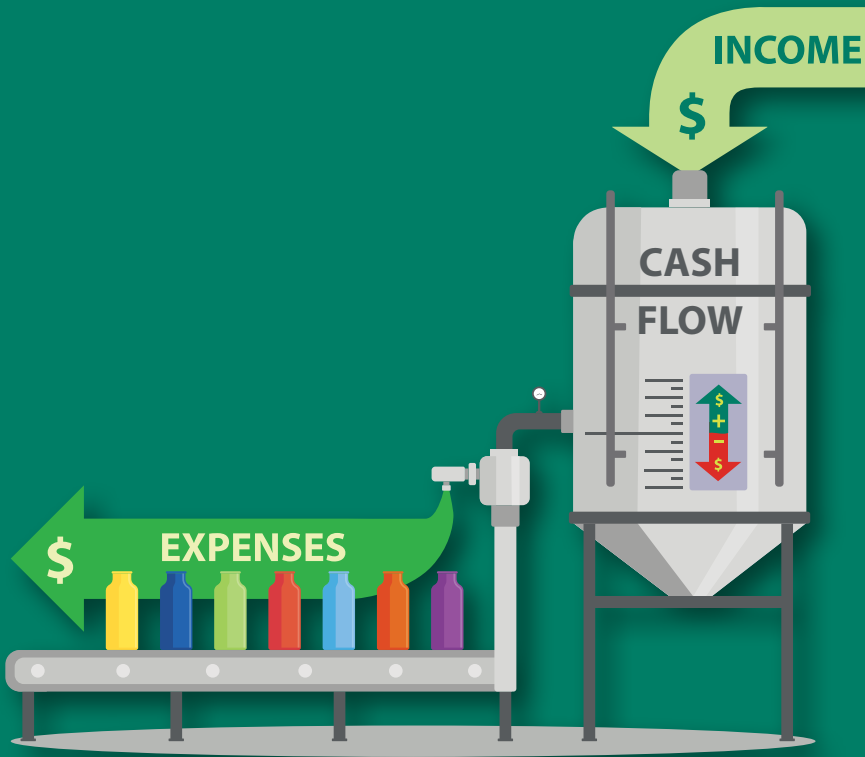




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PERSONAL FINANCE BEST PRACTICES

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KENNETH M. MORRIS

PERSONAL FINANCE BEST PRACTICES

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Money Management

With planning, you can manage your spending to cover immediate needs and still invest for long-term goals.

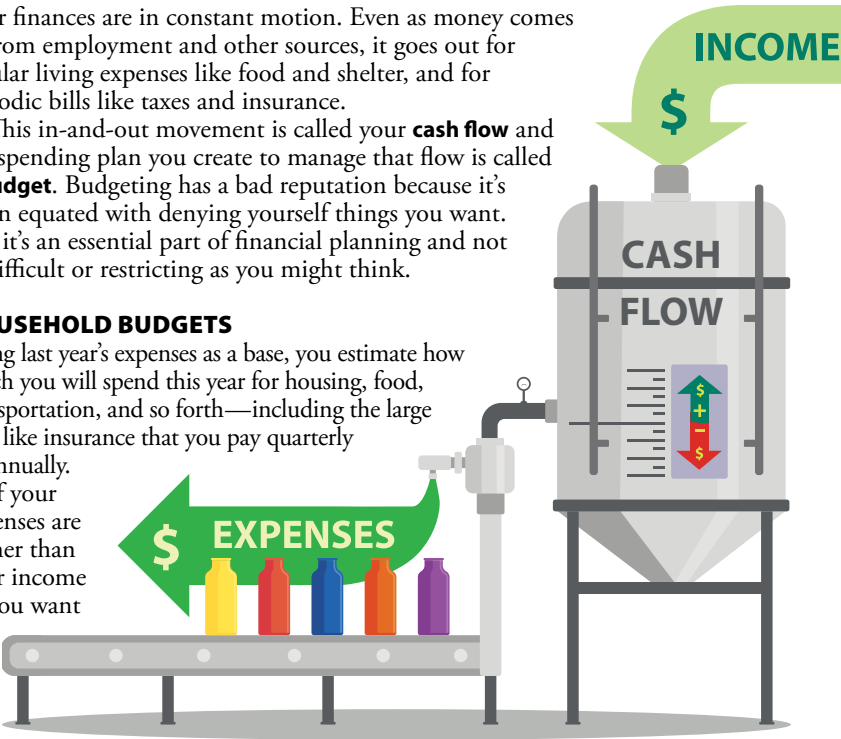
Your finances are in constant motion. Even as money comes in from employment and other sources, it goes out for regular living expenses like food and shelter, and for periodic bills like taxes and insurance.

This in-and-out movement is called your **cash flow** and the spending plan you create to manage that flow is called a **budget**. Budgeting has a bad reputation because it's often equated with denying yourself things you want. But it's an essential part of financial planning and not as difficult or restricting as you might think.

HOUSEHOLD BUDGETS

Using last year's expenses as a base, you estimate how much you will spend this year for housing, food, transportation, and so forth—including the large bills like insurance that you pay quarterly or annually.

If your expenses are higher than your income or you want



to invest more, you can review what you're spending to see where you can cut back. The simpler and more realistic your budget, the more likely you are to follow it.

FUNDS IN RESERVE

Irregular income, unexpected repair bills, medical expenses, or loss of your job can pose special cash flow problems. It pays to have a safety net—customarily six

FIXED AND VARIABLE COSTS

As you put together the numbers, you'll want to separate expenses with **fixed costs**—meaning that they're the same or close to the same every month like rent, car payments, and phone plans—from those that vary. That way, if you have to reduce your spending, you can focus on the costs where you have flexibility.

They typically include needs like food and clothing, and things that

are nice to have but not essential, like entertainment.

You'll do yourself a favor, now and in the future, if you include savings as one of the fixed costs in your spending plan. Though it can be tough to save when you feel as if you're just hanging on to solvency by a thread, it's much harder to deal with a financial emergency without the resources that savings can provide.



THE PART INCOME PLAYS

Your income determines the amount you can afford to spend on the necessities and pleasures of life. To keep your cash flow positive, which means having money left at the end of a pay period to spend as you wish, you may want to allocate income first to those essentials that have a fixed price, such as housing and loan repayments. You can then allocate to essentials with variable costs, such as food and clothing, where you can reduce your spending more easily if you are running short.



REGULAR EXPENSES

Weekly	Food, transportation, household supplies, childcare
Monthly	Housing, utilities, phone, loan repayments
Quarterly/annually	Insurance, taxes
Other	Medical and dental expenses, repairs, entertainment



months of living expenses—set aside in an **emergency fund**.

You can use your credit card to cover some emergencies when they happen, but interest charges will increase the cost dramatically if you repay over an extended period. If you can withdraw from your emergency fund when the credit card bill is due, you can combine the convenience of charging with the economy of paying in full.

Whatever the reason you need money from your emergency fund, you should replenish it as quickly as you possibly can, even if it means sacrificing some

immediate pleasures. It's the only way to be prepared for the next emergency.

TRACKING YOUR SPENDING

To budget effectively, you have to know where your money is going. It's relatively easy when you pay bills electronically or by check, since you have a record. Your credit card statement can be helpful as well, with each charge and amount listed. What's harder to track is the cash you take at the ATM—and it's often cash spending that gets you into budget trouble because it can be hard to track.

You might keep a daily spending record for several weeks, using either an app on your smartphone or a small notebook. You may be surprised at what you discover about where your money goes.

If you have children, encourage them to be part of the budgeting process, from allocating income to various family expenses to keeping track of spending. It's a great way to learn about money.

COMMITTING TO INVESTING

If you'd like to invest more of your household budget, but aren't sure how to get started, consider these suggestions:

- 1 Have a percentage of your salary deducted from your paycheck and invested in an employer sponsored retirement plan.
- 2 Transfer a regular amount to an investment account when you pay your bills each month.
- 3 Invest any money you get from gifts, bonuses, or extra jobs.
- 4 Reinvest all the money you make on your existing investments, automatically if you can.
- 5 Pay off your credit card balances. Then put an amount equal to what you were paying in interest into an investment account.

