

# WISERWoman

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

## Stashing The Cash! Do You Have Too Much? Are There Guarantees?

**F**inancial columns and newsletters offering advice on how to invest will usually suggest "cash." "Keep a certain percentage in cash ... Make sure you have some cash on hand..." So what is cash in a retirement account? How should it be used and managed? Are there different types of cash? Are some types of cash safer than others?

Most of us think of "cash," as actual dollar bills. Cash, however, means different things when managing money for retirement. The four major types of cash investments are: Certificates of Deposit (CDs), bank money market accounts, money market mutual funds, and Treasuries.

All forms of "cash" or "cash equivalents" have benefits and drawbacks depending on your tolerance for risk, and the amount of time you have until you retire. The interest rate you earn on cash, and the level of safety and security depends on the type of account and instrument you invest in. Some cash is readily available, and some cannot be accessed for a certain period of time.

**Certificates of Deposit (CDs)** CDs are considered cash equivalents. They can be purchased at most banks, credit unions, or through a broker. CDs are intended to be kept for a specific period (anywhere from three months to five years) at which point they "mature." Once they reach their maturity date, you withdraw the money you originally invested along with accumulated interest. CDs usually are fixed, which means the interest rate will remain constant throughout the entire term. They generally earn higher interest rates than traditional savings accounts, but the returns are still on the lower end.

If you are nearing retirement age (retiring in one to three years), CDs are a good investment choice as a short-term investment.

One place to find the highest paying, federally insured CDs is at [www.money-rates.com](http://www.money-rates.com). As long as they are federally insured deposits, one CD is as good as the next, unless there is a sneaky fee. So, check carefully.

**Money Market Deposit Accounts** are available at banking institutions that are FDIC insured. When you open a money market deposit account, your cash is invested in short-term, fixed income investments such as U.S. Treasuries that mature in less than one year. These accounts usually offer higher rates of return than traditional savings accounts because of the types of securities in which they are invested. These cash equivalent accounts offer flexibility and liquidity, meaning you can write checks and take out ATM withdrawals against these accounts.



Illustration by Margaret Scott

**Money Market Mutual Funds** are similar to money market deposit accounts, however, these funds are not FDIC insured and so it is possible to lose money. These funds are offered by investment companies. The funds invest in highly liquid, safe securities such as CDs and government securities. These funds typically offer the same conveniences

*Stashing The Cash! continued on page 5*

# From WISER's President



Dear Reader: A lot is happening in the retirement world – discussion of the nation's debt, the possibility of change in Social Security and Medicare, and consumers worried about the future. So in this issue, WISER is focused on providing information on options for cash investments.

There's a lot of buzz about people putting too much cash for too long into savings or money market funds—where interest rates can't get much lower. Cash is important for emergency funds but it is really not appropriate for long-term retirement savings. So try to consider what you are earning if you are just parking your money and make sure it's safe. As the last financial crisis has taught us, you can never be too careful with your retirement accounts.



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# WISER®

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Newsletter subscriptions are available for \$15. To subscribe, send your name, address, and a check to the address above.

## New Rules for Medicare Parts C and D Programs

National Education & Resource Center on

Women & Retirement Planning



The Centers for Medicare & Medicaid Services (CMS) completed their final regulations for policy and technical changes to the Medicare Advantage and prescription drug programs. While the regulations went into effect on June 7, 2010, most provisions will not go into effect until January 1, 2011. These changes are fairly detailed, but the Center for Medicare Advocacy clearly outlines each type of change and how it will affect the plans. Find more information at: [http://www.medicareadvocacy.org/InfoByTopic/Reform/10\\_0603.ChangesToPartCandD.htm](http://www.medicareadvocacy.org/InfoByTopic/Reform/10_0603.ChangesToPartCandD.htm)

## New Tool Helps Consumers Navigate Changes in Health Care

The U.S. Department of Health and Human Services recently launched a new website, [www.healthcare.gov](http://www.healthcare.gov)—an easy-to-navigate consumer website about health care and the changes being made through health care reform. The website includes information about insurance options and illness prevention, and allows users to compare care quality, as well as search topics of interest based on age. There are sections dedicated to Medicare, long-term care, disability and paying for treatments as a senior. In October, price estimates for health insurance plans will also be available for cost comparisons.



## New Campaign Helps Seniors Get the Facts About the Health Reform Law

A new survey commissioned by the National Council on Aging (NCOA) finds most seniors are still confused about important aspects of the new health reform law—including how it will affect their own Medicare coverage.

*Straight Talk for Seniors on Health Reform* is a national campaign to help seniors get the facts they need. It includes educational events, downloadable fact sheets, an interactive online quiz, detailed poll results, and presentations to help the aging network share health reform facts with the seniors they serve. All campaign materials can be found at <http://www.ncoa.org/straighttalk>.

