

# EYE ON MONEY

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OCT  
2009

## Paying for Education

How to Save, Borrow, and Deduct Your Way to an Affordable College Education



Plus:  
Revocable Living Trusts  
Health Insurance for  
Early Retirees



## Test Your Fund Knowledge

Answers on page 4 →

1. A mutual fund that invests in stocks that are thought to be undervalued is a:
  - A. Growth fund
  - B. Value fund
2. What type of mutual fund can invest anywhere in the world, including the investor's home country?
  - A. Global fund
  - B. International fund
3. What type of fund is priced continually throughout the day?
  - A. Mutual fund
  - B. Exchange traded fund
4. If you divide the total value of a fund's assets, less its liabilities, by the number of shares outstanding, you reach the fund's:
  - A. Net asset value (NAV)
  - B. Price/earnings (P/E) Ratio
5. The investment objective of an index fund is generally to:
  - A. Track the investment returns of a specific index
  - B. Exceed the investment returns of a specific index
6. What type of mutual fund adjusts its asset allocation to decrease risk as the fund's target date nears?
  - A. Life-cycle fund
  - B. Lifestyle fund
7. Limit orders, stop orders, and other trading techniques normally associated with stocks can be used with which type of fund?
  - A. Mutual fund
  - B. Exchange traded fund
8. "Large cap fund" refers to funds that invest primarily in the securities of:
  - A. The largest companies
  - B. Companies in developed countries
9. From a tax perspective, is it better to purchase a mutual fund right before or after its record date?
  - A. Right before
  - B. After
10. What document should you read before investing in mutual funds or exchange traded funds?
  - A. Annual report
  - B. Prospectus

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## Eight Reasons to Participate in a 401(k)

At last count, more than 48 million workers were saving for retirement in 401(k) plans. These employer-sponsored retirement plans are popular for many reasons—including the eight listed here.

**1 Convenience.** Your employer takes care of deducting your contributions from your pay and depositing them into your 401(k) account each pay period. In addition to being convenient, this automatic-deposit feature keeps the money out of your hands so you are not tempted to spend it.

**2 A current tax break.** Income you contribute to a traditional type of 401(k) plan is not taxed until you withdraw it from your 401(k) account. Say you contribute \$16,500 this year—that's \$16,500 of income you will not have to pay income tax on this year.

**3 Tax-deferred earnings.** The earnings on the investments in your traditional 401(k) account are also not taxed until you withdraw them from the account. Because the earnings are not taxed each year, your savings potentially grow faster in a 401(k) account than in an account that is subject to taxes each year.

**4 Tax-free earnings and withdrawals.** Some employers also offer another type of 401(k) plan—the Roth 401(k). With a Roth 401(k), your contributions are made from income that has already been taxed, but it is tax-free sailing from then on. Your earnings grow tax-free, and your

withdrawals are also tax-free as long as you follow the rules for withdrawals.

**5 Employer match.** Your employer may match a portion of the amount that you contribute.

**6 In general, no income restrictions on who can participate.** Even high-income individuals can participate in a 401(k) plan and enjoy the tax benefits it has to offer.

**7 Portable.** You can take your 401(k) savings with you when you change employers. Your savings can be transferred to your new employer's plan (provided the new employer's plan allows this), rolled into an IRA, or cashed out.

**8 Protection from creditors.** The assets in your 401(k) account are generally protected from your creditors in the case of bankruptcy or a lawsuit. ■

Talk to your financial advisor about how much you may need to save for retirement and the best way to go about it. Your financial advisor can help you create a personal savings strategy designed to meet your retirement goals.



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## Test Your Fund Knowledge **Answers** TO QUIZ ON PAGE 2



**1-B Value funds** invest in stocks that the portfolio manager believes to be undervalued in price.

**2-A Global funds** can invest anywhere in the world, including the investor's home country. International funds do not invest in the investor's home country.

**3-B Exchange-traded funds (ETFs)** are priced continually throughout the day. In contrast, mutual funds are priced once a day, generally after the major U.S. exchanges close. When you buy or redeem mutual fund shares, you may not know the exact share price for hours.

**4-A Net asset value (NAV)** is the total value of all securities in a fund, less its liabilities, divided by its number of shares outstanding. Shares in mutual funds are bought and sold at NAV (plus or minus any sales fees). The share price of exchange traded funds, however, can vary from NAV.

**5-A Tracking the investment returns of a specific stock or bond index** is the objective of most index funds.

**6-A Life-cycle funds** adjust their asset allocations over

time to help decrease risk as the funds' target dates near. This type of fund may be used when saving for a long-term goal, such as a child's college education, with a fixed target date.

**7-B Exchange traded funds** trade on exchanges like stocks and can make use of techniques, such as limit orders, stop orders, selling short, and buying on margin.

**8-A A mutual fund that invests primarily in the securities of the largest of companies,** such as GE and Microsoft, is referred to as a large cap fund. "Large cap" is short for large market capitalization.

**9-B It's a better idea tax-wise to purchase a mutual fund after its record date,** rather than right before it. That's because mutual funds distribute capital gains and dividends to investors who own shares on the fund's record date. If the mutual fund is in a taxable account, you will be stuck with the tax bill on up to a year's worth of gains and dividends, regardless of the fact that you just bought the fund.

**10-B Prospectus.** Before investing in a mutual fund or an exchange traded fund, request a prospectus from your financial advisor and read it carefully. It will contain information about the fund's objectives, risks, charges, and expenses. ■

### About Mutual Funds and Exchange Traded Funds

- Past performance is not a guarantee of future results.
- All investments are subject to risk. It is possible to lose money investing.
- Bonds are subject to interest rate risk. When interest rates rise, bond prices fall.
- Investing in micro, small, or mid-sized companies involves risks not associated with investing in more established companies. Since equity securities of small companies may not be traded as often as equity securities of larger, more established companies, it may be difficult or impossible for the fund to sell.
- International investing presents certain risks not associated with investing solely in the United States. These include, for instance, risks relating to fluctuations in the value of the US dollar relative to the values of other currencies, custody arrangements made for foreign holdings, political risks, differences in accounting procedures, and the lesser degree of public information required to be provided by non-US companies.
- Investing in a single-region or single-sector fund involves greater risk than investing in a more diversified fund.