Using Credit Wisely

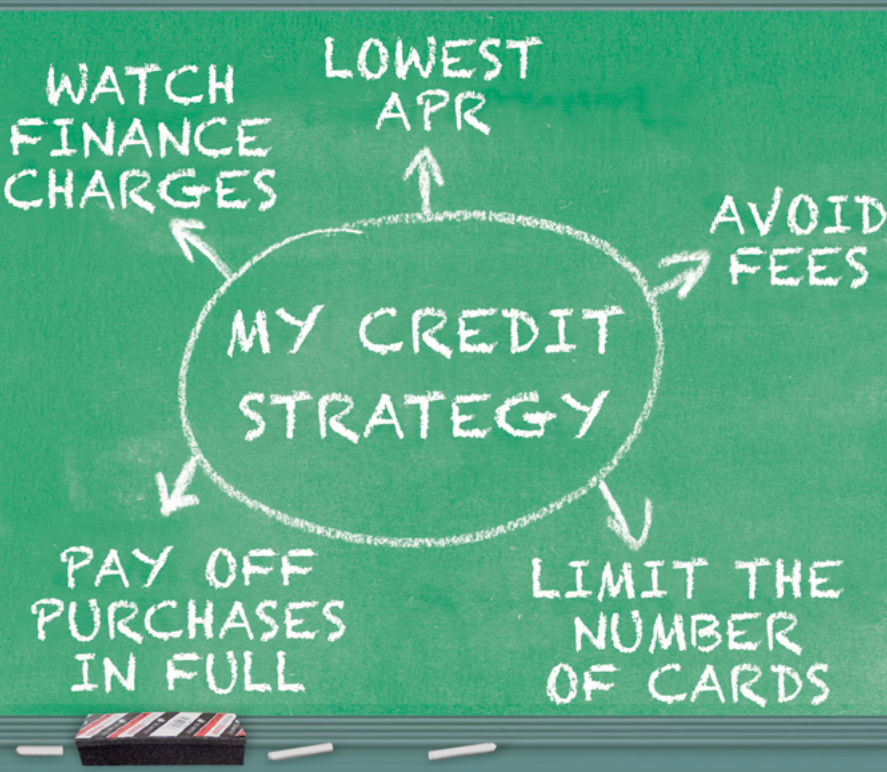
It may be hard to picture your financial life without credit, but you need to have a plan for using it to your benefit.

Credit, or the ability to borrow, makes daily life much easier. When used carefully and wisely, the power of credit can work in your favor. But it can also create financial trouble when you don't use credit carefully.

Credit means you borrow money to pay for something you need or want, sometimes that you might not be able to afford right away. Once you've used it, you pay it back. A good use of credit almost always means repaying what you've borrowed on time and in full. With credit cards, payments are due

once a month, and if you don't pay back the full amount by then, the creditor will charge you interest on the amount that you don't pay back.

Over time, if you don't pay back the full amount you owe by the due date, the finance charges can keep mounting and greatly increase your cost of using credit. The good news is that you can use a credit card without paying a finance charge. You just have to repay the entire amount you have borrowed by the date the payment is due.



BEATING EXTRA COSTS

You should always pay your credit card bill on time, even if it's only the minimum payment owed. Otherwise, you'll pay a late fee, and potentially damage your credit history.

Thanks to the Credit CARD Act of 2009, a late payment fee must be what the Federal Reserve Board calls "reasonable and proportional," which means,

among other things, that it can't be more than the minimum payment that was due. The Fed limits the charge for a first violation to \$29 and to \$40 for a second violation within six months. If you're charged more, you should complain to the issuer and then to the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Further, thanks to the Act, you can't be charged an inactivity fee for not using your card. And, you can be charged an over-limit fee for spending more than your credit limit only if you agree to have the card issuer pay amounts that are over your limit. It's wiser not to.

CASH ADVANCES

Be very careful about taking cash advances with your credit card. While it may feel a lot like using a debit card, the



reality is very different. Not only do you pay an upfront fee for the advance, but interest begins to accrue immediately at a rate that's higher than your card's APR for purchases. One way to avoid this situation: Simply don't choose a PIN for your credit card since you can't make cash withdrawals without one.

CARD CHOICES

APRs. If you might be carrying a balance on your card from month to month, it's worth it to look for one with the lowest APR you can find. The higher the APR, the more interest you'll owe on unpaid amounts. With the amount you owe steadily increasing, you may find it more and more difficult to manage your debt.



Retail Store cards.

When you're standing at the register of your favorite store with a pile of purchases, it can be tempting to accept the offer to get a discount in return for signing up for a store credit card. But it's best to resist. The APR on these cards is often quite high—and having the card makes impulse purchases that much more likely. It also means you can end up having too many cards in your wallet That can make it harder to keep track of on-time payments and can potentially negatively affect your credit report.

A STRONG CREDIT HISTORY

If you want to be able to use credit, you must show potential lenders that you'll live up to your end of the bargain. The way you establish this credit history is by borrowing and repaying on time. With a record in place, creditors are more likely to grant your new credit applications.

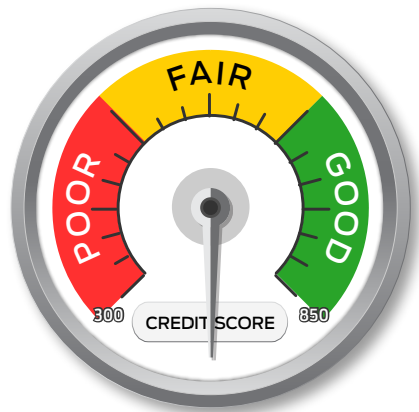
You can build a solid credit history if you use credit wisely over a period of time. It's important not to wait until you need to borrow to think about whether you'll qualify.

Building a good credit history depends on these good credit habits:

- Get a credit card and use it responsibly
- Make purchases every billing period, and pay them off in full and on time
- Apply gradually for additional credit

You can keep up to date on what the credit reporting agencies know about you by checking your credit report. It's free at www.annualcreditreport.com

AnnualCreditReport.com



CREDIT SCORES

Your credit score is a number, between 300 and 850, that is calculated by three credit reporting bureaus based on information in your credit report. The higher your score, the better. Lenders, insurers, employers, and others use this number to assess the credit risk you pose and the interest rate they will offer you if they agree to lend you money. The best (lowest) rates go to those with the highest scores. Applicants with low scores, sometimes called subprime borrowers, may be offered credit at higher rates.

Dealing with Debt

It's dangerously easy to fall into debt when you're young.

You're probably making more money now than you ever have before. But you've probably got more expenses too. That's a dangerous combination. It's far too easy to spend a lot more than you actually have. And that leads to trouble with debt.

Of course, getting sick, losing your job, and other things beyond your control can also land you in debt. But there are usually ways to prevent debt problems, as well as ways to improve your situation if you do get into trouble.

WARNING SIGNS

The best way to handle debt is to avoid it. Spending within your means and watching how you use credit—especially credit cards—can help. But if you don't know what debt trouble looks like, it can sneak up on you. If you find yourself in any of these situations, it's time to start managing your finances more carefully:

- Regularly paying only the minimum on your credit cards or missing payments altogether
- Regularly hitting your credit limit on your credit cards
- Needing to withdraw money from your savings account to cover bills or basic expenses
- Having trouble paying for an unexpected expense, such as car repairs or a new phone
- Depending on unpredictable income, such as gifts from family, to get by

FINDING REMEDIES

To start dealing with debt, take a close look at your monthly spending and pinpoint some areas where you can cut back to free up more money for your

debts. Then make paying your bills every month a priority—not an afterthought.



CAN YOUR CARDS

Since interest on credit cards is higher than on most other sources of credit, they're particularly dangerous if you're teetering on the edge of debt disaster. If you find yourself in such a situation, it might be time to get rid of your cards, especially if you've had problems with overspending. Keep one card for emergencies, but it's probably smart to pay in cash or with a debit card most of the time.

GET OUT OF DEBT

If you end up in serious debt trouble, don't give up. You can take a number of approaches to resolving debt problems, a process often known as **restructuring** debt.

The simplest thing you can do is to ask your creditors to rewrite the terms of your credit agreements so that your bills are easier for you to pay off. This often means smaller payments over a longer period of time, which of course means you'll end up paying more interest and increasing your overall cost. But that's usually a better deal in the long run than having to default or declare bankruptcy.

