WISERWoman

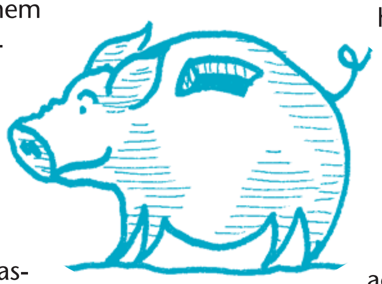
A QUARTERLY NEWSLETTER FROM THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

Specially Prepared for the Center for American Nurses

Beyond Savings: Four Steps to Bolster Your Future Retirement Security

Life-altering calamities can strike at any time and can challenge the best-laid financial plans. These events happen unexpectedly, and force us to deal with practical issues at a time when our emotional state may leave us struggling to think clearly.

Contrary to popular superstition, planning for these contingencies does not make them more likely to happen! Advance planning makes the adjustment to life's inevitable bumps smoother.



The centerpiece of a good retirement plan is **saving** an adequate amount in workplace plans such as 401(k)s or IRAs and acquiring other assets such as a home. We can't emphasize that enough. **But, protecting these assets in the event of a tragedy is also important.** The death of a spouse, a long period of disability or myriad other tragedies can wipe out your savings and derail your retirement plans.

So, in addition to saving, here are four steps to bolster your financial security:

1. Assess your insurance needs and buy enough to protect yourself.
2. Create and agree on a will for you and your partner.
3. Check names on all accounts.
4. Organize and maintain files of financial information.

1. Assess Your Insurance Needs and Buy Enough to Protect Yourself

There are four kinds of insurance women should have: disability, life, health and homeowner's insurance.

Disability insurance. Most people underestimate their risk of disability. For instance, did you know that disability is more often the result of illness than accident? Furthermore, workers at the age of 30 have a *one in three chance* of being disabled for three months or longer, and a woman at age 45 is three times more likely to be disabled than to die prematurely. A disability often occurs suddenly and has a dramatic effect on your ability to cover living expenses, and it frequently wipes out savings, including retirement savings.

Check to see what disability coverage you might already have at work. If you need additional coverage, it's often less expensive to buy more through an existing employer plan than to buy coverage on your own. If you're single (without dependents) and have to choose between disability and life insurance, choose disability.

If you don't have coverage at work, research the terms of disability insurance products carefully and buy from a reputable company. Both The Actuarial Foundation and The Consumer Federation of America offer excellent information on disability and purchasing coverage. See their websites: www.actuarialfoundation.org and www.consumerfed.org.

Life insurance. Each wage-earning spouse should buy enough life insurance in their working years to cover all of the couple's joint debts, like mortgages and student loans, plus 20 percent. The extra 20 percent is a precautionary measure in case there isn't an opportunity for employment or benefits to kick in after a partner's death. A few dollars more a month will buy a lot of breathing room later. If you are single and have no dependents, you don't need life insurance; instead, spend the money to buy disability insurance.

Many employers offer life insurance to full-time employees, and these policies provide an excellent base. If you need more insurance, get several quotes before buying a policy. If you're on a tight budget, avoid whole life policies, which are essentially investment vehicles for your children, and get instead term life, which will protect you for a span of years while you're financially more vulnerable, such as when you have young children. It won't pay out a benefit after the term, but it is significantly less expensive than whole life.

Check the beneficiary on your policy periodically. Many people forget to do this when their life circumstances change, such as marriage or childbirth. It is important that your policy protects the people you want to protect in the event of your death.

