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The Financial Compass
Providing Financial Direction

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Education: An Investment in Your Future

It wasn't long ago when an individual went to school, got an education, and embarked on one career that usually lasted a lifetime. Many companies provided on-the-job training, and little thought was given to "going back to school." During a job interview, it was common to be asked where you saw yourself in five or ten years. Many new graduates could see a fairly predictable career track ahead.

In contrast, today's working world is far different. Trying to keep up with continual change is challenging enough, let alone trying to project job circumstances five or ten years into the future. Technological changes are redefining some jobs and may eventually make others obsolete. On the other hand, ten years from now, an individual may work in a job that doesn't yet exist! To maintain employment and improve employability, many workers and independent contractors may need to enhance and upgrade their skills regularly.

In this rapidly changing, information-based culture, the better your skills are, the more attractive you may be to prospective employers. However, personal growth and development carry a price tag. While some companies provide certain forms of training, it may be unrealistic to think employers will bear the *entire* cost of skill development. Just as more and more workers are being called upon to assume responsibility for funding their own retirements (through the shift away from defined *benefit* plans toward defined *contribution* plans), more workers may also have to fund their long-term career development.

Changing the Mindset

The first step toward long-term career development is to change your current mindset about education. Rather than thinking of education as something finished after college graduation, it may be necessary to view education as an ongoing *process*. Professional success in the 21st century may require workers to become "sponges" with the unlimited ability to "soak up" new information.

It may help to think of "investing" in personal growth and development as analogous to the business practice of investing in research and development

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Insurance Considerations for Dual Income Families

The concept of the "traditional" American family is continually changing. The dual income family—with husband and wife each maintaining separate careers and contributing to the financial success of the household—has now become commonplace.

The economic challenges and opportunities of this century may require two incomes to meet overall family expenses. Many families ask themselves, "How will we be able to plan for our retirement, save for our children's education, and perhaps help our aging parents deal with some of their financial burdens?" These concerns may be especially pressing given today's high cost of living and the current economic climate.

The Cost of Working

Although it may seem that dual income families will have more disposable income to afford life's necessities, this may not always be the case. Families with both spouses working often lose *some* portion of the second paycheck to extra expenses, such as unreimbursed childcare, domestic help, job-related transportation, business attire and dry cleaning, lunches and dinners at restaurants, and take-out meals. These additional expenses all eat away at that second income.

When both parents work outside the home, childcare concerns are especially critical. Quality childcare is a major expense for many families with working parents—after housing, food, and taxes. It is this cost that often reduces the income that could be used to help fund education or retirement.

As American businesses continue to restructure and downsize, some dual income families may face the possibility of living on a single or reduced income for an unspecified period of time. For those who need the additional income to help pay for basic expenses, a loss or reduction of one income could have a serious impact on the family finances.

Protecting Your Financial Future

How would *your* family replace its income if either working parent should die or become disabled? One solution may be to purchase a permanent **life insurance** policy that will pay a benefit upon the death of the insured spouse. There are several advantages to life insurance. For example, policies bought at a younger age may have lower costs, build cash value, and maintain level premiums.

Generally, the cost for life insurance policies can be lower when purchased relatively early in life. However, it is important to reevaluate insurance coverage as time goes on and circumstances change. The protection that life insurance policies provide for dual income families can best be calculated by periodically analyzing *all* life insurance needs in order to determine the best plan for your family.

Now, what about loss of family income due to *disability*? This possibility is not as unlikely as you might think. According to the Insurance Information Institute (III, 2009), a disabling injury occurred every second in 2004, affecting 23,200,000 people. In fact, 43% of all people age 40 will experience a long-term disability (lasting 90 days or more) by age 65.

A debilitating illness or injury that eliminates or reduces your family's primary source of income can be financially devastating. An **individual disability income insurance** policy to help replace a portion of that lost income may be a worthwhile consideration.

Dual income families have become the norm in today's society. Although individuals may have different motives for working, most families come to depend upon that second income, whether it is used to meet current or future needs. Thus, it is important to ensure that both spousal incomes are protected from loss with life and disability income insurance.

Money Management for Divorced or Separated Women

If you are divorced or separated, mastering money will be an important part of your life. Your ability to *manage* money can play a large role in your financial future, and to a large extent, your ability to live your life on your terms. The following steps can help you gain control of your finances:

1. Pay Yourself First. Transfer a set amount from your earnings to your savings each month. An investment of $1,000 per month earning 8% annual interest could grow to over $180,000 before taxes in just ten years.*

2. Reduce Consumer Debt. Avoid high credit card finance charges by paying off the balances each month, or if you must carry a balance, use only cards offering low finance rates.