If you need help dealing with your creditors or figuring out the best way to handle your debts, a **non-profit credit counseling service** can help. For a relatively modest cost, they'll help you come up with a repayment plan that's feasible for you. Check out:

BANKRUPTCY

Filing for **bankruptcy** is a last resort, something you should be considering only if you're looking at an extremely long period of debt repayment, usually five or more years. When you file for bankruptcy, the court where you file allows you to **discharge** your debts. Under such a plan, you pay less than the full amount you owe, and your lenders recover some of their money.

By resolving your debt, bankruptcy allows you to get a new start. You're legally protected from creditors, so you know that your situation can't worsen. But bankruptcy damages your credit history, and you stand to lose many of your assets in order to repay your debts.

Remember, too, that bankruptcy doesn't wipe out amounts you owe the government for income taxes or student loans, or get rid of any alimony obligations you may have.



the National Foundation for Credit Counseling at www.nfcc.org or the Financial Counseling Association of America at fcaa.org.

Credit counseling is really about changing the way you handle money, not just getting out of a financial tight spot. A repayment plan is a great idea, but you also want help creating a spending plan and advice on how to stick to it. Otherwise, history is apt to repeat itself.

PUTTING IT TOGETHER

Using a **loan consolidator** is another way to handle debt. Consolidators lend you money to pay off your bills, and you repay the consolidator instead of your original lenders.

While debt consolidation may allow you to make a lower, more manageable monthly payment, the interest rates and fees that consolidators charge can be much higher than you'd otherwise pay. And since many of them impose heavy penalties for paying off your debt ahead of schedule, you might find yourself stuck with even more financial headaches than you had before.

STUDENT LOAN DEFAULT

There's a slightly different course of events if you fall behind on repaying student loans. If you don't make a payment on time, you're considered **delinquent**. If you don't make payments as required by your promissory note, your loans go into **default**. The consequences can vary, from a damaged credit rating to having your federal tax refund withheld or even having your wages **garnished**.

If you're subject to garnishment, a percentage of your paycheck is withheld to pay your loans. Since that means your employer will find out about your situation, it can be embarrassing and potentially damaging to your job security as well as financially harmful.

Default can also result in your having to pay any costs your lender incurs in order to collect the outstanding money you owe. You're no longer eligible for additional federal student aid, you lose deferment or forbearance options, and your loan can't be forgiven. And these loans are almost never written off, so they'll haunt you. It's smart to contact your lender to try to put together a feasible plan before you get into real trouble.

Repaying Student Loans

If you're on the ball, you can plan your repayment strategy.

If you owe money to the federal government for the Direct loans that helped cover the cost of your education, you're not alone. A majority of college graduates are in the same boat. Fortunately, there are a number of ways to structure repayment to make it affordable—something that's not always the case with private loans.

What you have to recognize, though, is that it's your responsibility to make the system work. That means two things: always paying what you owe each month on time and being sure you're in the right repayment plan for you.

REPAYMENT BEGINS

When you graduate, are enrolled less than halftime, or drop out, you have a six-month grace period in most cases before your first loan payment is due. During that period you'll hear from your loan servicer—the company that bills you and collects your payments—that you're enrolled in the **Standard Repayment Plan**.

That may be fine for you. The payments are fixed, and you'll pay off your loan within ten years. But it's also possible the payments will be more than you can comfortably afford. So early in the grace period you should use the loan Repayment Estimator at <https://studentaid.gov/manage-loans/repayment/plans> to find out which other plans you qualify for, an estimate of the monthly cost, and the conditions that apply.

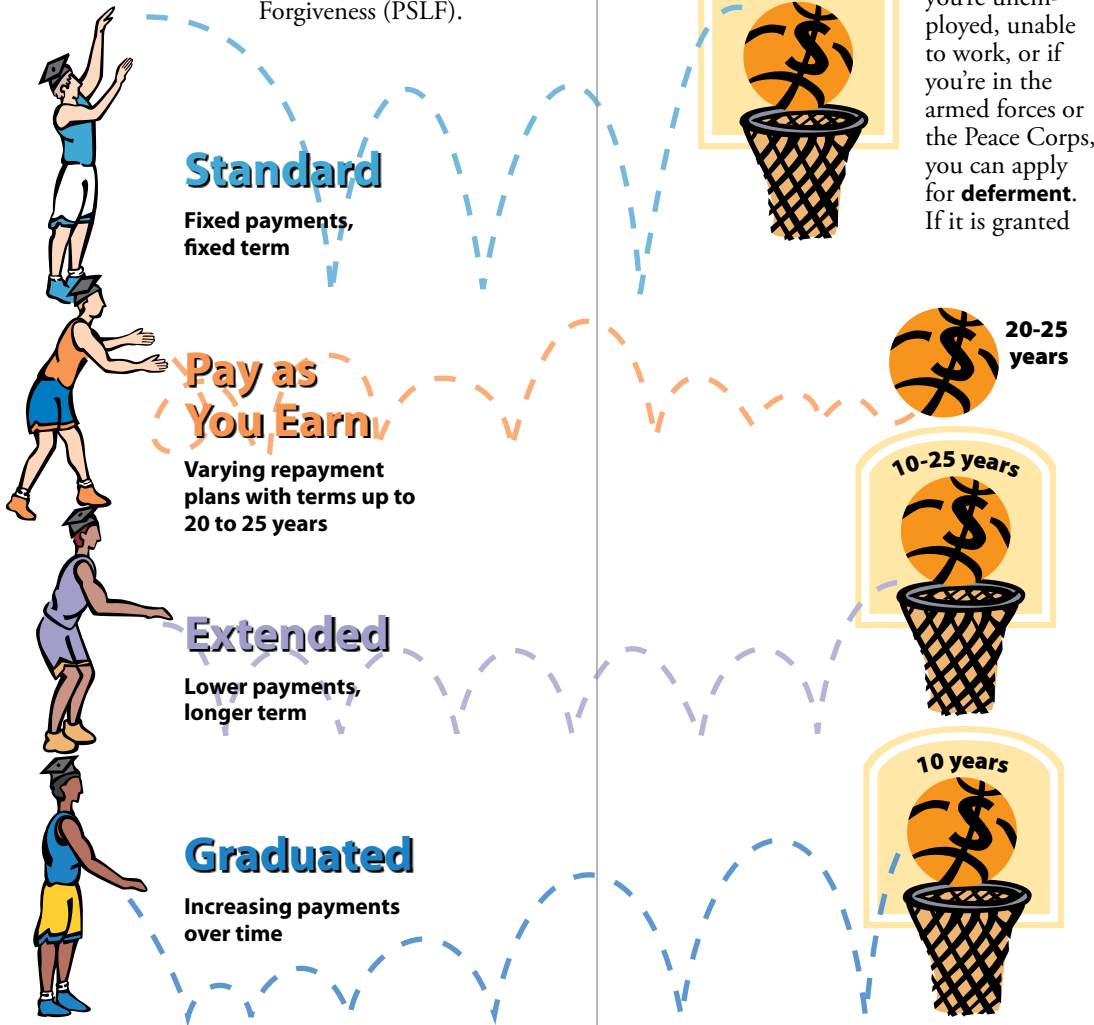
If you think one of your alternatives would make it easier to keep up with your payments, you should tell the servicer you want to change plans.

It's your right to switch if you qualify, either initially or at some time in the future if your economic situation changes. The process often, but not always, is handled efficiently. But if it isn't, you'll have to press your case. If you need help, you can contact the National Consumer

Law Center's Student Loan Borrower Assistance Project or the Consumer Financial Protection Bureau.

REPAYMENT ALTERNATIVES

Among the alternatives to the Standard plan are four income-driven plans that link your monthly payment to your discretionary income, or what's left of your gross income after taxes and necessities including housing, food, and clothing. The plans, including the Pay As You Earn (PAYE) Plan, the Repay As You Earn (REPAYE) Plan, the Income-Based Plan (IBP), and the Income-Contingent Plan (ICR), do differ in ways that may make one better for you than the others. But each of them is a good choice if you hope to qualify for Public Service Loan Forgiveness (PSLF).



