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What You Should Know about Reverse Mortgages

You're probably familiar with the TV ads featuring famous actors touting the benefits of a **reverse mortgage** for "house-rich" but "cash-poor" homeowners who are age 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.

You may be among the many eligible homeowners who may be considering a reverse mortgage to help meet financial needs in retirement by securing a loan that requires no repayment until the last borrower sells the home, moves permanently, or dies. 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.

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Permanent Life Insurance: Offering Benefits at Any Age

With life expectancies on the rise, many Americans can expect to live 20 to 30 years in retirement. For many people, the perception of retirement may lead to thoughts of pursuing passions and accomplishing long-standing goals, such as exotic travel or new business pursuits. However, with so many dreams to fulfill and a growing number of retirement years to plan, an early start to retirement planning has never been more crucial. So, regardless of your age, it is important to begin planning today for your future financial independence and that of your loved ones.

As you create your retirement plan, you may find that the inclusion of **permanent life insurance**, also known as **cash value life insurance**, may be beneficial. Permanent life

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What You Should Know about Reverse Mortgages

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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. Let's take a closer look at this option and the costs involved. The following three types of reverse mortgages 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 up front 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, such as long-term care insurance or annuities, as part of a package to get a reverse mortgage. If you suspect that you have been subjected to a deceptive business 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. $

Paying for College with Help from Uncle Sam

When thinking about funding sources for your children's college education, you may assume your family earns too much to qualify for Federal grants, loans, and work-study job assistance. However, families with higher incomes are frequently eligible to receive some form of financial aid from the Federal government.

The U.S. Department of Education (DOE) uses a formula for calculating financial aid eligibility that considers a range of factors in addition to income and assets, including family size and other financial obligations. When assessing a family's ability to pay for college, the Federal government recognizes only a small percentage of parents' assets as potential contributions, while other types of assets, including home equity and savings in IRAs and 401(k) plans, do not factor into the qualification formula.

Filing the FAFSA

Even if you expect to cover your child's college costs through sources other than Federal aid, it is usually worthwhile, if not required for you to complete the Free Application for Federal Student Aid (FAFSA) as the initial part of the process. In addition to determining your family's eligibility for Federal assistance, the FAFSA is the primary qualifying form used by many college, state, local, and private financial assistance programs.

The first step in applying for financial aid is filling out the FAFSA, which is distributed and processed by Federal Student Aid, an office of the DOE. Hard copies of the FAFSA are often available at high school guidance offices, libraries, or post offices, or by calling the Federal Student Aid office. The simplest way to complete the FAFSA is by applying online at www.fafsa.ed.gov. Filling out the form online will alert you to mistakes or omissions; it can also expedite the processing time by one to two weeks.

The documents you will need as a parent to complete the FAFSA include your Federal income tax return and W-2 forms from the previous year, current bank statements, records of untaxed income, such as Social Security or veteran benefits, current business and investment mortgage information, and investment records. If you are divorced and are the child's custodial parent, only information about your own household's income and assets, including any child support and alimony, are required by the FAFSA. While some colleges look at the financial resources of the noncustodial parent in determining the student's need, the Federal government does not.

The Student Aid Report

When filling out the FAFSA, you may request that your financial information be sent to up to six colleges. If your child intends to start college next fall, it is advisable to file the FAFSA as soon as possible after January 1, because deadlines for submitting FAFSA information can be early in the year for some colleges and state awards programs.

Within a few days to a month after it is filed, you should receive by postal mail or e-mail a form known as the Student Aid Report (SAR). On the SAR, you will find the Expected Family Contribution (EFC), an estimate of the amount of your family contribution toward the student's college expenses for the year. The colleges you listed on the FAFSA will use this figure as a basis for determining the amount and type of any financial aid you will receive.

If financial need is determined, the schools that admit your child as a student will prepare a financial aid package covering all or part of the difference between your family's EFC and the cost of the college. Depending on your family's income and the resources of the institution, colleges may offer more or less aid than the difference between the EFC and the cost of attendance.