## Tougher Rules for Credit Card Companies

### What's in the *Credit Card Accountability, Responsibility, and Disclosure Act* for you.

Tougher, new credit card rules were signed into law on May 22, 2009 to help protect consumers from unfair credit card practices. Some of the law's key provisions are listed below. If they sound familiar, it is because federal regulators approved similar rules at the end of 2008. The new law makes many of the regulators' rules law and adds other consumer protections. In general, the new law goes into effect in February 2010, although some provisions become effective earlier.

#### Interest Rates

- Card issuers cannot increase your rate in the first year.
- Interest rates on existing balances cannot be increased arbitrarily nor can a card issuer use your history with another creditor to raise your rates.
- Promotional rates must last at least 6 months.
- Cardholders must be given 45-days notice of interest rate, fee, and finance charge increases. This allows you time to arrange for alternate financing or change your account usage, if you choose.
- Two-cycle billing—where an issuer calculates interest based on paid-on-time balances from a previous cycle—is prohibited.

#### Fees

- Card issuers cannot charge you a fee for paying your credit card debt, except if you are making an expedited payment using live services.
- Issuers cannot charge you an "over-the-limit" fee unless you elected to allow the issuer to complete over-the-limit transactions.
- Penalty fees must be reasonable and proportional to the omission or violation.

#### Payments

- Statements must be mailed 21 days before the bill is due, instead of the current 14.
- Payments in excess of the minimum must be applied first to the credit card balance with the highest interest rate.

#### Safeguards

- Card companies must consider a consumer's ability to pay when issuing credit cards or increasing credit limits.
- Applicants under the age of 21 must show proof that they have independent means of repaying any credit or must obtain the signature of someone age 21 or older who will take responsibility for the debt.
- Gift cards must have at least a five-year life span.
- Statements must show how long it will take to pay off a balance and what it will cost in interest if the cardholder only makes the minimum monthly payments. ■



"Credit card companies provide a valuable service; we don't begrudge them turning a profit. We just want to make sure that they do so while upholding basic standards of fairness, transparency, and accountability. Just as we demand credit card users to act responsibly, we demand that credit card companies act responsibly, too."

—President Obama, upon signing the *Credit Card Accountability, Responsibility, and Disclosure Act*

# Paying for Education

How to Save, Borrow, and Deduct Your Way to an Affordable College Education



\$25,000 a year<sup>1</sup>—that is the average price of tuition today at a private college. Eighteen years from now, that price may be \$72,000 a year if tuition continues to increase at a rate of six percent annually. To help families of all income levels meet the rising cost of education—both today and in the future—the federal government offers an array of tax breaks for saving and paying for college, as well as low cost loans. By tapping into what the government has to offer, you may be able to save, borrow, and deduct your way to an affordable education for your children.

## Save ▼

If your savings were not dinged for taxes each year, think how much faster they might grow and how much more you might accumulate over time. Well, the federal government was thinking along those lines when they opened the door for the creation of Coverdell education savings accounts and 529 college savings plans. Earnings in these types of accounts grow free from federal taxes, and withdrawals are also free from federal taxes if used for qualified education expenses. Earnings on the savings in 529 plans may also be exempt from state taxes in some cases.

### Coverdell Education Savings Account

Families can sock away up to \$2,000 per student each year in a Coverdell account and use the savings tax-free to pay for any level of education, from elementary school to graduate school.

To open or contribute to a Coverdell account, your modified adjusted gross income (AGI) must be under \$110,000 (\$220,000 if you are married filing jointly). Anyone who is under the limit—whether it is a parent, other relative, friend, or even the student—can open and contribute to a Coverdell account.

Regardless of who opens the account, the student's parent or guardian oversees the account, choosing the investments and deciding when to make withdrawals.

Coverdell accounts typically offer a range of investment choices, such as stocks, bonds, and mutual funds. Some accounts may be in the form of FDIC-insured deposit accounts or certificates of deposit (CDs).

If more than one Coverdell account is opened, it is important to keep an eye on contributions. The annual contribution limit is \$2,000 per student, no matter how many accounts are opened or how many people contribute. Also, contributions cannot be made after the student reaches age 18, unless the student is a special needs individual.

Withdrawals from a Coverdell account are tax-free if used for qualified education expenses, such as tuition, fees, books, supplies, and equipment. If withdrawals exceed the qualified expenses for the year, the earnings portion of the excess will be subject to income tax and a 10-percent penalty.

Any assets remaining in a Coverdell account when the student reaches age 30 are generally distributed to the student. The portion of the distribution representing earnings will be subject to tax and a 10-percent penalty. To avoid this, the balance can be rolled over into a Coverdell account for an eligible member of the student's family.