Outstanding balances on these loans will be forgiven if you've made payments for 20 years, or 25 in some cases, though you may owe income tax on the amount that's forgiven.

Two other possibilities are the Graduated Repayment Plan, which has a 10-year term and payments that are lower in the initial years and higher later, and the Extended Repayment Plan, which has a 25-year term with either fixed or graduated payments.

Finally, if you have older loans, including FFEL Plus Loans or FFEL Consolidated Loans, you might consider the Income Sensitive Repayment Plan.

POSTPONING PAYMENTS

If it becomes hard for you to repay your federal student loans and you are unable to change your plan to reduce the monthly payment, you may find temporary relief by qualifying to suspend your payments for a limited time.

If you're in school at least half time, if you've taken parental leave, you're unemployed, unable to work, or if you're in the armed forces or the Peace Corps, you can apply for **deferment**. If it is granted

and your loans are subsidized, interest isn't due on your loan principal while you're not paying. Unsubsidized loans will accrue interest, however, which may be added to the balance you already owe.

If you don't qualify for deferment, you may request a **forbearance**. If it's granted, your payments will be suspended for a limited time, but interest will accrue on your loan and be added to your principal balance.

But suspending payments isn't a long-term solution to avoiding default and its negative consequences. So you'll want to work with your servicer to resolve your debt.

LOAN CONSOLIDATION

If, as students typically do, you took several federal loans, potentially with different interest rates and different servicers, keeping track of what you owe and to whom can be a challenge. One solution may be to consider taking a federal Direct Consolidation Loan. There's no charge, and you'll end up with a single monthly payment.

Consolidated loans have a fixed interest rate calculated as an average of the rates on the loans you're consolidating. The repayment term can be up to 30 years.

There are some potential drawbacks, such as the potential for paying more interest and the possibility of losing certain benefits, such as eligibility for loan forgiveness or the discount for regular electronic debit of your account. You'll want to weigh the limitations against the convenience of a single payment.

One warning: You may be offered loan consolidation deals from private lenders. You almost always make out better with the government option.

OTHER LOANS

If you've taken loans from private lenders, the terms of repayment may be less flexible than those of the Direct Loan program. But they must also be repaid.

SERVING THE PUBLIC

If you work in a qualifying public service job for 10 years, you may be eligible for loan forgiveness after making 120 payments in an income-driven plan. Be prepared, though. The rules are complex, and it can be hard to be sure you're on track. Check it out at www.studentaid.gov.

The Basics of Investing

Taking the plunge into investing can seem scary, but it doesn't have to be.

Investing is about putting your money to work. If you do it wisely, you have the potential to increase your **principal**, or the amount you've invested, over time. The money your investments produce can mean the difference between meeting your financial goals and settling for what you can afford.

Investing isn't the same as saving. When you save, you're putting money in a safe place to earn interest—a bank account, for example. That's fine for building an emergency fund or accumulating money for short-term goals. But your principal won't grow much faster than the rate of **inflation**, or the gradual increase in the prices of goods and services. That can leave you short on buying power.

While there are always risks with investing, there is the expectation that over time you'll beat inflation by a wide enough margin to achieve your financial goals.

CHARTING A COURSE

At its most basic, investing means buying financial products for **growth**, **income**, or **safety**. You can choose:

- **Stocks**, **mutual funds**, and **ETFs** that invest in stocks
- **Bonds**, mutual funds, and ETFs that invest in bonds
- **Cash** and **cash equivalent investments**, including certificates of deposit (CDs) and US Treasury bills

To invest, you need an investment account. There are three major types, defined by the tax treatment of the account earnings: **taxable**, **tax-deferred**, and **tax-exempt**. You can use just one or all three, based on your goals and eligibility.

You can open a taxable account with a brokerage firm or mutual fund company. If your employer offers a retirement savings plan, you may be able to choose either a tax-deferred or tax-exempt account. And you are eligible for individual retirement and education savings accounts, and perhaps healthcare accounts.

When you're ready to get serious, it might be a good idea to look for a financial mentor who can help you select specific investments—perhaps a friend or relative who is an experienced investor, or an investment professional.

HELPFUL HINTS

There's no hard and fast rule about how much you should be investing, but it's smart to try aiming for 10% to 15% of your gross income. If you're contributing to a retirement savings plan at work, you can count the percentage you're putting in there as part of your total. And whenever you get a bonus, a gift, or other unexpected cash infusion, it's a good idea to put some or all of it into your investment account as well. That extra boost can make a big difference in what you'll have later on.

INVESTING FOR BEGINNERS

If investing seems like an alien experience, try an experiment. Buy an index fund that tracks a broad segment of the stock market or a highly rated stock mutual fund that's investing for growth. Promise yourself that whatever happens for the next year or two, you won't sell the fund and you won't stop investing in it regularly.

Watch the fund over a period of time so you get used to some ups and downs. Check out what happened to your fund the last time the market tumbled. If you're not prepared, you might panic when the price

drops. If you sell, you may have to watch the price go back up again without you.

Each year, evaluate how well your investment has done compared with similar investments. Also consider what you had expected as a return, and what you would have earned if your money were in a savings account.

If the investment is meeting your objectives, hold onto it. If not, sell. By then, you'll be ready to consider your next move—and experienced enough to make it a confident one.

It can be a great way to get the encouragement you need to make important decisions. And as you expand your investment horizons, your mentor can help you create a strategy for putting together a more diversified portfolio.

START IT UP

You don't need a lot of money to be an investor. But you will need enough cash to buy your first shares of stock or open your first mutual fund. It's smart to set up an investment account so that you can contribute easily and keep track of your progress. A money market account with a brokerage firm or a mutual fund company is one way to go. If you've got the account earmarked for investing, you may be less tempted to spend the money on everyday expenses.

Once you have the account set up, decide on an amount you'll contribute every week or month,

and stick to it. One idea is to have the money deposited directly from your paycheck or transferred from your checking account. It's even easier than paying a bill—except in this case you're paying yourself.

IMPACT INVESTING

As you invest to meet your financial goals, you may also want to choose investments that reflect your values or are designed to stimulate environmental, social or economic change at a local, national, or international level. There are a number of ways to combine doing what you believe is right or responsible and realizing a positive return. **Return**, in investment terms, is what you get back in relation to the amount you invest.

You can look for companies that manage their business in ways that you respect. For example, B Corporations are established to create a social, environmental, or community-based benefit through their business operations. Another approach is to screen out companies whose products or services are unacceptable to you or conflict with your values.

Or, you might investigate mutual funds and ETFs that establish the criteria that an investment must meet to be eligible for inclusion in the fund. There are also managed accounts with an environmental, social, or corporate governance (ESG) focus.

A Time and Way to Grow

When you're investing, time has a snowball effect.

If you've heard it once, you've heard it a hundred times: The sooner you start investing, the better. You might have your doubts about whether it really is true. But it is.

That's because of **compounding**, a process that lets you make money on your earnings as well as on your principal. Compounding occurs when dividends or interest you earn on your investments are reinvested to form the new base on which future earnings can accumulate. And as that base gets larger, the potential for growth increases.