The type of Federal aid your child receives is largely based on family income. Lower-income students may be awarded grants that do not need to be repaid, such as the Pell Grant or the Federal Supplemental Educational Opportunity Grant (FSEOG), and additional assistance may be available in the form of a Federal work-study job.

Besides these awards, students may be eligible for subsidized Federal loans, such as the Perkins Loan or the Stafford Loan. These loans must be repaid by the student, but the government pays the interest while the student is in school and during grace and deferment periods.

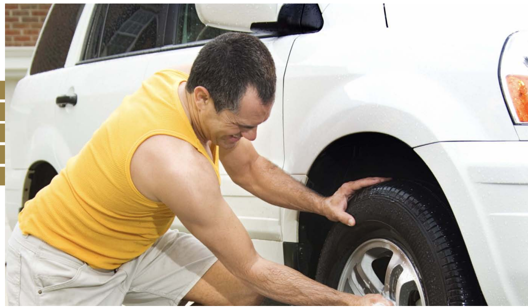
In addition, your family may be offered an unsubsidized Stafford Loan, which must be repaid by the student, or a PLUS Loan, which is in the name of the parents. Interest accrues on these unsubsidized loans from the time the funds are disbursed, though payments may be deferred until after graduation.

When loans offered by Federal programs prove insufficient to cover the actual costs of your child's education, you can apply for a private education loan. However, these loans tend to have higher interest rates than government loans. To learn more, visit www.studentaid.ed.gov or www.fafsa.ed.gov. $

Tax Benefits of Donating Used Vehicles to Charity

Donating a used car or other vehicle to charity is a great way to support the nonprofit of your choice, while also allowing you to claim a deduction on your Federal income tax return. But the rules governing vehicle donations have tightened in recent years. Consequently, it is important to be aware of the process involved in donating a car and the procedures that must be followed when claiming the deduction.

Many charities, both large and small, now accept vehicle donations. The types of vehicles that qualify for the tax deduction include all privately owned automobiles manufactured primarily for use on public roads, as well as boats and airplanes. In order to claim a deduction, however, the charity that receives the gift must be recognized by the Internal Revenue Service (IRS) as a 501(c)(3) organization. Available online and at most public libraries, IRS Publication 78 includes an annually updated list of qualified charities.



Prior to a change in rules in 2005, taxpayers were permitted to write off the fair market value of the donated vehicle. But under current law, you are only allowed to deduct automatically the good faith fair market value of the car if the estimated amount does not exceed $500.

The IRS defines fair market value as the price a willing buyer would pay and a willing seller would accept for the vehicle when neither party is compelled to buy or sell and both parties have reasonable knowledge of the relevant facts. When assessing the value of the vehicle, use a pricing guide based on make, model, year, options, and accessories, as well as the condition of the car.

If the vehicle is assessed at a value between $500 and $5,000, the size of the deduction depends upon what happens to the vehicle after the charity has received it. If the charity sells the car, your deduction is limited to the exact amount of the sale price. Different rules apply, however, if the charity makes what the IRS calls "significant intervening use" of the vehicle before it is sold or otherwise disposed of. If, for example, a donated car with a fair market value of $1,500 is used by the charity for several months for pickups and deliveries before it is sold at auction for $1,200, the donor would nonetheless be permitted to claim a deduction of $1,500.

The donor may also claim the fair market value, rather than the sale price, if the charity sold the car to a "needy individual" at a much lower price than the actual value or if the organization makes a "material improvement"—generally, reconditioning work that is more than routine or cosmetic—before selling the vehicle. If, however, the vehicle is ultimately sold for less than $500, the taxpayer may claim a deduction for the lesser of the vehicle's fair market value on the date of the contribution or $500.

Keep in mind that writing off your vehicle donation is only possible if you itemize your deductions. To claim a vehicle deduction above $500, the receiving charity must provide you with a written acknowledgement of receipt that includes detailed information about the intended use and sale of the vehicle. The charity is required to provide you with substantiation of the donation within 30 days of the date when you signed over the automobile or, if the car is sold, within 30 days of the sale. A copy of the receipt must be filed with the tax return, along with IRS Form 8283, "Noncash Charitable Contributions." If the vehicle is worth more than $5,000, you must also attach documentation from a qualified appraiser. If the donated car is worth between $250 and $500, obtain a written acknowledgement of the contribution from the charity for your records. You are not required to attach the acknowledgement to your tax return.

