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Financial Planning Strategies

A Financial Planning Update

From the Desk of:
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Mr. Kennedy's investment philosophy is the same that he has practiced over the last 20 years: securities markets are efficient and advisors primarily add value by coordinating the asset allocation for clients based upon risk tolerance, objectives, and time horizons. The firm has constructed 5 models for clients that vary in risk to meet the goals of each client. The firm primarily uses passive mutual funds in each model and uses select actively managed funds for bond, commodity, and real estate exposure. ITI uses several research resources, including many that were used over the last 20 years, to assist with the recommended asset allocation and the appropriate funds to utilize in each model.

Mr. Kennedy is an Investment Advisor Representative of ITI Financial Management, LLC. Investment services are offered through ITI Financial Management, LLC, a registered investment adviser with the state of Missouri.

Maintaining a Healthy Credit Report

Your credit report is an accumulation of information about your bills and loans, your repayment history, your available credit, and your outstanding debts. These reports are typically used by lenders when deciding whether or not to accept a loan or credit application. A healthy credit report can help you secure the funding you need to purchase a new home or car, pay for a child's education, or start your own business. The following guidelines can help you maintain a healthy credit report:

Establish and maintain a good credit history. Your ability to pay off debt over time can help paint a more complete picture for a lender inquiring about your financial habits. Therefore, you may want to consider maintaining your oldest credit card. Credit companies often suggest that you also maintain a few accounts to demonstrate your commitment to managing multiple debt sources.

Close extra accounts. After receiving your new customer gifts offered by credit card companies, you may forget about these accounts. However, having numerous open accounts on a credit report may be a red flag to a lender, indicating that you could find yourself in financial danger due to the large amount of readily available credit. Consider closing any accounts that you do not use. This may also minimize your risk of identity theft. Remember, cutting up the credit card itself or simply not using it does not mean the account is closed. To officially close an account, you must call or write to the company with your request.

Make the minimum payments. Delinquencies on payments remain on your credit report for seven years, even if you have since settled the account balance and paid the debt. Therefore, always try to make at least the minimum payments by the due date requested by the creditor or lender.

If you are in a tight financial situation and decide to ignore an account for a period of time, be aware that accounts sent to collection agencies or charged off by creditors (meaning the debt is written off as a loss) also remain on your credit report for seven years. So, if you are unable to make the minimum payments, you may want to contact your creditor, rather than ignore the problem.

Pay down and keep your debt in line with income. Determine your debt-to-income ratio by adding up the balances of all your loans and credit cards, and comparing that with the amount of income you receive annually. If your total debt exceeds your income, lenders may be hesitant to grant you more credit. If you have a large amount of

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Revisiting Elder Care Issues

It is no longer unusual for people to live 20 or more years beyond normal retirement age. Consequently, when seniors reach their eighties and nineties, plans that were satisfactory at age 65 often require a second look. Areas of concern to older seniors and individuals with aging parents or loved ones include asset management, health care, and living arrangements.

Managing Assets

Many older seniors may lose the cognitive ability to manage their assets. A variety of arrangements are possible to transfer that responsibility to others. Among them are the following:

- **Revocable and Irrevocable Trusts.** Seniors who wish to *retain control* over their property, while delegating the daily management to others, may wish to consider a **revocable trust**. This arrangement allows the senior to monitor the management of his or her assets, yet offers the flexibility to change the trust as needs and circumstances warrant. As added protection, a revocable trust may remain unfunded, as long as the senior is legally competent. Alternatively, an individual who is willing to *relinquish* ownership of assets altogether could establish an **irrevocable trust**.
- **Durable Power of Attorney.** This mechanism allows seniors to designate a trusted relative or friend to make legal and financial decisions for them in the event of disability or cognitive impairment. The powers granted may be limited or broad in scope, and they may vary from state to state. Some financial institutions are reluctant to recognize durable powers of attorney, so it is worthwhile to thoroughly explore this option beforehand.
- **Informal Arrangements.** Some seniors transfer property *informally* to their heirs—in many cases free of gift taxes—in exchange for being taken care of for the rest of their lives. This arrangement, however, should be approached with caution. Even well-meaning adult children may unintentionally deplete assets through poor management, divorce, or creditor claims. Once the assets are gone, the senior could become dependent on the goodwill and financial assistance of relatives.

Health Care

With health care costs rising and people living longer than ever before, seniors of advanced age need to anticipate the possibility of high medical costs. The Federal government provides *some* health care benefits through the **Medicare** and **Medicaid** programs, but seniors need to understand the coverage those programs provide and what costs they will need to pay themselves.

Medicare Part A covers inpatient services at hospitals and other health care facilities. It is provided automatically, at no cost, for seniors age 65 and older who are eligible for Social Security, and at a substantial cost for those who enroll independently. **Medicare Part B** provides additional health care coverage that is *optional* and must be paid for separately.