### 529 College Savings Plans

Families of all income levels—yes, even high-income families—can put away money for college in a 529 college savings plan, where it can grow tax-free and be

## At a glance...

Coverdell Account	529 Account
<b>Savings can be used tax-free for:</b>	
All levels of education	Higher education only
<b>Contribution limit:</b>	
\$2000 per student annually	Varies by plan, over \$300,000 in some plans
<b>Income limits on who can contribute:</b>	
Modified AGI must be less than \$110,000 (\$220,000 for joint filers). Only partial contributions are permitted if income exceeds \$95,000 (\$190,000 for joint filers).	No
<b>Who controls the account:</b>	
Parent or guardian	Person who opens the account
<b>Investment options:</b>	
Individual stocks, bonds, and mutual funds	Investment portfolios

<sup>1</sup>Source: College Board *Trends in College Pricing*, 2008



## Special estate planning opportunity for 529 plans

If you want to quickly reduce the size of your taxable estate, consider funding a 529 college savings plan for a loved one. A special feature of 529 plans allows you to contribute up to \$65,000 per student (\$130,000 if you are married and file jointly) in one year to a 529 plan without gift tax consequences. Essentially, you are allowed to combine five years of gift-tax exclusions (\$13,000 in 2009) into one year. If you give the full amount, any additional gifts you give to that individual in the following five years will be subject to gift tax. You need to outlive the five-year period, or a prorated portion of your gift is added back into your estate for estate tax purposes.

withdrawn exempt from federal taxes to pay higher education expenses.

Unlike a Coverdell account, there are no income limits on who can contribute to a 529 plan. In fact, high-income individuals whose short term gains and interest are normally taxed at the highest rates (.28%, 33%, 35%) may have the most to gain tax-wisely by using one of these tax-free plans.

Also in contrast to Coverdell accounts, 529 plans do not place an annual limit on the amount you can contribute. Instead, 529 plans limit the amount that can be contributed to a single account—and that amount is generally very high. In most plans, the limit is in the \$200,000 to \$300,000 range.

529 college savings plans are state-sponsored plans named after section 529 of the Internal Revenue Code that made it possible for the states to offer savings plans exempt from federal taxation. Every state in the union offers a 529 college savings plan—some states offer more than one.

You can choose a 529 savings plan from almost any state. It is a good idea, though, to review your own state's plan before deciding on a plan. Some states offer residents additional perks, such as a state tax deduction for contributions to the plan, reduced or waived program fees, matching grants, and scholarships to state colleges.

Anyone—a parent, grandparent, family friend, or student—can open and fund a 529 account. Unlike a Coverdell account where the parent generally controls the account, the person who opens the 529 account retains control of the account. As account owner, you decide how your money is invested. You determine when to make withdrawals. You can change the beneficiary on the account to a family member of

the current beneficiary at no tax or penalty cost. You can even reclaim the funds in the account for yourself; for this move though, you will owe income tax and a 10-percent penalty on any earnings you reclaim.

You will generally have a choice among several options of how your money is invested. Federal law prohibits account owners from selecting specific investments so states typically hire investment companies to assemble a group of investment portfolios from which to choose. These portfolios might include stocks, bonds, and mutual funds. A few plans offer FDIC-insured banking options. Many plans offer target-date portfolios designed to automatically shift to more conservative holdings as the start of college approaches.

Withdrawals from a 529 plan are tax free as long as they are used to cover qualified higher education expenses at a college, university, or vocational school.

Qualified expenses include tuition, fees, books, supplies, and equipment. Room and board is usually considered a qualified expense if the student is enrolled at least half-time. And computer equipment and technology is also considered a qualified expense, but only for 2009 and 2010. If withdrawals exceed eligible expenses for the year, the earnings on the excess will generally be subject to income tax and a 10-percent penalty.

**ABOUT 529 COLLEGE SAVINGS PLANS:** For more complete information about a 529 college savings plan, including investment objectives, risks, fees, and expenses associated with it, please carefully read the issuer's official statement before investing. It can be obtained from your financial advisor. Any state-based benefit offered with respect to a particular 529 college savings plan should be one of many appropriately weighted factors to be considered in making an investment decision. You should consult with your financial, tax, or other advisor to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You also

may wish to contact your home state or any other 529 college savings plan to learn more about the features, benefits, and limitations of that state's 529 college savings plan.

### 529 Prepaid Tuition Plans

With the cost of higher education escalating, wouldn't it be great if you could lock in the price of tuition today for your child's future education? In some states, you can. Fourteen states offer prepaid tuition plans that allow families to purchase units or years of college tuition now at today's rates and use them to pay tuition in the future.

Prepaid tuition plans vary by state, but most require that you or the student be a resident of the state to participate. States with a prepaid tuition plan are Alabama, Florida, Illinois, Kentucky, Maryland, Massachusetts, Michigan, Mississippi, Nevada, Pennsylvania, Tennessee, Texas, Virginia, and Washington.

In general, prepaid tuition can be used to fully cover the cost of tuition at an in-state public college and perhaps to partially cover the cost of out-of-state and private schools. Check with your state for details.

## Borrow ▼

Education loans are not just for families in dire financial need. Even high-income families with students attending school at least half-time are eligible for low-interest loans from the federal government to help pay for college. Private loans are also an option, but federal loans offer better interest rates and terms.

A Federal Stafford Loan is an option for undergraduate, graduate, and professional students. There is both a subsidized version and unsubsidized version of this loan. The subsidized version is awarded based on financial need and offers a lower interest rate. The federal government pays the interest while the student is in school at

least half-time and during grace and deferment periods. The unsubsidized version is awarded to students regardless of financial need. The student is responsible for all of the interest that accrues on the unsubsidized loan, including while the student is in school. Typically the interest that accrues while the student is in school is added to the loan balance, with repayment of both principal and interest beginning six months after the student graduates or drops below half-time enrollment.

Stafford Loans limit the amount that can be borrowed in any given year. For example, a dependent sophomore may be able to borrow up to \$6,500 (no more than \$4,500 of this amount can be in subsidized loans). For some families, that may not be enough to fully cover education costs, even after savings, contributions from current income, and other forms of financial aid are factored in. Enter the Federal Plus Loan.

A PLUS Loan is available to graduate and professional students who have exhausted their Stafford Loans, as well as to parents of dependent undergraduate students. This type of loan is not based on financial need and enables graduate students, professional students, and parents to borrow up to the full cost of education minus any financial aid the student receives. Typically, a credit check is required before a PLUS Loan application can be approved.