Here's what can happen over a year:

Base amount on January 1
+Earnings=New base amount
+Earnings=New base amount
+Earnings=New base amount
+Earnings=Value the next January 1

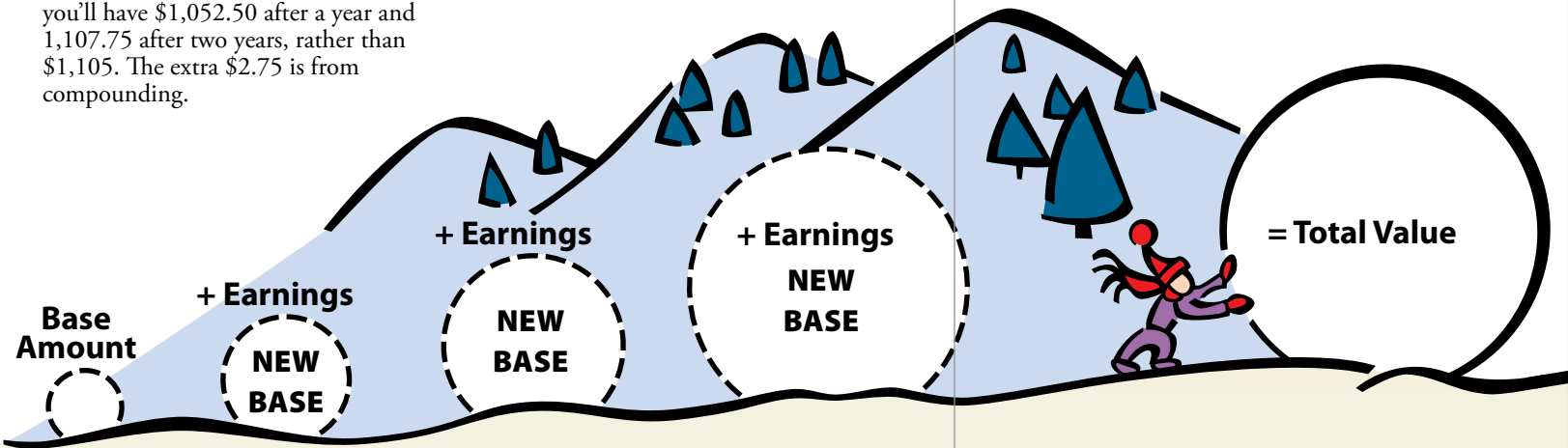
When interest compounds in an insured cash or cash equivalent investment, the dollar value of your account always increases, though it may increase slowly. If you start with \$1,000 and you earn 5.25% compounded, you'll have \$1,052.50 after a year and 1,107.75 after two years, rather than \$1,105. The extra \$2.75 is from compounding.

Compounding works a little differently with equity investments such as stocks and mutual funds. In that case, if you reinvest all your earnings to buy additional shares, the number of shares you own increases. But the total value of your account may increase or decrease depending on whether the price per share rises or falls.

For example, suppose you start out with 100 shares of a stock mutual fund valued at \$15 a share and reinvest your earnings. By the time you've accumulated 125 shares, the stock market is down and the fund's share price is \$12. Despite compounding, your account would be worth the same \$1,500 (125 shares x \$12 = \$1,500).

But, if the stock market gained rather than lost value by the time you'd accumulated 125 shares, and the fund's share price grew to \$18 a share, your account value would be \$2,250 (125 shares x \$18 = \$2,250), a 50% increase in value.

And the more shares you accumulate, the more any increase in the share price boosts the value of your investment.



DOLLAR COST AVERAGING

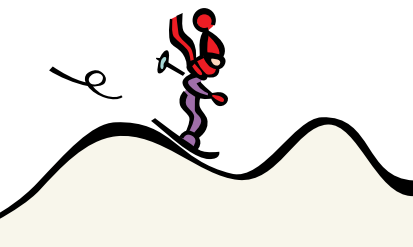
If you want to use volatility to your advantage, **dollar cost averaging** can be a useful investment strategy. When you dollar cost average, you invest the same amount of money in a specific investment on a regular schedule, no matter what the price per share is. For example, you might add \$100 to a mutual fund every month.

When the fund's price is up, your \$100 buys fewer shares than it does

when the price is down. The advantage of continuing to buy through these ups and downs is that if you stick with the plan for an extended period, the average price you pay per share will be less than the actual average share price. But for the strategy to work, you have to buy when prices drop—and putting your money into an investment on the decline can be nerve-wracking, especially if you're not a veteran investor. If you stop buying when prices drop,

UPS AND DOWNS, INS AND OUTS

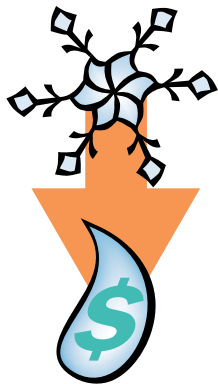
Over the course of a day, a month, or a year, most investment prices fluctuate, sometimes dramatically. They go up and down repeatedly in response to a range of variables from changing market conditions to shifting investor attitudes. This constant movement is known as **volatility**.



Some kinds of investments are more volatile than others. Stocks, for example, tend to change in value more often and by larger amounts than bonds or mutual funds. So the shorter the time you plan to own a stock, the more risk you're taking that its price will be down if you need or want to sell it. But short-term volatility doesn't limit the possibility of substantial gain if you hold onto an investment for a long stretch of time.

In contrast, **liquidity** describes the ease and speed with which you can convert an investment into cash with little or no loss in value. Basically, the more liquid an investment is, the less trouble you have selling it for at least the amount you invested. For example, savings accounts and money market accounts are considered highly liquid.

Liquidity is especially important if you need money for a financial emergency, or if you're planning to sell the investment at a specific time to meet a particular goal, such as making the down payment on a home or buying a car.



LET IT ROLL

Reinvesting the money your investments may generate is one of the easiest and most reliable ways to take advantage of the power of compounding.

If you invest in a mutual fund, just select the reinvestment option when you open your account. If you invest in stocks, take advantage of stocks that offer **dividend reinvestment plans (DRIPs)**. And if you have money in bonds, put the interest you receive into an investment account to be recycled into the next bond—or other investment—you buy.

You'll still owe income tax on your earnings, at the tax rate that applies, except for the investments you hold in a tax-deferred or tax-exempt retirement account. But your money will go straight to building your assets, rather than sitting around and tempting you to spend it.

you'll have paid only the highest prices, and that's exactly what you are trying to avoid.

The positive side of putting the same amount of money into an investment every month, no matter how it's doing, is that you get in the habit of investing regularly. That's a good habit to have. And if you're also reinvesting whatever earnings your investment produces, you're getting the added advantage of compounding. But there is one caution: Dollar cost averaging doesn't guarantee you'll make money on your investment or protect you from losses any more than any other investment strategy.

Risk and Return

Investing is like life: nothing ventured, nothing gained.

If you want to meet your financial goals, you'll have to learn to live with a certain amount of **risk**. Risk means that as your investments fluctuate in value over time, one or more of your holdings may be worth less than you paid for it. In fact, some investments may turn out to be virtually worthless—or really and truly worthless.

But you have to take some risks to get a significant **return on investment**, sometimes abbreviated as **ROI**. Return includes income you get from an investment, such as dividends or interest, and any **gain**, or profit, from selling the investment for more than you paid to buy it.

For example, say you buy 100 shares of stock for \$35 a share, collect a \$75 dividend, and sell it for \$40 a share. Your return is \$575 on the investment: \$75 in dividends plus a \$500 increase in value (100 shares x \$5 increase per share = \$500). If you realize that return in one year, your rate of return on the stock would be 16.4% ($\$575 \div \$3,500 = .164$ or 16.4%).

FINDING YOUR RETURN ON INVESTMENT		
	YOU INVEST	YOU SELL
Number of shares	100	100
x Price per share	x \$35	x \$40
TOTAL	\$3,500	\$4,000
Increase (100 x \$5)		\$500
+ Dividend		+ \$75
YOUR RETURN		\$575
Your return		\$575
÷ Amount invested		÷ \$3,500
RATE OF RETURN		16.4%

That's a very good return, especially compared to what you could be earning on the money in a savings account. But that return isn't guaranteed in the next year. In fact, the value of the stock could drop just as easily as it could increase. That's where risk comes in, and why you can lose money when you invest.

Suppose you needed cash when the stock price had dropped to \$32 a share. Even if you collect \$75 in dividends, you'd lose \$225 by selling at the lower price [100 shares x \$32 a share = \$3,200 sale price – \$3,500 purchase price = –\$300 + \$75 dividends = –\$225]. That's a loss of 6.4% on your investment.

NOTHING TO FEAR BUT...

If the idea of risk scares you, get used to it. As an investor you can approach risk in three ways: Embrace it, try to avoid it, or find a way to use risk to your advantage.

You might find risk exhilarating. Taking lots of chances on start-up companies or concentrating on just one or two investments means you'll either make a lot of money or kiss your principal goodbye.

You can try to avoid risk by choosing investments that pose little or no danger to your principal. That includes insured certificates of deposit (CDs). But avoiding what you think of as risk makes you vulnerable to one of the biggest investment risks you face—**inflation**, or the long-term loss of buying power.

By spreading your investments across the range of possibilities, including both the safest and the riskiest categories, you can avoid the risk of having all your eggs in one basket without giving up the potential for a positive return. And if you stick to stocks, bonds, and the mutual funds that invest in them, the most you can lose is the amount you invest.