When donating a vehicle, steer clear of for-profit intermediaries that advertise offers to help you manage your charitable donation, as these middlemen often keep the bulk of the proceeds from the sales of donated cars. If possible, give the vehicle to a charity with a donation program that enables them to accept the vehicles directly. Also consider avoiding charities that do not allow you to re-title the car when turning it over to them, as this leaves you vulnerable to liability.

If you're considering the donation of a used vehicle to charity, you may qualify for a Federal income tax deduction. For more information, consult your tax professional. $

Understanding Interest Rates and Your Financial Situation

When discussing bank accounts, investments, loans, and mortgages, interest rates are an important concept to understand. Interest is the price you pay for the temporary use of someone else's funds; an interest rate is the percentage of a borrowed amount that is attributable to interest. Whether you are a lender, a borrower, or both, carefully consider how interest rates may affect your financial decisions.

The Purpose of Interest

Although borrowing money can help you accomplish a variety of financial goals, the cost of borrowing is interest. When you take out a loan, you receive a lump sum of money up front and are obligated to pay it back over time, generally with interest. Due to the interest charges, you end up owing more than you actually borrowed. The trade-off, however, is that you receive the funds you need to achieve your goal, such as buying a house, obtaining a college education, or starting a business. Given the extra cost of interest, which can add up significantly over time, be sure that any debt you assume is affordable and worth the expense over the long term.

To a lender, interest represents compensation for the service and risk of lending money. In addition to giving up the opportunity to spend the money right away, a lender assumes certain risks. One obvious risk is that the borrower will not pay back the loan in a timely manner, if ever. Inflation creates another risk. Typically, prices tend to rise over time; therefore, goods and services will likely cost more by the time a lender is paid back. In effect, the future spending power of the money borrowed is reduced by inflation because more dollars are needed to purchase the same amount of goods and services. Interest paid on a loan helps to cushion the effects of inflation for the lender.

Supply and Demand

Interest rates often fluctuate, according to the supply and demand of credit, which is the money available to be loaned and borrowed. In general, one person's financial habits, such as carrying a loan or saving money in fixed-interest accounts, will not affect the amount of credit available to borrowers enough to change interest rates. However, an overall trend in consumer banking, investing, and debt can have an effect on interest rates. Businesses, governments, and foreign entities also impact the supply and demand of credit according to their lending and borrowing patterns. An increase in the supply of credit, often associated with a decrease in demand for credit, tends to lower interest rates. Conversely, a decrease in supply of credit, often coupled with an increase in demand for it, tends to raise interest rates.

The Role of the Fed

As a part of the U.S. government's monetary policy, the Federal Reserve Board (the Fed) manipulates interest rates in an effort to control money and credit conditions in the economy. Consequently, lenders and borrowers can look to the Fed for an indication of how interest rates may change in the future.

In order to influence the economy, the Fed buys or sells previously issued government securities, which affects the Federal funds rate. This is the interest rate that institutions charge each other for very short-term loans, as well as the interest rate banks use for commercial lending. For example, when the Fed sells securities, money from banks is used for these transactions; this lowers the amount available for lending, which raises interest rates. By contrast, when the Fed buys government securities, banks are left with more money than is needed for lending; this increase in supply of credit, in turn, lowers interest rates.

Lower interest rates tend to make it easier for individuals to borrow. Since less money is spent on interest, more funds may be available to spend on other goods and services. Higher interest rates are often an incentive for individuals to save and invest, in order to take advantage of the greater amount of interest to be earned. As a lender or borrower, it is important to understand how changing interest rates may affect your saving or borrowing habits. This knowledge can help with your decision-making as you pursue your financial objectives. $

Life Insurance: How Much Is Enough?