3. Maintain Good Credit. You can obtain one free annual credit report from each of the three major credit bureaus: TransUnion, Equifax, and Experian. Good credit is required for obtaining loans and low interest rates. Monitoring your credit can also help you guard against identity theft.

4. Diversify Your Savings. Develop a plan for your short- and long-term needs. Consider your liquidity needs, risk tolerance, and time horizon.

5. Take Advantage of Tax Benefits. If you qualify, contribute to an Individual Retirement Account (IRA), a 401(k) plan, or another similar retirement plan. These plans offer tax benefits that can help enhance your retirement savings.

6. Update Your Estate Plan. Have your will and any trusts reviewed by a lawyer. Prepare advance directives, such as a durable power of attorney, living will, and health care proxy. This is important for *everyone*, since a disabling illness or injury, or an untimely death, could occur at any time, regardless of age.

7. Review Your Insurance Needs. Periodically review your risk management program. Your life, health, and disability income insurance needs will likely change as you progress through various life stages.

8. Plan for Future Care. Consider your possible long-term care (LTC) needs. Who will give you the assistance you need, should you one day require help with eating, bathing, dressing, toileting, or mobility? Long-term care insurance can provide funds to help pay for this care, should the need arise.

9. Build a College Fund. College costs are increasing, and relying on your children to receive scholarships or financial aid may not be the most practical. Consider opening a Coverdell Education Savings Account. As soon as possible, begin saving for your child's education. Eighteen years can pass quickly.

10. Set Long-term Financial Goals. Establish one-, three-, five- and ten-year goals. Evaluate your progress yearly and make adjustments, as appropriate, to achieve long-term success.

The breakup of a marriage is often complicated. Once the dust settles, straightening out your finances may be a top priority. Make a commitment *now* to start this planning process. Attention to these basic areas may help you achieve your goals and live your life on your terms.

** This hypothetical example is for illustrative purposes only. It is not intended to reflect an actual security's performance. Investments involve risk and may result in a profit or a loss. Seeking higher rates of return involves higher risks.*

If Your Credit or Debit Card Is Stolen

To best protect yourself against fraudulent charges if your credit or debit card is lost or stolen, call the issuing bank or company immediately to report the loss.

Under Federal law, you are liable for only the first $50 of unauthorized charges resulting from the loss or theft of your credit card. However, you are not liable for *anything* if you notify the card issuer before someone else uses the card.

Liability for unauthorized use of a debit card, such as those used at automatic teller machines (ATMs), depends on when you report the loss. Under Federal law, you are liable for only $50 if you notify the bank within two business days after your card is stolen. But, if you don't act quickly, you are liable for up to $500 withdrawn from your account. The $500 limit expires 61 days after the mailing date of your first bank statement showing the unauthorized withdrawals. Cardholders who do not notify the bank by that time may be liable for *all* funds withdrawn, including overdraft protection funds.

Thinking Ahead for a Secure Retirement

Americans are now living longer than ever before. With increased longevity, retirement resources may need to last 20 years or more.

Nearly everyone has financial challenges of some sort. As a result, many put off planning for the future. Some people assume that Social Security will take care of them when the time comes. Then, when they reach retirement age, they find that Social Security will not provide enough income to maintain the quality of life they enjoyed during their working years.

In the past, many retirees depended on corporate pension plans to provide a major portion of retirement income. However, current trends find businesses offering more **defined *contribution* plans**, which rely on employee contributions, and fewer **defined *benefit* plans**. In addition, since career changes seem to be the norm, acquiring sufficient retirement resources can be difficult, making it unrealistic to count solely on defined benefit plan payments.

Today's retirees may require 60% to 80% of their pre-retirement income in order to maintain their current lifestyles during non-working years. But what about inflation? Living expenses are likely to cost more in the future, because over time, the purchasing power of the dollar generally decreases as a result of inflation. Therefore, it is important to factor inflation into your retirement plan. Remember, it's never too early to save for your retirement.

Consider the following steps:

1) Set your retirement goals.

2) Determine your sources of retirement income.

3) Devise strategies to address any shortfall and manage your money in retirement.

Determining *how much* income you will need at retirement and deciding among various savings options are the keys to your long-term success. Create a retirement plan that best fits your individual needs.

education: an investment in your future

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(R&D). Just as businesses set aside a portion of their revenue to fund R&D that will lead to new products and more customers, consider setting aside a portion of your income to pursue activities (e.g., course work, advanced degrees, professional or trade meetings, or relocation for a better work opportunity) that may enhance your professional skills and earning capacity.

Consequently, the best investment you might ever make is to begin setting aside funds for your continuing education. In the process, you'll be reinforcing the sense of responsibility required to control your own destiny and developing the resources necessary to carry out that responsibility. You'll also be showing others, including your employer or other potential employers, that you are committed to improving your skills, receptive to change, and willing "to go the extra mile" to pursue professional success.