RISKY BUSINESS

Risk has many faces. The sooner you learn to recognize some of the most common ones, and where you're apt to encounter them, the less scary they should be.

Investment risk, sometimes called **business risk**, is the possibility that an investment will not produce the results you expect. For example, suppose two new technologies are introduced at about the same time, both innovative and workable. But only one of the technologies is widely adopted. If you invested in the one that doesn't survive, you may well lose money. But investing in the successful one may produce a

substantial return. And if you'd invested in both, your gain in one might offset your loss in the other.

Management risk refers to the possibility that a company's management team may make serious mistakes in directing the company. Whether these errors result from honest miscalculation or from negligence, they can have major financial consequences for the company's stock, resulting in substantial investor losses. On the other hand, superior management can produce outstanding results under certain—though not all—market conditions.

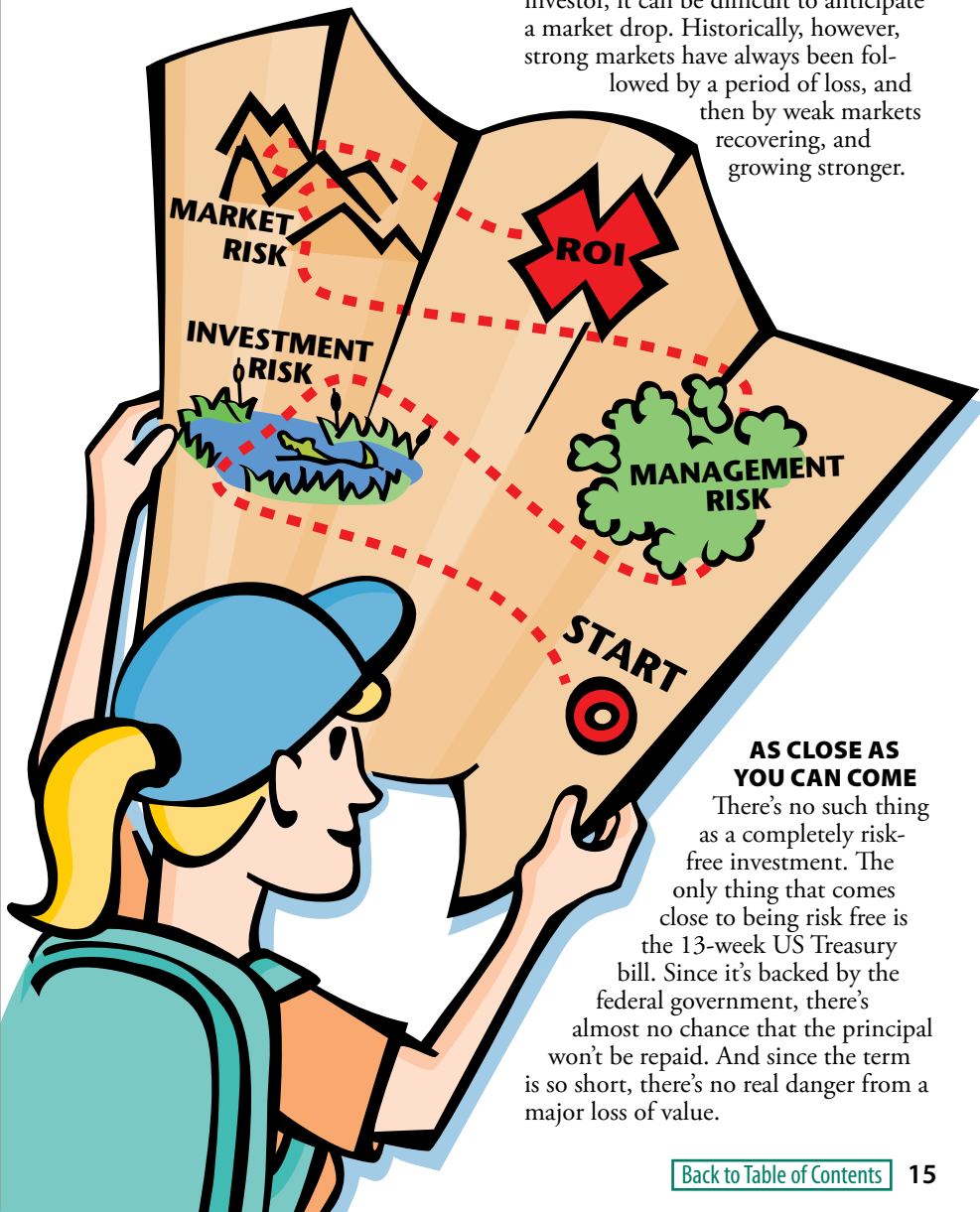
Market risk is the possibility that the equity or bond markets as a whole may drop in value, as may happen in a periodic correction or a more serious recession. In that type of economic climate, the prices of even the most stable investments tend to decline.

VERY RISKY BUSINESS

Market timing, also known as **day trading**, is an attempt to make quick profits by buying and selling investments to take advantage of minute-to-minute price changes. With the speed and accessibility of online trading, it has attracted a lot of attention in recent years.

But it's like playing Russian roulette. You may survive, and even make a profit. Since there's no way to predict how prices will move, especially over such short time spans, market timing means you could lose a lot of money in a real hurry. To make matters worse, each time you trade you pay transaction fees. So you could be paying to lose money.

No matter how alert you are as an investor, it can be difficult to anticipate a market drop. Historically, however, strong markets have always been followed by a period of loss, and then by weak markets recovering, and growing stronger.



AS CLOSE AS YOU CAN COME

There's no such thing as a completely risk-free investment. The only thing that comes close to being risk free is the 13-week US Treasury bill. Since it's backed by the federal government, there's almost no chance that the principal won't be repaid. And since the term is so short, there's no real danger from a major loss of value.

Cost of Homeownership

Buying a home may be a financial goal that you have looked forward to for a long time.

Owning a home, as opposed to renting, can make a lot of financial sense. You generally get more space per dollar when you buy, you can deduct your mortgage interest on up to \$750,000 in mortgage debt on your tax return, and you may be able to sell at a profit when you're ready to move. It can also be a dream come true to own a home. But there are some potential financial traps in owning a home that can catch you unawares.

THE COSTS OF BUYING

For most people, buying a home is the largest single purchase they ever make. It's probably also the most complicated, primarily because there are so many decisions to make at every step in the process.

The first, of course, is how much you can afford. There's a fairly reliable (but not always realistic) rule of thumb to get you started: You should plan to spend no more than about 30% of your gross monthly income on housing costs. But what, exactly, are those costs? Since you're more likely than not to take a mortgage loan—77% of homebuyers do—you can start with the loan principal and the interest, calculated as an annual percentage rate (APR).

So, for example, if you borrow \$500,000 for 30 years with a fixed APR of 4.5%, your monthly payment would be \$2,533. It's too soon to breathe a sigh of relief if that number fits your budget. If you borrow 80% or more of the price you pay for the property, you'll also have to pay private mortgage insurance (PMI), at up to 1% of the loan amount per year. At the high end,

that's another \$5,000 in this example, or \$416 a month.

The alternative to a fixed rate, an **adjustable rate mortgage**, or **ARM**, can be a good deal if interest rates stay flat or go down. But it can be a killer if rates go up because your cost of borrowing will go up too. Before you agree to an ARM, be sure you find out what the largest possible amount you could possibly end up paying would be.

And there's more. Your mortgage will add one-twelfth of the total annual cost of your homeowners insurance and your local property taxes to your monthly bill to hold in what's known as an escrow account. That way, the lender is sure those bills will be paid on time.

The amount you have to pay into escrow depends on what the taxes are where you live and the type of insurance you have—and it can be substantial, even huge. More problematic, there's absolutely no way to predict accurately what those costs will be in the future.

CLOSING THE DEAL

When you finalize the purchase, you need a big enough balance in the bank to cover the closing costs, which are additional expenses when you buy a home. You can count on needing up to 10% of the loan amount, though the cost varies by location. Potential lenders will want to know the source of that cash before signing off on your deal. They want to be sure you're not planning to borrow it.