You may already be aware of the importance of having enough **life insurance** coverage to handle financial matters that could affect your family in the event of your death. However, determining the appropriate amount of life insurance coverage for your family can be complicated. Rather than use an arbitrary formula, such as having enough coverage to equal five to seven times your annual salary, you may want to conduct a "**needs analysis.**"

A needs analysis incorporates an evaluation of your family's most important financial obligations and goals. It can help you plan to address mortgage debt, college expenses, and funds for your family's future, as well as liquidity for meeting potential estate tax liabilities with life insurance coverage.

Mortgage Debt

You may want to consider whether your life insurance proceeds will be sufficient to help pay the remaining mortgage on your home. If you are carrying a large mortgage, you may need to increase your life insurance coverage. If you own a second home, you may also want to factor in that mortgage into the formula.

College Expenses

Many people want life insurance proceeds to help cover their children's college, and possibly graduate school, expenses. The amount needed can be roughly calculated by matching the ages of your children with projected college costs adjusted for inflation. Because it may be difficult to project costs that far into the future, it is important to revise this calculation periodically as your children get closer to college age. When estimating long-term savings goals, it may also be a good idea to be as conservative as possible.

Your Family's Lifestyle

The amount you may need to help provide for your surviving spouse and dependents will vary according to your age, health, retirement plan benefits, Social Security benefits, and other assets, along with your spouse's earning power. Many surviving spouses may already be employed or will find employment, but your spouse's income alone may not be sufficient to cover your family's current lifestyle. Providing a supplemental fund can help your family maintain its standard of living in the event of your death.

Estate Taxes

Life insurance has long been recognized as a method for establishing liquidity at death to pay estate taxes and maximize asset transfers to future generations. Be sure to consult your qualified tax and legal advisors to help ensure the desired results.

Existing Resources

If your current assets and any other death benefits are sufficient to cover your financial needs and obligations, you may not need additional life insurance for these purposes. However, if they are inadequate, the difference between your total assets and your total needs may be funded with life insurance.

There are many factors to consider when completing a needs analysis. In addition to the areas already mentioned, ask yourself the following questions:

1. What are your estimated Social Security benefits upon retirement?
2. How do you "inflation-proof" your family income, so the real purchasing power of those dollars does not decrease?
3. What is the earning potential of your surviving spouse?
4. How often should you review your needs analysis?
5. How can life insurance help provide resources for your retirement?
6. How do you structure your estate to reduce the impact of estate taxes?
7. Which of your assets are liquid and which would not be reduced by a forced sale?
8. Which of your assets would you want your family to retain because of sentiment or future growth possibilities?

As you evaluate your insurance needs, remember to assess your existing policies. Calculate the additional coverage you may need based on your family's financial obligations and any other resources, such as retirement benefits and personal savings. Planning now may help to protect your family's financial future. $

Permanent Life Insurance: Offering Benefits at Any Age

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insurance can offer protection to your family during your working years when financial obligations may be greatest. This type of insurance can be valuable in the long term, because the younger you are, the more affordable it may be. In addition, the longer the policy is held, the greater its potential future value may be. Here are some ways in which permanent life insurance may help safeguard your financial outlook in retirement:

1. Lifestyle benefits. Building assets to generate sufficient income is a major concern of many people planning for retirement. As life expectancies increase, your existing assets must support you for an unspecified number of years. Permanent life insurance may help ensure that a surviving spouse will be financially sound with tax-free income from the death benefit provided by the policy. Additionally, couples may choose to access the cash values to supplement retirement income or to pursue a lifelong goal. However, any cash value that is not repaid will reduce the policy's death benefit amount.

2. Burial expenses. End-of-life medical and burial expenses can be significant. Unfortunately, without life insurance coverage or any pre-planning in place, surviving family members may have to pay these expenses from their own assets. The proceeds of a life insurance policy can be used to help cover these expenses.

3. Estate protection. Many people are concerned about the legacies they will leave their heirs. Permanent life insurance can create an instant estate for the named beneficiary. It can also provide funds to help cover the cost of estate taxes. Asset transfers to beneficiaries other than a spouse that exceed the **applicable exclusion amount** ($5.34 million in 2014) may be subject to substantial estate tax, and insurance policy proceeds may be used to help pay these taxes. With proper preparation, you and your loved ones can help ensure that family heirlooms and property remain in the family and will not have to be sold quickly to pay estate taxes.