Eligibility for **Medicaid**, which covers long-term nursing home care, depends on financial need. Seniors may require professional assistance in managing their

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Revisiting Elder Care Issues

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income and resources in order to meet Medicaid's strict eligibility requirements.

Living Arrangements

Older seniors, who are able to care for themselves and have the means to do so, may wish to remain in their own homes. Community services may be available to help prolong the period of independence.

However, elders who are unable to live independently have several alternatives. **Assisted living/residential care facilities** provide a protected environment with an atmosphere of independent living. Generally, daily meals are provided in a communal dining room, and minimal assistance with activities of daily living, such as with washing, dressing, or taking medication is available. **Continuing care communities** offer a combination of independent living and health care support. If family members work, **senior daycare centers**—either publicly or privately funded—can provide opportunities and activities to alleviate monotony and promote social and cognitive stimulation. In some cases, hiring in-home help may be the solution.

Periodically Review Plans

Aging seniors and/or family caregivers are advised to periodically review existing financial, health care, and living arrangements. In the transition to the later stages of life, changing needs and concerns often require revisiting prior plans and updating or revising them accordingly. $

Maintaining a Healthy Credit Report

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debt, develop a strategy to pay it off gradually within your budget. In the meantime, curb excess spending and avoid further debt.

Control your number of credit inquiries. A large number of inquiries on your report may signal to a lender that you are in need of a lot of credit or are preparing to take on a large debt. Neither situation bodes well for your ability to take on additional debt. Keep in mind that each time you apply for a new credit card, even if it is only to receive a free gift, an inquiry will appear on your credit report and remain on your report for two years.

Opt-out of inclusion on marketing lists. While soft inquiries, those made by marketers and others wishing to sell you something, do not usually appear on the version of your credit report shown to lenders,

these inquiries indicate that your personal information may be available and used by the companies listed, increasing your exposure to identity theft. Many marketers receive lists of potential customers directly from credit bureaus. You can "opt out" of being included on lists sold to these companies by either writing to each of the three credit bureaus or calling 1-888-5-OPT-OUT. Doing so will remove your name from marketing lists for two years.

According to the **Fair Credit Reporting Act (FCRA),** you can request a free copy of your credit report from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year. For your convenience, you can access all three agencies through a single website at www.annualcreditreport.com. To maintain healthy credit, monitor your credit report regularly and take actions toward building and maintaining good credit. $

Keep Your Homeowners Coverage Up-To-Date

When you sign up for a **homeowners** or **condominium owners insurance** policy, you take the first step in protecting what may be one of your largest assets. It is important to be knowledgeable about the appropriate amount of coverage needed and the extent of the coverage provided by your insurance contract.

The homeowners policy is a package that covers your dwelling, other structures on the premises, unscheduled personal property on and away from the premises, loss of use, personal liability coverage, and the medical coverage of others.

Nearly all insurance companies require that your policy be issued for at least 80% of the replacement cost of your home. Failure to maintain proper coverage may result in sharing in a partial loss as a penalty.

The correct amount of coverage is determined at the time the policy is written. Then it is *your* responsibility to be sure your policy continues to provide appropriate protection. Most insurers will increase your coverage by a certain percentage each year to keep pace with inflation. However, it is important for you to periodically review your homeowners coverage and make any necessary changes that result from inflation in your area and adjust for additions or improvements made to your home.

Your homeowners policy also provides protection for the contents of your home. It's a good idea to keep an inventory of personal property in a safe deposit box so that, in the event of a loss, you won't have a problem listing the items to be replaced. The contents portion of your policy has specific limitations on items such as money, jewelry, furs, silverware, artwork, and securities. Be certain to refer to your policy for a full description of the limitations. In some instances, you can buy *additional* coverage if the basic coverage is insufficient.

When selecting coverage, evaluate the different policy forms. You can choose between a basic *broad* form policy that protects you against a list of named perils such as fire, hail, lightning, wind, explosion, and vandalism or an *all-risk* policy that protects you against all losses except those specifically excluded in the policy. The exceptions include: damage by birds or insects; wear and tear; landslide and earthquake; cracking from settling; flood and surface water; and damage by domestic animals or rodents.

You may wish to consider a higher policy deductible and elect to purchase the slightly more expensive all-risk contract with the premium saved.

In addition to protecting your property against serious loss to the physical structure, your homeowners policy may also provide protection for legal liability in varying amounts.

In view of sizable legal awards that can potentially be granted, you may wish to protect yourself even further with a **personal umbrella** policy.

As you assess your coverage requirements, keep a sharp lookout for ways to lower your premiums. By installing smoke detectors, fire extinguishers, deadbolt locks, or a central alarm system, you can reduce your costs by a reasonable amount. Evaluate your coverage limits periodically and make changes when appropriate. When it comes to your home, keeping up-to-date on your insurance coverage may be more important than "keeping up with the Joneses". $