If a parent is not approved for a PLUS Loan, a dependent student becomes eligible for the higher Stafford Loan limits, normally reserved for independent students. For example, while a dependent student is limited to borrowing \$6,500 for the second year of college, a student whose parents were not approved for a PLUS Loan can borrow up to \$10,500.

Some colleges offer a third type of federal loan, the Perkins Loan, to students with exceptional financial need. The interest rate on a Perkins Loan is set at a low 5



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### Borrowing tips

To help keep the cost of borrowing low, exhaust federal education loans before considering private loans.

Complete the Free Application for Federal Student Aid (FAFSA) as soon after January 1 as possible. Schools award some aid on a first come, first serve basis.

percent, which is even lower than the rate on a subsidized Stafford Loan.

Students who plan to apply for a federal education loan should fill out the Free Application for Federal Student Aid (FAFSA) each year. The school uses the information in this federal form to award aid, including federal education loans. The award letter from the school will spell out how much a student may be eligible to borrow and whether any of it is in the form of a subsidized loan.



## Tax credits & deductions

	MAXIMUM BENEFIT	DETAILS	INCOME LIMITS
<b>American Opportunity Tax Credit</b> (formerly the Hope credit)	\$2,500 reduction in taxes per student <sup>1</sup>	<ul style="list-style-type: none"> <li>• Equal to 100% of the first \$2,000 you paid for tuition, fees, and course materials, plus 25% of the next \$2,000.</li> <li>• 40% of the credit can be refunded.</li> <li>• Available for the first 4 years of post-secondary education.</li> <li>• Student must be enrolled at least half-time in a degree program.</li> <li>• The credit is allowed for AMT purposes also.</li> <li>• Reverts to the less generous Hope credit after 2010.</li> </ul>	The credit phases out between \$80,000 and \$90,000 (\$160,000 and \$180,000 for joint filers).
<b>Lifetime Learning Credit</b>	\$2,000 reduction in taxes per return <sup>1</sup>	<ul style="list-style-type: none"> <li>• Equal to 20%<sup>1</sup> of the first \$10,000 you paid for tuition, fees, and course materials for all eligible students.</li> <li>• Can be claimed for an unlimited number of years.</li> <li>• The student does not need to be pursuing a degree or enrolled at least half-time; the credit can be claimed for one or more courses.</li> </ul>	The credit phases out between \$50,000 and \$60,000 (\$100,000 and \$120,000 for joint filers).
<b>Tuition and Fees Deduction</b>	\$4,000 reduction in income subject to tax	<ul style="list-style-type: none"> <li>• Deduct up to \$4,000, \$2,000, or \$0 of amounts you paid for tuition, fees, and course materials. The maximum amount depends on your income.</li> <li>• The student does not need to be pursuing a degree or enrolled at least half-time; the deduction can be claimed for one or more courses.</li> <li>• This deduction is scheduled to expire after 2009 unless Congress extends it or makes it permanent.</li> </ul>	The maximum deduction is \$4,000 if income is below \$65,000 (\$130,000 for joint filers) or \$2,000 if income is between \$65,000 and \$80,000 (\$130,000 and \$160,000 if joint filers).
<b>Student Loan Interest Deduction</b>	\$2,500 reduction in income subject to tax	<ul style="list-style-type: none"> <li>• Deduct up to \$2,500 of the interest you paid during the year on qualified student loans.</li> <li>• The student must have been enrolled at least half-time in a degree program.</li> <li>• A student cannot claim a deduction for interest he or she paid if someone else is claiming an exemption for the student on their tax return.</li> </ul>	The deduction phases out between \$55,000 and \$70,000 (\$115,000 and \$145,000 for joint filers).

<sup>1</sup> The Hope credit and the lifetime learning credit were expanded for 2008 and 2009 for students attending college in a Midwestern disaster area. The maximum Hope credit for a Midwestern disaster area student is \$3,600 and the maximum lifetime learning credit is \$4,000. Eligible families can opt to use the previous rules to figure the Hope credit.

## Deduct ▼

You may be able to defray part of the cost of higher education by claiming tax credits and deductions for the expenses you pay. The federal government currently offers four such tax breaks; your state may also offer tax breaks.

Although each federal tax break has its own set of requirements, they have several features in common. First of all, your income must be within limits to claim any of them. (The limits are shown at left.) They can only be claimed for post-secondary education expenses; sorry, no breaks for high school or elementary school tuition. You cannot claim a credit or deduction if you are claimed as a dependent on another taxpayer's return or if your filing status is married filing separately. No double benefit is allowed; meaning you can't use the same expenses to claim multiple tax breaks. For example, you can't claim a tax credit or deduction on expenses you paid using money from a tax-free scholarship.

### American Opportunity Tax Credit

The American Opportunity Tax Credit may put more dough (up to \$2,500 per student) back in your pocket than the lifetime learning credit or the tuition and fees deduction—if you are eligible to claim it. This credit is a souped-up version of the Hope credit, cooked up as part of the stimulus package, and good for 2009 and 2010 only.

Under prior Hope credit rules, families could deduct up to \$1,800 per student per year for the first *two* years of college or vocational school. In 2009 and 2010, families can deduct up to \$2,500 per student per year for the first *four* years. The amount of the credit is figured at 100 percent of the first \$2,000 you paid per student for tuition, fees, and course materials, plus 25 percent of the next \$2,000. The credit begins to phase out (to gradually decrease) once your income passes \$80,000 (\$160,000 if you are married and file a joint return).

### Lifetime Learning Credit

This credit is equal to 20 percent of the first \$10,000 you paid for tuition, fees, and course materials for all eligible students.

Why would someone claim this credit instead of the more generous American Opportunity Tax Credit?

Unlike the American Opportunity Tax Credit which can only be used for the first four years (the first two years after 2010) of college, the lifetime learning credit can be used for an unlimited number of years, making it attractive to families with students who are no longer eligible for the other credit.