Some of the fees included in the closing costs go to the lender, some to the municipality and state where the property is located, and a large percentage to pay for the costs of a title search and title insurance for the lender. The insurance protects the lender's interest if it should turn out that there is a prior claim on the property, fraud, or forgery that's upheld in court and negates the sale. If you want title insurance to protect your own interest, there's an additional charge.

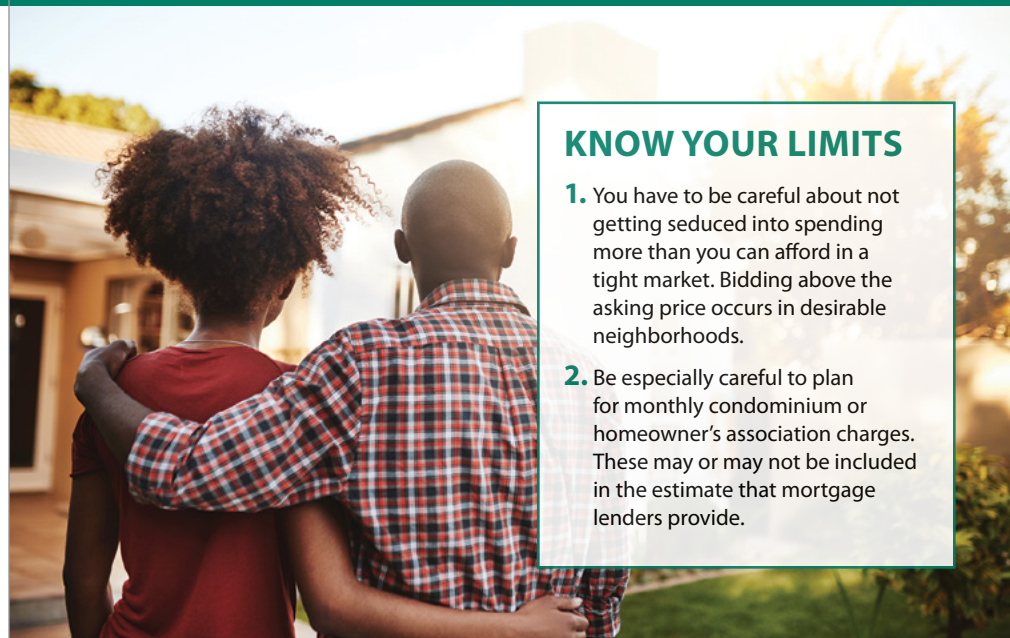
You may also have to prepay some property taxes and insurance, which the lender will hold in an escrow account

HOMEBUYING HELP

The Consumer Financial Protection Bureau (CFPB) provides valuable information on the details of home buying, including an interactive loan estimate and a step-by-step walk through of the buying process. It's worth checking out at www.consumerfinance.gov/owning-a-home/loan-estimate/

KNOW YOUR LIMITS

1. You have to be careful about not getting seduced into spending more than you can afford in a tight market. Bidding above the asking price occurs in desirable neighborhoods.
2. Be especially careful to plan for monthly condominium or homeowner's association charges. These may or may not be included in the estimate that mortgage lenders provide.



and use to pay those bills as they come due.

If you work with a real estate attorney to represent your interest in the negotiation and purchase—which you probably should do—you'll owe a fee for his or her service as well. You may also be charged for the lender's attorney.

MAINTAINING YOUR HOME

Mortgage payments and closing costs aren't the only costs of home ownership.

Some of the rest aren't that different from what you'd be paying in a rental, including electricity, cable, and phone. But there are others that can sneak up on you.

One of the big ones is the cost of heat and air conditioning, which, depending on where you live, could rival the size of your mortgage payment. In an especially cold winter in an especially cold part of the country, keeping warm could decimate your budget.

The other potential money trap that faces all homeowners is that maintenance and repairs are your responsibility. If you discover a leaky roof or a cracked foundation, you have to deal with it. This is a classic case of "a stitch in time saves nine"—the longer you wait to repair something structural in a home, the bigger, and more expensive, the problem will become.

Thinking of just doing it yourself? Even if you or your partner is handy with a hammer, there are some tasks that need a professional to get done

right—think electrical wiring and plumbing.

Another thing to keep in mind if you're moving from an apartment to a home with outdoor space is that a lawn and driveway, though lovely, cost money to keep up. Lawn mowing, snow plowing, garbage pickup—these may be additional costs that will need to find a place in your budget.

MOVING ON

Selling your home probably won't be quite as complicated as buying it. But some potentially expensive surprises may lurk.

For starters, you can't count on getting the price you want—or what you think your home is worth. For example, when you're ready to sell, interest rates may have gone up. That limits what potential buyers can afford to pay.

It's not a happy thought, but it's also possible that you may not be able to sell at all within your timeframe. That could be a major financial burden, especially if you have to relocate for a new job. Some, but certainly not all, employers will help you out if you're having trouble selling. Or you might be able to find a tenant (although being a long-distance landlord has its own challenges).

Owning a home can be a great accomplishment, and a wonderful experience. But it will go a lot more smoothly, and help you maintain your financial stability, if you take a careful look at the costs of homeownership that aren't immediately obvious.

Cost of a Mortgage

Mortgages can have either fixed or adjustable rates, or sometimes a combination of the two.

The interest you owe on a mortgage loan may be calculated just once or adjusted many times. With a fixed-rate loan, the total you'll owe is determined at closing. With an adjustable-rate loan (ARM), the amount changes as the cost of borrowing changes.

Fixed-Rate Mortgages

Fixed-rate or **conventional** mortgages have been around since the 1930s. The total interest and monthly payments are set at the closing. You repay the principal and interest in equal, usually monthly, installments over a 15-, 20- or 30-year period. You know from the start what you'll pay and for how long.

In most cases, you can renegotiate the loan to get a lower rate if borrowing costs drop. If you sell your home, you can pay off your loan early, though there may be a prepayment penalty.

PLUSES

- You always know your loan costs, so you can plan your budget more easily
- Your mortgage won't increase if interest rates go up

MINUSES

- Initial rates and closing costs are higher than for ARMs
- Your monthly payments may be larger than with ARMs
- You won't benefit if interest rates drop, but have to re-finance to get the lower rates

HYBRID MORTGAGES

Choosing between a fixed-rate or an adjustable-rate mortgage isn't an all-or-nothing proposition. In fact, there are hybrids that offer certain advantages of each type while softening some of their drawbacks.

Among the most popular are mortgages that offer an initial fixed rate for a specific period, usually five, seven, or ten years, and then are adjusted. The adjustment may be a one-time change, to whatever the current rate is. More typically, the rate changes regularly over the balance of the loan term, usually once a year.

One appeal of the **multiyear mortgage**, as these hybrids are often called, is that the borrower can get a lower rate on the fixed-term portion of the mortgage than if the rate were set

for the entire 30 years. That's because the lender isn't limited by a long-term agreement to a rate that may turn out to be unprofitable.

The lower rate also means it's easier to qualify for a mortgage loan, since the monthly payment will be lower. That's a real plus, especially if you're a first-time buyer.

For people who plan to move within a few years, especially if it's within the period during which they're paying the fixed rate, there's the added appeal of paying less now and not having to worry about what might happen when the adjustable period begins. In fact, the typical mortgage loan lasts only about seven years. Then the borrower moves or refinances and pays off the balance.

TEASER RATES

The introductory rate you pay for the first months of an adjustable-rate mortgage is almost always lower than the actual cost of borrowing the money. What it means for the borrower is not only a few months of relief but also lower closing costs. The effect is to make mortgages more accessible to more people.

What it means for the lender is being able to adjust the rate upward when the introductory period ends, while staying competitive with other lenders.

However, in evaluating whether you'll be able to afford the mortgage, the lender must calculate your monthly payment at the highest amount it could possibly be within the first five years of the term, not what that amount would be at closing.

Adjustable-Rate Mortgages

ARMs were introduced in the 1980s to help more buyers qualify for mortgages, and to protect lenders by letting them pass along higher interest costs to borrowers.

HOW ARMs WORK

An ARM has a variable interest rate: The rate changes on a regular schedule—such as once a year—to reflect fluctuations in the cost of borrowing. Unlike fixed-rate mortgages, the total cost can't be figured in advance, and monthly payments may rise or fall over the term of the loan.