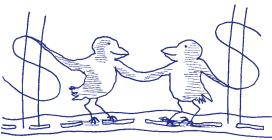
## Extra Help for Medicare LIS Recipients

For Medicare Part D Low Income Subsidy (LIS) recipients, letters were sent this summer concerning prescription drug premiums. The letter reminds those receiving LIS that they have the option to switch to a drug plan that does not charge a premium, or switch from plans whose premiums have increased too much to receive a full subsidy. For recipients considering changing plans, they may call the plans to make sure their prescriptions and preferred pharmacies are covered. Register for a new drug plan by calling 1-800-MEDICARE, or by going to the local office on aging or State Health Insurance Assistance Program (SHIP). ☐

# Legal Agreements for Families and Caregivers

One in every four adults in the U.S. is providing care for a family member or friend, and this number will continue to rise as the boomers age. Caring can be rewarding, but it may also come with financial risk. Caregivers often have to reduce the number of hours they work, or even quit their jobs in order to make time to provide care.

For both financial and practical reasons, an increasing number of families are turning to "personal care agreements" to help manage caregiving responsibilities. These are formal contracts that state what care is to be provided and how much the caregiver will be compensated. The contract can be used whether or not the caregiver is a family member. These agreements make the care and payment clear for the caregiver, the recipient, and also for other family members.



Because these agreements are formal contracts, it is important to understand what needs to be included. If you are considering creating this type of agreement without using a lawyer, it may be helpful to look at the Elder Care Agreement (Form 85) in the book *101 Law Forms for Personal Use* by Ralph Warner and Robin Leonard.

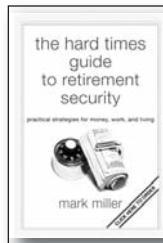
The actual body of the agreement should cover the following items: When the care is set to start; What specific care the caregiver will provide; How often and for how long the care will last;

Payment amount and times of payment to the caregiver; How long the personal care agreement is effective; and a statement that allows changes only through agreement of both caregiver and care recipient.

More information about personal care agreements can be found at [www.caring.com](http://www.caring.com). ☐

## The Hard Times Guide to Retirement Security

Whether retirement is decades away or right around the corner, it is important to figure out how much money you will need to live after you stop working. A new book by Mark Miller called, *The Hard Times Guide to Retirement Security*, is geared to the specific needs of baby boomers who are now nearing retirement. The information, however, is useful for those of all ages, and offers a unique look at many aspects of retirement planning in the post-economic downturn. The book covers diverse issues on topics such as Social Security, financial planning, and entrepreneurship for those over 50. It discusses pragmatic steps to take and adjustments to make in retirement planning to best prepare for a financially secure future in today's economy. Visit WISER's website at [www.wiserwomen.org](http://www.wiserwomen.org) to download Chapter 5: "Income Annuities: Another Way to Get a Guarantee," for FREE.



## News From WISER

WISER was awarded a 3-year competitive grant from the U.S. Administration on Aging to continue the ground-breaking work of the National Education and Research Center on Women and Retirement Planning. The Center ensures maximum exposure to financial planning tools for women.

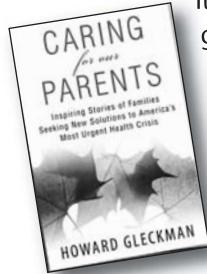
WISER's "Nurses Retirement Decision-Making Guide" received a 2010 National Mature Media Award. This awards program recognizes the best marketing, communications, educational materials and programs for older adults.



WISER quoted in:

- ☒ CBS Money Watch, "Husbands: Poor Retirement Planning Could Lead to Desperate Housewives"
- ☒ MarketWatch's Retirement Weekly, "Social Security and Divorce: Are you eligible for a benefit based on your ex-spouse's record of work and earnings?"

Visit the Press section at [www.wiserwomen.org](http://www.wiserwomen.org) to read these and more. ☐



It is all too common to hear friends and family discuss the struggles of transitioning from independence to long-term care for parents and spouses. Howard Gleckman's book, *Caring for Our Parents*, offers stories of long-term care through the eyes of these families, detailing the personal and financial sacrifices required, and the difficulties of finding adequate and affordable care. He sheds light on the fragmented care system in our country that adds to the complexity of this transition, but also offers inspiration to readers who may be going through similar situations. It is an engaging book that will be useful to anyone who is or will be faced with caring for parents, spouses or loved ones. ☐

## LEGISLATIVE UPDATE

### Auto IRA Bill Introduced in Both the House and Senate *Bills would help nearly 75 million American workers save for retirement.*

The *Automatic IRA Act of 2010* would automatically enroll employees not currently offered a retirement plan into an Individual Retirement Account. Unless employees choose to opt out, a set percentage of their paycheck (currently set for 3% of pay) will be deposited into a Roth or a Traditional IRA. Employees can choose to increase or decrease their contribution. All employers in companies with 10 or more workers will receive a tax credit for the first two years to help ease any administrative burden that may be incurred by introducing the IRA system. This contribution can be counted for the Federal Saver's Tax Credit, which provides a federal match to eligible individuals who save for retirement. The Auto-IRA can provide an easy way for employers to help employees save for retirement, and may benefit women who are less likely to be in jobs that currently offer employer-provided retirement plans.

Senator Jeff Bingaman from New Mexico and Representative Richard Neal from Massachusetts introduced these Bills in the Senate as S.3760 and in the House as H.R.6099.

