaining a full-time work schedule." Nonetheless, workers phasing into retirement could still see reduced lifetime pension benefits because their years of service would be less or their average income would be less (the proposed rules prevent employers from taking both into account at the same time).

Also keep in mind that workers often are forced to fully retire due to poor health or unemployment. So the better you can prepare yourself financially for retirement through savings, the more flexibility you will have whether you can phase into it or you're brought to a screeching halt.

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