Plus, unlike the American Opportunity Tax Credit, the student does not need to be enrolled half-time or pursuing a degree or certificate for the expenses to be eligible. The lifetime learning credit can be claimed for expenses paid for one or more courses, either in pursuit of a degree or to improve work skills.

### Tuition and Fees Deduction

You may be able to deduct up to \$2,000 or up to \$4,000—the limit depends on your income—of the tuition, fees, and course materials you paid during the year.

The income limits are significantly higher for this deduction than for the lifetime learning credit, making it the only game in town for some families who are no longer eligible for the American Opportunity Tax Credit because their student has already completed four years of college.

This deduction is scheduled to expire at the end of 2009 unless Congress extends it.

### Student Loan Interest Deduction

Up to \$2,500 of the interest you pay on a qualified student loan may be deducted if your income is within certain limits and you are not claimed as an exemption on another person's return.

Coordinating the tax breaks associated with education can be tricky. Be sure to consult your tax advisor. ■



**Talk to your financial advisor about creating your personal college funding strategy.**

Your financial advisor can help you identify the best ways to save for college, as well as to tap your resources to pay college costs. If you have a college-bound student in your family, give your advisor a call today.

healthcare  
ESTATE proxy

trusts

life  
insurance

power of  
attorney

will

## The Revocable Living Trust

### A key piece of many estate plans.

Revocable living trusts are a popular, partial alternative to wills. Why so popular? Assets in a revocable living trust avoid probate, a sometimes lengthy and expensive court-supervised process that a will must pass through. Plus, the management of a revocable living trust can be quickly transferred—again, without court involvement—to your designee if you become unable to manage it yourself. Here is an introduction to this powerful estate planning tool.

### What is a revocable living trust?

A revocable living trust is a legal arrangement you create to direct how your property is to be managed during your lifetime and distributed after your death.

### How does a revocable living trust work?

Requirements for creating a revocable living trust vary by state, but in general the first step is to draft the trust agreement or declaration. This is normally done with the assistance of an estate planning attorney.

In the agreement, you name trustees to manage the property in the trust. Normally, you would name yourself as the trustee, but you can name another person or an institution, such as a bank or trust company. If you are married, you and your spouse can be co-trustees.

Then you generally fund the trust by transferring ownership of your property to the trustee. This entails changing the name on deeds, titles, financial accounts, etc.

As trustee, you retain full control of the property in your trust. You can sell it, spend it, save it, give it away—all the same things you could do before the trust was created.

In the trust agreement, you will name the people who will inherit the property in the trust after your death. These are your beneficiaries. You will also name a successor trustee, the person who will eventually distribute your property to your beneficiaries, according to the directions in your trust. You can also arrange to have the successor trustee step in to manage your property if you become incapacitated. Your successor trustee can generally be a person, such as your spouse, an adult child, another relative, or a family friend, or an institution, such as a bank or trust company.

Can you change your mind? You bet. The trust can be revised or revoked while you are alive. You can change the terms—for example, who gets what—and you can cancel the trust altogether.

### **What are the benefits of using a revocable living trust?**

A revocable living trust offers two main benefits: assets in the trust avoid probate and the trust helps protect you financially if you become incapacitated.

Probate is a court-supervised process that establishes the validity of the will and, in some states, oversees the distribution of the will assets. Assets in a revocable trust do not pass through probate. Your successor trustee, not the courts, oversees the management and distribution of the assets in your trust per your directions.

Many people wish to avoid probate because they perceive it to be a costly, time-consuming process. And while it can be costly and time-consuming in some cases, it is not always. Probate procedures vary by state. Many states offer simplified probate procedures where estates can pass through probate relatively quickly and inexpensively. Other states, however, have high probate costs. If you live in one of these states or have a complex estate, a revocable living trust may help you trim the costs associated with distributing your assets.

There are other scenarios as well where avoiding probate is desirable. If you own real estate outside your home state, placing it in a revocable living trust eliminates the need for probate proceedings in multiple states. If you want the details of your estate to remain private, using a revocable living trust can generally achieve this. A will, on the other hand, becomes a matter of public record as part of the probate process.

Besides avoiding probate, a revocable living trust can be used to transfer financial management to your successor trustee if you become incapacitated. This generally avoids the need to have the court appoint a guardian or conservator to manage your affairs. Your successor trustee can quickly assume management of the assets in the trust and manage them for your benefit without court intervention or supervision.

Of course, the successor trustee cannot manage assets outside of the trust. For this reason, it is important to have a durable power of attorney so that your attorney-in-fact can transfer assets to the trust if you become incapacitated.

### **Are there other ways to avoid probate?**

Yes, certain types of property can generally be distributed without going through probate. They include property held as joint tenants or owners with right of survivorship; cash and securities in payable-on-death or transfer-on-death accounts; assets in retirement plans, IRAs, and other financial accounts with beneficiary designations; and life insurance proceeds as long as the estate is not the beneficiary. If the majority of your estate is made up of these types of property, avoiding probate on your other assets may be less important.

### **Does a revocable living trust replace the need for a will?**

You will still need a will to name a guardian if you have minor children and to provide direction for any property that was left out of the trust and cannot be distributed to your heirs by other means.

Living trusts are often paired with a “pour-over” will that pours the assets outside of the trust into the trust after death. In many cases, the pour-over will will need to pass through probate, but the process may be less expensive if your key assets were transferred to your trust during your lifetime. Also, depending on your state, a certain amount of your estate may be able to be transferred to your trust after your death without probate.

### **Is a revocable living trust right for you?**

This is a question for your financial and legal advisors. Your financial and legal advisors can look at your financial situation, your goals for your estate, and the laws of your state to help you determine whether a revocable living trust should be part of your estate plan. ■

## PROs

**May reduce future expenses.** Assets in a revocable living trust avoid probate, which can be expensive in some states.

**May result in assets being distributed faster.** Assets in a revocable living trust may be distributed more quickly after your death than assets distributed by a will which must go through probate.