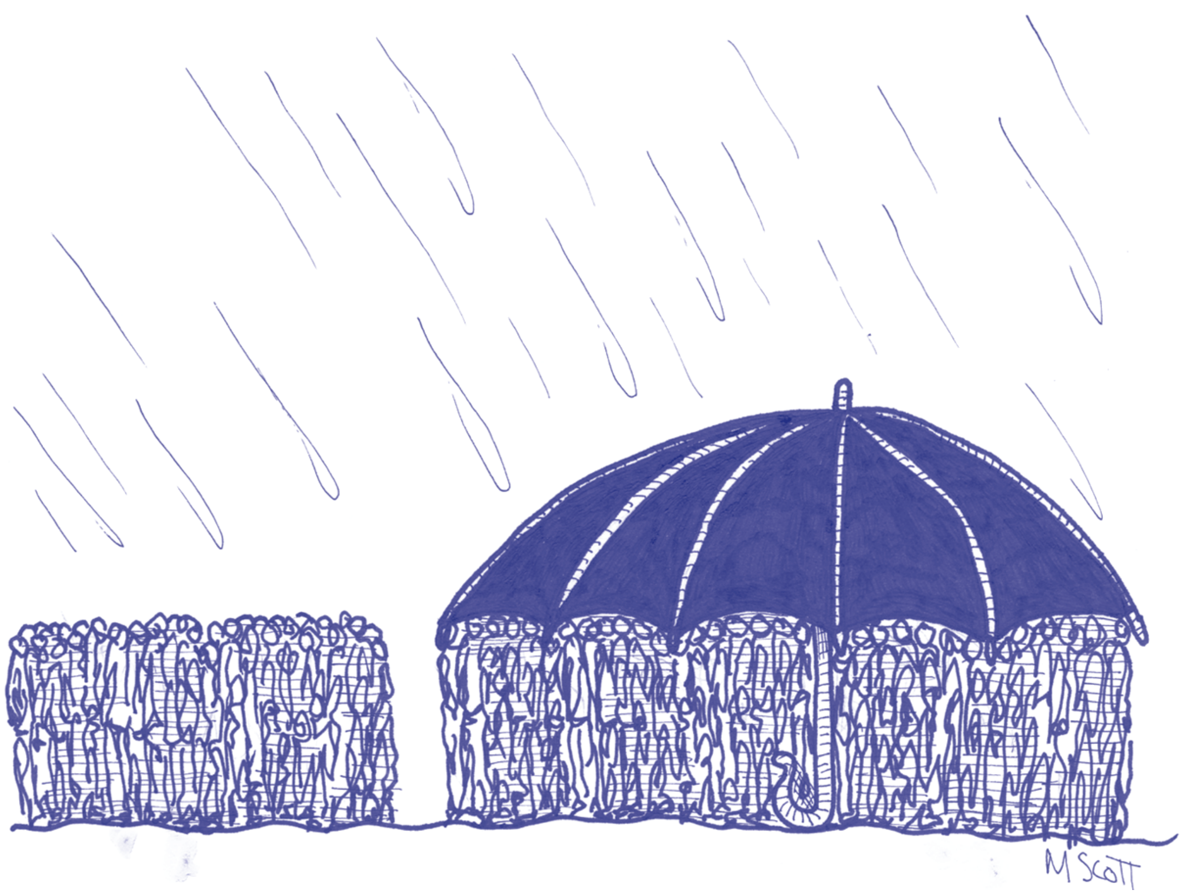
Health insurance. If you can afford a comprehensive plan, by all means get it, but if not, it's worth considering a catastrophic health insurance policy to cover a medical crisis which could ruin a family budget for years to come.

If you can't enroll in a group plan and have a chronic condition that prevents you from buying an individual plan, check with your state's insurance department to see if you might qualify for plans available for people in your circumstances.

Employers are not required to offer health care plans, and they are not required to cover everybody they employ. Most companies that offer health benefits require that you work a certain number of hours per year to qualify, so it is worth finding out if altering your work schedule would change your eligibility for benefits.

Medicaid provides health coverage for low-income individuals and families. Low- and moderate-income children can often be covered through the State Children's Health Insurance program. Call your state Medicaid office for information.

Homeowner's insurance. Lenders will require you to have homeowner's insurance if you have a mortgage. Never let the policy lapse without having another in place, or lenders may force you into a very expensive plan of their choosing. You still need homeowner's insurance if your home is paid for. For many people, their home is their biggest retirement asset. Don't risk losing it. If you need to reduce costs, raise



the deductible to lower your premiums. You may also want to look into an umbrella policy that would cover your house and your car at a reduced rate.