How It Works

Provided that policy premiums are paid on time, a permanent life insurance policy can provide coverage for your entire lifetime. In fact, for certain policies, benefits include premiums that may never increase, benefits that never decrease, and a policy that cannot be canceled regardless of changes in your health.

Permanent life insurance policies offer death benefits that are free of income tax, as well as a tax-deferred cash value component. This means that a portion of premium payments to a permanent life insurance policy is used to build cash value, which can be borrowed, often on a tax free basis, for a variety of uses. Retirees may use cash values to help cover educational expenses for younger generations, supplement retirement income, pay for travel, start a new business venture, or even purchase a second home.

It is important to note that distributions of cash value will have an impact on the policy. Distributions under a policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). However, if the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Many permanent life insurance policies also offer non-guaranteed dividend payments, which can be paid when the insuring company's expenses are lower than originally projected. Dividends can be used for a variety of purposes, including as a source of income or as a means to buy additional coverage or to cover existing premium payments.

Permanent life insurance policies may offer a variety of benefits to you and your family throughout your lifetime. In addition to the knowledge that your designated beneficiary (ies) will receive the proceeds of the policy upon your death, you may also have the ability to access the cash values before that time. A permanent life insurance policy can be an important component of an ongoing, long-term financial strategy at any age. $

When the Going Gets Tough: Cultivating Resilience

Building and sustaining a business is not a task for the faint of heart. As anyone who has launched a business from the ground up knows, transforming an idea into a successful enterprise requires not only technical know-how, but also a steadfast willingness to work hard and weather the setbacks that inevitably come with establishing a new business in a competitive marketplace.

But when the going gets really tough, how do you maintain your energy and optimism? While most of us are born with some ability to cope with adversity, resilience is also a skill that can be learned and cultivated. By considering in advance how you would recover from an adverse change in circumstances, you can prepare yourself to bounce back quickly from even the most challenging situations.

While there are some practical steps you can take to protect yourself from potential setbacks, such as having sufficient insurance and savings, problems may arise for which no protection is available, such as an abrupt downturn in the market or the unexpected loss of a major client or key employee. By approaching these unanticipated setbacks with the right attitude, you may be able to address the problem more competently and more quickly.

Keep in mind that resilience does not necessarily mean going it alone. By building your personal and professional networks, you ensure that you have trusted allies who can provide encouragement and advice when problems arise. While friends and family members can be an invaluable source of support in a crisis, they may not understand all the issues you face in your business. By joining industry organizations and getting to know other people working in your field, you create a support network of professionals you can consult when weighing how best to handle specific problems related to your business. An experienced mentor can also provide insight and encouragement.

However, just talking about problems does not resolve them. You must be prepared to take whatever action is necessary to meet the challenges ahead. Start by making a detailed list of possible ways to address a problem, and then assess pros and cons of each. If, for example, market conditions have changed, revisit your business plan and adjust your goals to the new environment. Rather than becoming discouraged because you are unable to meet your original goals, set your sights on hitting new targets. Don't be afraid to consider unconventional strategies, such as partnering or bartering with other businesses, or branching out into a seemingly unrelated business area. Simply by doing what you can each day to improve your situation, you may find that you are gaining positive momentum that can help propel you forward, despite obstacles.

If current circumstances cannot be easily changed, strive to accept the situation. Some problems, such as a downturn in your particular market, could remedy themselves with time. If work is slow, consider taking breaks to travel, get outside, or spend time with family or friends. Catch up on sleep, get more exercise, improve your diet, or clean out your closets at home. Focusing on your overall well-being—and getting some distance from the business-related issues you have been focusing on so intensely—can generate a much-needed shift in perspective and provide new insights into solving some seemingly insurmountable problems.

Whatever your difficulties, do not overlook the assets you have acquired. Take the time to appreciate the strengths within your organization. Even if you have downsized your workforce in response to the economy, remind your remaining employees how the company can continue to be competitive, despite the challenges in the marketplace. If you demonstrate a steadfast willingness to work hard and weather the inevitable ups and downs with energy, optimism, and resilience, your staff may also do the same. Together, you can work toward the success of the business. $

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