**Preserves your privacy.** Unlike a will, the details of a trust are not a matter of public record.

**Avoids guardianship.** If you become incapacitated, your successor trustee can take over management of your trust assets, generally without any court involvement.

## CONs

**Current expense.** For some people, the cost to set up a revocable living trust will be greater than the cost savings realized by minimizing or avoiding probate.

**Paperwork.** Property transferred to the trust will need to be re-titled.

# Health Insurance for Early Retirees

How to bridge the gap in health insurance coverage if you retire before you are eligible for Medicare.

If you are considering retiring before age 65 when Medicare kicks in, be sure to factor the cost and availability of health insurance into your decision. The cost may be several times greater than what you currently pay for health coverage through your employer. And if you have a preexisting medical condition, it may be difficult in some states to find a private insurer who will accept you. To help successfully bridge the gap between when you retire and when you become eligible for Medicare, explore your health insurance options and line up your coverage before you retire. Here are a few options to consider.

## Your Employer's Plan or Your Spouse's Employer's Plan

Does your employer or your spouse's employer offer retiree health benefits? If so, consider yourself fortunate. In 2008, only 31 percent of large employers (200 employees or more) offered retiree health benefits, according to a survey conducted by the Kaiser Family Foundation and the Health Research & Educational Trust (HRET). That is down from 66 percent of large employers in 1988. Smaller employers are even less likely to

offer retiree health benefits.

If you are eligible for retiree health benefits from either your employer or your spouse's employer, take a look at what the policy covers, as well as the premiums, co-pays, and deductibles. With skyrocketing health care costs, many employers have increased the amount retirees pay for health coverage and some employers have stopped subsidizing premiums altogether. Even so, the coverage provided by an employer-based group health plan will generally be less expensive than similar coverage you could buy on your own.

Another point in favor of an employer-based health plan is that you generally cannot be denied coverage because of a preexisting medical condition, such as diabetes, heart disease, or cancer.

Of course, if your spouse continues to work for an employer with a health plan, you may be eligible for coverage, regardless of whether your spouse's employer offers retiree health benefits.

## COBRA

Even if your employer does not offer retiree health benefits, you may be able to temporarily

continue coverage with your employer under COBRA rules.

Employers with health plans and 20 or more employees must give departing employees, their spouses, and their dependents the option of continuing in their health plan for up to 18 months, according to the federal COBRA rules. Your state may offer more generous COBRA rules, such as requiring employers with fewer than 20 employees to offer COBRA continuation benefits. Check the rules in your area; the federal rules are described here.

Your COBRA premiums will be higher than what you pay as an employee. You generally will need to pay both the employee's and employer's share of the premium, as well as a 2-percent administration fee. For your reference, premiums for family coverage in a group health plan averaged about \$12,700 in 2008, according to the Kaiser/HRET survey. Your employer can tell you what your actual COBRA cost would be. If the cost seems high, keep in mind that it may still be less expensive than a comparable health plan that you buy on your own. And you will be eligible for COBRA regardless of preexisting health conditions.

## Individual Health Insurance

People under the age of 65 can purchase health insurance from HMOs or other health insurance issuers. An individual policy will generally be more expensive than comparable coverage from a group health plan, particularly if the group plan is subsidized by the employer. If you are willing to accept less comprehensive coverage, you may be able to find individual health insurance that is less expensive.

One way to potentially keep costs down is to purchase a high-deductible health plan (HDHP) and pair it with a Health Savings Account (HSA). HDHPs generally have lower premiums and higher deductibles than traditional health plans. Usually, you pay the first several thousand dollars of most health care expenses each year before the HDHP begins to cover expenses. (Some HDHPs may cover the cost of certain preventative care without the deductible having been met.) If you are healthy with low annual health care expenses, you may pay less overall with an HDHP. But if you expect your annual expenses to be high, you may be better off financially with a traditional health plan that offers a lower deductible.

If you purchase a qualified high-deductible health plan, you are eligible to save for your medical expenses, such as deductibles and co-pays, in a tax-favored Health Savings Account. The thought is that you'll

invest the money you save with the lower premiums in a Health Savings Account for your future health care needs. Money you contribute to an HSA is tax-deductible and withdrawals from an HSA are tax-free if used for qualified medical expenses. You will need to stop contributing to your HSA once you enroll in Medicare, but you can continue to withdraw money from your account.

Of course, all of this assumes you are healthy and have not had major health problems in the past. In most states, insurers can turn you down for coverage if you have a preexisting health condition. Or they may offer you a policy that covers everything except that health condition. Fortunately, most states provide a safety net for people who cannot get health coverage on the commercial market.

Thirty-five states have what are known as high-risk health insurance pools. These pools are actually health plans created by states to provide health insurance to people who are denied coverage from commercial insurers or who can only get coverage at rates significantly above the pool's rate. The rates for high-risk insurance pools are generally about 25–50 percent higher than the rates for regular individual insurance, according to the National Association of State Comprehensive Health Insurance Plans. Plus, there is usually a 6 to 12 month waiting period before your pre-

existing condition is covered. The waiting period is generally waived if you were recently covered by a group health plan.

A few states require insurers to offer at least one health plan that cannot turn down someone for health reasons. These plans are known as “guaranteed issue” plans. Some states, including NY, require that all individual health plans be guaranteed issue plans, available to all state residents regardless of health.

If you plan to move to a different state before you reach Medicare age, make certain that you can secure health insurance in that state, if necessary.

## Avoid Breaks in Coverage

The most obvious reason to avoid a break in your health coverage when you retire is the financial hit you'll take if you become sick or injured while uninsured. A less obvious reason has to do with a federal law, known as the Health Insurance Portability and Accountability Act (HIPAA), which can help people with preexisting conditions get health coverage.