### Finding a Credit Counselor: How to Find the Best Organization to Help Manage Your Money and Debt

If you are living paycheck to paycheck and worried about money all the time, you may want to consider a credit counselor. Many credit counseling organizations are "nonprofit" but that does not mean that they are right for you or that they are legitimate. So how can you tell the difference? How can you avoid the scams?

Reputable credit counselors are trained and usually certified in the areas of consumer credit. If possible, try to find in-person counseling available locally or through universities, credit unions, and military bases.

A credit counseling agency should provide you with information about the services it offers. You should never have to provide details of your finances over the phone or on-line. Beware of an agency that is known for signing you up for a debt management plan and does not offer an analysis of your finances.

The initial session should be free or cost very little. Avoid organizations that charge for information and get a quote in writing for the fees involved.

#### **Questions to ask:**

What are the fees? Are you licensed in my state? Are the counselors accredited or certified by an outside agency? Will my information be secure and confidential? Is the

**Reputable credit counselors are trained and usually certified in the areas of consumer credit**

staff paid more to sign you up for certain services?

#### **Getting started:**

There are two organizations that can help you develop a local list of legitimate counseling agencies:

- The National Foundation for Credit Counseling, [www.nfcc.org](http://www.nfcc.org)
- The Association of Independent Consumer Credit Counseling Agencies, [www.aiccca.org](http://www.aiccca.org)

**Beware of Debt Negotiation Programs** – Many states have laws regulating debt negotiation services. These services can have a long term effect on your credit report and your ability to get credit. These companies also charge hefty fees, such as a fee to open an account, a monthly fee, and a final fee as a percentage of what you have saved.

Avoid companies that tell you to stop making payments to creditors and ask you to pay them instead, and who claim that they can remove negative information from your credit report.

Keep in mind, too, that the IRS may also consider the forgiven debt as taxable income.

## Stashing The Cash!

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listed above for money market deposit accounts. Like other mutual funds, money market mutual funds incur expenses (which are passed on to the fund's investors) and the funds themselves can decline in value. While the investment companies that offer money market funds try to maintain a net asset value (NAV) of \$1 dollar per share, they are not obligated to do so.

**Treasury Bills, Notes, and Bonds** are also called "Treasuries" or "T-Bonds," and they are considered safe because they are backed by the full faith and credit of the U.S. government. The differences between them have to do with the length of maturity. **Treasury bills** mature in less than a year; **Treasury notes** mature between two and 10 years; and **Treasury bonds** mature in 30 years. They are exempt from state and local taxes and can be bought directly, commission-free, at **TreasuryDirect.gov**, or you can purchase paper bonds from most banks. The value of treasuries is tied to inflation. If you need to cash in these bonds before they mature, you may not get back your original investment. Another option is to purchase **Treasury Inflation-Protected Securities**, or TIPS, which are offered in 5, 10, or 30 year terms.

## Risks in Cash Investments

Not all cash is guaranteed from losses. Some types of cash investments and certain types of accounts have government backing to prevent losses on your balance should an institution fail, and some do not. In light of the downturn in the financial markets and the recent banking crisis, it is important to understand what it means to be insured.

The Federal Deposit Insurance Corporation (FDIC) is the government entity responsible for insuring deposits. They



provide insurance for deposit accounts, including checking and savings accounts, money market deposit accounts and certificates of deposit for banking institutions that qualify. However, the FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual fund shares, life insurance policies, annuities or securities. See below:

### FDIC-Insured

- Checking Accounts (including money market deposit accounts)
- Savings Accounts (including pass-book accounts)
- Certificates of Deposit

### Not FDIC-Insured

- Investments in mutual funds (stock, bond or money market mutual funds), whether purchased from a bank or brokerage dealer
- Annuities (underwritten by insurance companies, but sold at some banks)

- Stocks, bonds, Treasury securities or other investment products, whether purchased through a bank or a broker/dealer

It can be hard to know in what account and in what form to keep cash. When you are a long way from retirement, more of your investments should be in higher-risk/higher-reward investments like stocks or mutual funds, because you have time to ride the market's ups and downs. But as you near retirement, cash should play a more central role in your investments.

Before you pick what type of cash investments you want to make, determine what your needs are and ask yourself the following questions:

- How much risk do you feel comfortable taking with your money?
- How often will you need to access this cash?
- How much interest are you realistically expecting from your cash for the specified time frame?
- What level of customer service are you looking for? Do you want in-person assistance or is service over the phone or on the internet enough?
- How sure are you on your time-frame to put this cash to work? Many cash investments have penalties for withdrawing your money early.
- Have you checked for hidden fees?

# Renew Your Subscription to WISER's Newsletter Today!

WISER is proud to offer women of all ages the straight-forward information they need to get their retirement plans on track. The *WISERWoman* newsletter is one of many great publications we offer to help women reach their financial goals. Your \$15 subscription guarantees four (4) more issues filled with the latest financial resources you need to stay updated. So, secure your subscription today!

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## WISER's Mission

To improve the long-term financial security of all women through education and advocacy. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure fair pensions and adequate retirement income through research, workshops, and partnerships.

### Next Issue:

- What Social Security Means to Women: The Back Room Story**

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