2. Create and Agree on a Will for You and Your Partner/Spouse

Make sure that wills are drawn up and that you have a notarized original copy, a lawyer has a copy, and there is a copy in a safe deposit box. Review and update your will every five years or with the acquisition of new assets. Don't risk you or your spouse becoming impoverished because it is not clear how assets are to be divided upon death.

3. Check Names on All Accounts

If you are married and one of you dies suddenly, it could be very difficult to resume payment schedules if the account or home purchases are listed only in one name.

If you are single, make sure to designate a Durable Power of Attorney to manage your accounts in case you are incapacitated. A free form can be found at http://www.expertlaw.com/library/estate_planning/durable_power_of_attorney.html. You should have a lawyer review the paperwork to make sure it meets all your needs.

4. Organize and Maintain Files of Financial Information

Keep up-to-date copies of bank account numbers, safe deposit information, insurance beneficiary information, retirement accounts, tax returns going back seven years, mutual fund statements, copies of health, homeowner's, and auto insurance policies, the lease or mortgage information for your home, birth, marriage and death certificates, and wills, trusts and powers of attorney, including your living will or health care power of attorney. Make sure your spouse, adult children or other beneficiaries know where to find the files.

In addition to saving, each of these four steps is important to ensuring your financial stability. With them, you can put the pieces in place to minimize the financial impact of illness, divorce or other life-changing events.

Borrower Beware!

Home Equity Loans Have Risks As Well As Benefits

Hardly a day goes by when consumers are not offered a "great deal" on borrowing against home equity to consolidate debts, improve their home or go on a dream vacation.

The rapid increase in home values in many parts of the country has led many consumers to regard the equity in their homes as a stash of money in the bank available for spending.

Sometimes, borrowing against home equity can be a smart move. If you have high interest debts, a home equity loan can help you pay them off and consolidate them into one low interest payment. Also, the interest on home equity loans is deductible on your federal taxes, while credit card and other consumer debt is not. Just about every lender will point out these favorable features to convince you to borrow against your home's value.

But, consider the "flip side" before signing the loan documents:

- **Home equity loans are essentially another mortgage on your home**. If you can't make the payments, you will lose your home. Be certain that you can make the payments before borrowing.

- **If you have to sell your home and find it declined in value after you took the loan, you will be responsible for a large loan payment,** with no source of funds to pay it back other than current earnings. It is hard to recover from this kind of financial hit.

- **For many people, their home is their biggest retirement asset.** Equity in a home can be used in a "reverse mortgage" to help meet living expenses in retirement, or to buy a spot in an assisted-living facility. If you spend the equity in your home prior to retiring, you will be left with only your Social Security benefits and retirement accounts to live on. Borrowing against your home equity for current consumption—vacations, cars and other items—prevents you from being able to use your home to help finance life after retirement.

- **Never borrow more than the value of your home**. Lenders offering loans up to 125 percent of the value of your home are in a "win-win" situation. If you default, they get your house. If your house value doesn't increase as you expect, and you sell it, you will owe the lender the difference between the sale price and the amount of your loan. Some shady lenders target these loans to individuals with debt and credit problems, who may see these loans as a way to get their finances under control. It is more likely the step that will sink them.

- **If you are borrowing to make home improvements, be sure that they will increase your home's value.** A realtor in your area might be a good source of advice. Many consumers are surprised to find that their home improvements did not translate into a higher sales price for their home.

- **Some people who borrow to consolidate credit card debt will simply run up more debt after taking the home equity loan.** The result is double the amount of debt. Carefully examine the reasons why you are in debt, and make a plan to stay out of debt before borrowing against your home equity. Rather than borrowing against your home, try to revamp your household budget, cut back on expenses and double up on monthly credit card payments. You might be able to work a second part-time job for a year, and devote all the extra income to debt reduction.

So, the next time you're in line at the bank and see a poster offering a great home equity deal with a picture of a family playing on the beach, close your eyes and picture the retirement of your dreams instead.