If you apply for individual health coverage within 63 days after losing group health plan coverage, HIPAA guarantees you access to individual health plans or high-risk health insurance pools, provided:

- Your most recent coverage was through a group health plan
- You have at least 18 months of coverage without a signifi-

cant break in coverage (63 or more days in a row)

- You are not eligible for coverage under any other group health plan, Medicare, or Medicaid
- You do not have other health insurance
- You did not lose your health insurance for not paying the premiums or for fraud
- You have exhausted your COBRA benefits or were not eligible for COBRA benefits

## Long Term Care

The health insurance plans described here generally will not cover the cost of long term custodial care (help with bathing, dressing, eating, etc.) that you receive in a nursing home or in your own home. Generally, Medicare will not either. As you consider health insurance for your retirement years, give some thought to purchasing long term care insurance to help you cover potential long term care costs.

## Medicare

Once you reach age 65, your health insurance costs will not disappear, but hopefully will shrink as Medicare begins to pick up the tab for hospital insurance. ■

Please talk to your financial advisor as your retirement approaches. Your advisor can help you create a financial plan that addresses many of the decisions you will need to make as you transition into retirement.



## Melbourne: Australia's Other City

BY BRIAN JOHNSTON

**T**he thunder of hoofs and a flash of silk colors, the magnificent spectacle of horses speeding past with muscles rippling, the roar of the crowd, the adrenalin-pumping gallop to the finishing line, and the million-dollar prize: Melbourne in November. It's the Melbourne Cup, the horse race that stops a nation for just under four minutes. But the good people of Melbourne aren't satisfied with just four minutes of fun; the Spring Racing Carnival goes for a full fifty days, combining horseflesh with glamour and fashion as only this city knows how.

Welcome to Australia's second city, a description many would argue applies only

to population size. From trendy fashion boutiques to laid-back cafés, pretty parks to football stadiums, nineteenth-century architecture to cutting-edge art, Melbourne has something for everyone. A four-minute horse race is the least of its attractions; when it comes to sports alone, you'll also find rugby, cricket, motor racing, and tennis of world-class standard, although the quintessential Melbourne experience must be a weekend AFL game at the Telstra Dome.

Strangely enough, when Melbournians aren't screaming at men kicking a ball through the mud, they might well be politely taking in some art in a sedate museum.

A pathway in Memorial Gardens leads into the heart of Melbourne, Australia.

Visual and performing arts thrive around the Southbank precinct, where you'll find hundreds of art galleries, from major public museums like the National Gallery of Victoria to small artists' cooperatives and the commercial galleries of Flinders Lane. Pick just one and you should perhaps head to the Ian Potter Centre, the first major art gallery dedicated exclusively to Australian art. From indigenous to colonial and contemporary, it paints a remarkable picture of the country's art history.

Talking of what typifies Australia, a visit to the Shrine of Remembrance is another must-do when in the city. This iconic landmark commemorates those who lost their lives in the First World War, while the Memorial Forecourt with its eternal flame acknowledges the Second World War. Shrines to various other conflicts are scattered about at this moving monument, where many pause to stop and reflect a while on the darker sides of history.

From the serious to the superficial: a bit of retail therapy. Melbourne is well-known for its fashion sense, for which you might want to head down to the massive Melbourne Central, which has 300-odd shops with leading international and Aussie labels, from haute couture to cutting-edge street wear. Chapel Street is another fashion must; at one end of the street, bright young women in high heels totter along under the weight of trendy shopping bags, while at the other, old Greek men with two-day stubble and nicotine-stained fingers sip coffee in old-fashioned cafés.

Brunswick Street is the other iconic road in Melbourne—scruffy and somewhat Bohemian, though the trendsetters are gradually taking over. The hairdressers look like art galleries, the art galleries like cafés, the

cafés like Italian peasant kitchens. New Age shops tinkle with wind chimes, and bold sofas in chic furniture stores look like instruments of torture. But you can still find old-fashioned butcher's shops, laundrettes that have survived from another era, and cheap and cheerful eateries serving generous helpings of hearty home cooking.

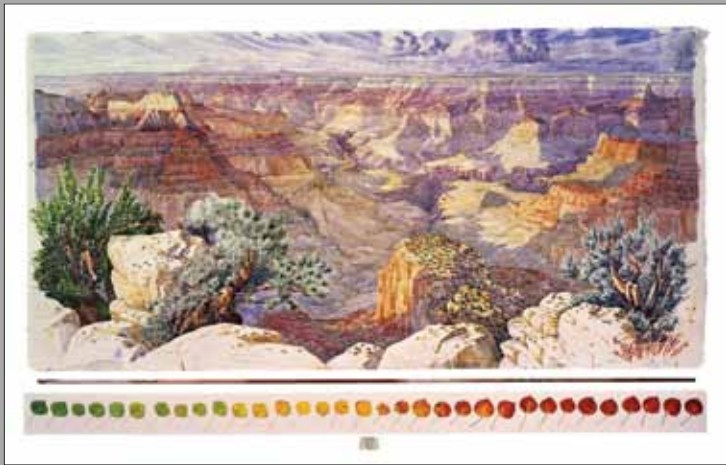
If Greeks and Italians have made their mark on Melbourne culture, so too have the Chinese. Indeed, they were among the first ethnic groups to arrive here; Melbourne's Chinatown is the oldest in the Western world. Although few of its original buildings still stand, it remains a lively place full of excellent restaurants and interesting shops. It's certainly worth stopping at the delightful little Chinese Museum. Its re-creation of a goldfield town includes a cookshop, a temple, Poon Toy's Cantonese Opera ('New Play Every Night!'), and a Chinese lottery shop from the days of old, highlighting an aspect of local history that goes mostly unnoticed.

When the hustle and bustle of the big city gets a bit much, it's time to head to the beach suburb of St. Kilda—or simply to one of the city's parks and gardens, which make for very tranquil green getaways. Fitzroy Gardens is the most iconic of these, with magnificent elm trees, conservatories, and scurrying possums at every turn. Carlton Gardens typifies the city's colonial love for grace and order, with paths leading in elegant symmetry towards the Royal Exhibition Building. In the Royal Botanic Gardens, winding pathways lead past ancient trees and across ornamental lawns; you can even enjoy a pocket of rainforest. It's a far cry from the cheering and energy of the Melbourne Cup, but just another side to the character of this remarkable city. ■



**1** The Royal Exhibition Building, a World Heritage site, was built for the Melbourne International Exhibition of 1880. It later housed Australia's first Parliament. **2** A view of Melbourne's financial district from a bridge over the river Yarra. **3** One of the modern buildings on Federation Square, a cultural and entertainment complex. **4** The limestone rock formations, known as the Twelve Apostles, are a day trip from Melbourne.

## WHAT'S ON AT THE ART MUSEUMS



Tony Foster, *From Point Sublime Looking E.S.E.*  
2004, watercolor and pencil on paper  
Phoenix Art Museum collection  
Gift of the Men's Arts Council's Western American Endowment Fund

*Phoenix* through October 18, 2009

### **Tony Foster: Searching for a Bigger Subject**

For more than 25 years, watercolor artist Tony Foster has painted large-scale works on location at what he calls "the edge of the world". In this exhibition at the Phoenix Art Museum, Foster focuses on two extreme locations from his travels: the Grand Canyon and Mount Everest. The exhibition features 32 recent studies and monumental paintings—his largest paintings measure six feet wide, particularly impressive considering they were made on location. "All of my work is based on the philosophy that our planet is a gloriously beautiful but fragile place, and that as an artist it is my role to deliver a testament to the fact that wild and pristine places still exist," commented Foster.

*Boston* through October 18, 2009

### **A New and Native Beauty: The Art and Craft of Greene & Greene**

The Arts and Crafts architecture and decorative arts of Charles and Henry Greene are the focus of this Museum of Fine Arts, Boston exhibition that includes beautifully inlaid furniture, stained glass, metalwork, and architectural drawings and photographs.

*Denver* October 17, 2009 through January 10, 2010

### **The Masterworks of Charles M. Russell: A Retrospective of Paintings and Sculpture**

This exhibition at the Denver Art Museum is the first major retrospective of Western American master Charles M. Russell. The exhibition will include 60 major works in oil, bronze, and mixed media, as well as a selection of objects that portray the charismatic artist in his own words and images. After debuting at the Denver Art Museum, the exhibition will travel to the Gilcrease Museum and the Museum of Fine Arts, Houston.

*New York* through September 27, 2009

### **African and Oceanic Art from The Barbier-Mueller Museum, Geneva: A Legacy of Collecting**

This exhibition featuring exceptional works of African and Oceanic sculpture selected from the extensive holdings of the Barbier-Mueller Museum will be on view at the Metropolitan Museum of Art through September 27. Presenting more than 35 works—most never before seen in the United States—the exhibition explores the wide spectrum of artistic creativity from two distinct regional traditions that have profoundly influenced world art.

*Philadelphia* through October 25, 2009

### **Henri Matisse and Modern Art on the French Riviera**

The Philadelphia Museum of Art presents approximately 35 paintings and sculptures by Matisse and his contemporaries—Pierre Bonnard, Raoul Dufy, Chaim Soutine, and others—exploring the beauty and allure of the French Riviera.

*Seattle* through October 18, 2009

### **Andrew Wyeth: Remembrance**

This exhibition at the Seattle Art Museum (SAM) is a tribute to one of America's most celebrated artists, Andrew Wyeth, who passed away earlier this year. "This focused exhibition allows us to mark the late artist's extraordinary career, to see a concentration of great Wyeth paintings from private collections that are otherwise never on public view, and to gain appreciation for Wyeth's choice of subjects and his brilliant manner of execution," said SAM's curator, Patricia Junker. ■

**3 days,  
8 stages,  
130 bands**

**Austin City Limits  
Music Festival**



*Austin, Texas* October 2–4, 2009

**P**op, country, folk, blues, bluegrass, reggae, indie rock, hip-hop, and gospel—you can hear them all at the 2009 Austin City Limits Music Festival in Austin's Zilker Park from October 2–4.

Making their Festival debut this year are Pearl Jam, Dave Matthews Band, Beastie Boys, and John Legend. The diverse line-up of performers also features Mos Def, Kings of Leon, The B-52s, Ben Harper and the Relentless7, and 125 or so other musical acts, spanning cultures and countries from New Orleans to Venezuela to France.

For more information about the event, including a full list of performers, visit the Festival's website at [www.aclfestival.com](http://www.aclfestival.com). ■

## How well do you know our national parks?

- Which national park is home to Cadillac Mountain (above), the first place in the U.S. that you can see the sunrise during the fall and winter?
  - Acadia
  - Denali
- Which national park encompasses the hottest and driest place in North America, as well as the lowest point in the Western Hemisphere?
  - Grand Canyon
  - Death Valley
- Which national park was home to the Revolutionary War encampment in the winter of 1777-1778?
  - Minute Man
  - Valley Forge
- Which was the first national park?
  - Yellowstone
  - Crater Lake
- Which national historic trail traces the path of an 1804 expedition from the Midwest to the Pacific Ocean?
  - Appalachian
  - Lewis and Clark
- Which national park is known for its underwater trail through a coral reef?
  - Golden Gate
  - Virgin Islands
- Which national seashore offers the longest expanse of uninterrupted sandy shoreline on the East Coast?
  - Cape Hatteras
  - Cape Cod