Lenders determine the new rate using two measures:

- **An index**, which must be a published figure, like the rate on one-year US Treasury securities or the cost-of-funds indexes. Be sure to check the index. Some fluctuate more—and change more rapidly—than others
- **The margin**, a predetermined percentage, such as 1.5%, which is added to the index to determine the new rate

CAPPED COSTS

All ARMs have **caps**, or limits, on the amount the interest rate can change. An **annual cap** limits the rate change each year, usually to two percentage points, while a **lifetime cap** limits the change over the life of the loan, typically to five or six points.

Be careful: Lifetime caps are based on the actual cost and not on the introductory rate. For example, with a 4% teaser rate and a 6.5% actual interest cost, your rate could go as high as 12.5% with a six-point lifetime cap.

PLUSES

- Low initial rates (sometimes called **teaser rates**) reduce your closing costs and early monthly payments
- Your interest rate will drop if interest rates go down

MINUSES

- It's hard to budget housing costs, since monthly payments can change at adjustment
- Interest costs rise after the teaser rate expires
- You may have to pay more interest if rates go up

A WORD OF WARNING

The size of your down payment, your employment history and earnings record, your credit score, and the amount you want to borrow all affect the interest rate you're offered. If that rate is higher than the rate the lender is advertising, ask for an explanation. If you're not convinced, you may want to apply to a different lender or complain to the Consumer Financial Protection Bureau (www.consumerfinance.gov) if you suspect discrimination.

Life Insurance

Evaluating your life insurance needs is a key part of financial planning.

There is no simple answer to the question of how much life insurance you need. As a starting point, it should be enough to cover your final expenses.

If you support a family, keep a household running, have a mortgage, or expect your kids to go to college, adequate insurance is essential to filling the financial gap left by your death. But if you don't have dependents, or they don't need your money to live on, your insurance needs may be very different.

Older people may need less insurance if their financial obligations have been met—mortgages and college tuition are paid—and their investments are producing income. On the other hand, insurance may provide an important benefit for a surviving spouse or to cover potential jointly held debts.

One rule of thumb says that you need five to seven times (or even ten times) your annual salary. But a lot depends on your personal situation, dependents, and other sources of income.

CALCULATING NEED

Life insurance calculators, which you can find on a number of financial com-

A FEW THINGS A FEE-ONLY INSURANCE ADVISER CAN DO

- Provide second opinion about policies you're planning to buy
- Tell you whether your existing insurer is financially sound
- Evaluate whether your existing policy or annuity is appropriate
- Help you select policies and choose options and riders
- Negotiate lower commissions from your insurance agent

pany websites, can be a good first step in helping you estimate the amount of coverage you need. But they can't take you, as an individual, or your unique needs, into account.

You'll need to determine the expenses you want the policy to cover. These may include the immediate costs related to your death, your dependents' current living expenses, and specific goals, such

ROUGHING OUT YOUR LIFE INSURANCE NEEDS

To estimate the amount of coverage you need to replace 75% of your take-home pay for the years you would have been working, multiply your salary by the factor at the intersection of your salary and your current age. In this example, it's \$1.2 million.*

Annual pay (before taxes)	Current age of person insured						
	25	30	35	40	45	50	55
\$30,000	14	13	12	10	9	7	5
\$40,000	13	12	11	10	9	7	5
\$60,000	12	12	11	9	8	6	5
\$80,000	12	11	10	9	8	6	4
\$100,000	11	10	9	8	7	5	4
\$150,000	10	10	9	8	7	5	4
\$200,000	9	9	8	7	6	5	5

*Doesn't take into account any income survivors can expect from Social Security, investments, or other sources. More or less coverage may be needed, depending on individual family circumstances.

Source: Principal Financial Group



as settling large outstanding debts, supporting elderly parents, or paying for college educations. Your investment assets may offset some of these needs, and your survivors may have income and assets of their own. So you'll want to consider this information in figuring the coverage you need.

Equally important, you'll need to choose a policy whose premiums fit within your budget. If you buy a policy you can't afford or that restricts your ability to cover other expenses, you're

more likely to let the policy lapse, putting your dependents' security at risk.

Keep in mind, too, that the type of coverage and the death benefit that are right for you at one stage in your life may not be appropriate at another. For example, while you have a mortgage and your children are young, you may need much more insurance than you do later. Changing needs are a good reason to make an insurance review a part of a regular reassessment of your financial plan.

UNDERWRITING is the process insurance companies use to assess you as a risk and decide if they will sell you insurance. It's based in part on the information you provide in the application. If you don't tell the truth, your insurance may be cancelled, or the company may refuse to pay a claim.

PAYING THE BILL

The cost of buying life insurance varies enormously, depending on the type you buy, the company you buy it from, and how long the company thinks you are likely to live.

Estimating the total cost can be tricky, since the **premium**, or amount you pay for some types of insurance, may increase over time. Further, two companies may charge very different amounts for the same coverage.

One way to do a search is to use a fee-only adviser, who can help you sift among the options and select the one that's best for you. As a rule, life insurance provided through your employer is the least expensive, but may provide only a portion of the amount you need.

RISK vs. COST

The cost of life insurance is largely determined by the risk you pose to the insurance company, as shown on an actuarial table. These tables project your life expectancy based on age, gender, health, and life style.

If you're considered a high risk—for example, if you smoke, are overweight, or have a dangerous occupation or hobby—the company may charge you a higher premium than other people of the same age or gender, or refuse to insure you at all.

However, if you are a nonsmoker whose health and life style make you likely to live longer, you may qualify for lower rates that significantly reduce your premium and save you money.

Types of Life Insurance

You can buy life insurance that protects you for a limited period of time or stays in effect until you die.

All life insurance is alike in several ways. You pay **premiums** to a life insurance company in exchange for its promise to pay a certain amount of money, called the **death benefit**, to the **beneficiary** whom you designate when you buy the insurance. The death benefit is also known as the face value. The contract between you and the insurer is known as a **policy**, and it spells out the terms of the coverage.

If you own the policy, you are the **policyholder**. The rights of ownership allow you to:

- Change the beneficiary or add other beneficiaries
- Assign, or transfer, ownership to someone else
- Borrow from the policy's account value, if it has one

If you're the person whose life is covered by the policy, you're the **insured**. You can be both the policyholder and the insured, or you can own a policy on another person's life, provided you have what's known as an **insurable interest**. In brief, that means you would suffer financial hardship if that person died. Similarly, someone with an insurable interest could own a policy on your life.

In most cases, the beneficiary owes no income tax on the death benefit that's paid when the insured dies.

TYPES OF INSURANCE

Your policy may last for a specific **term**, or period of time, and may be renewable. Or you can buy a **cash value** policy, also known as permanent insurance, which means it covers you for as long as you're alive, or at least until you turn 100. With either term or cash value insurance, you must pay your premiums on time to keep the policy **in force**. If you fail to pay, the policy **lapses** and no death benefit will be paid if you die.

TERM INSURANCE

As long as you pay the premium, you're covered.

If you die, your beneficiaries receive the death benefit.

If you stop paying the premium, the policy ends and you get nothing back.

TERM INSURANCE

Term insurance is the simpler and, at least initially, less expensive coverage. In exchange for your premiums, your policy covers you for a specific period, which could be as long as 20 or 30 years. If the policy is renewable, you may extend for an additional term without having to demonstrate you're in good health. However, many policies are not renewable after you reach a specific age, such as 70 or 75. At each renewal, the premium increases.

If you die during the term, and your policy is in force, the insurer pays the face value. But if you are alive when the term ends, and you don't renew, you are no longer insured.

Term policies may be convertible. In that case, you can turn your term policy into a permanent policy with the same death benefit, generally without having to demonstrate that you are in good health. The premiums for a convertible plan are usually higher than for regular term.

INSURANCE ONLINE

An insurance company's website can be a valuable resource, especially if you want to learn more about the various types of life insurance the company offers. There may be a calculator to

help you estimate the coverage you need. And if you purchase a policy, you'll probably be able to manage your account, make payments, or report a claim online.

CASH VALUE INSURANCE

As long as you pay the premium, you're covered.

If you die, your beneficiaries receive the death benefit.

If you stop paying the premium, you get the cash surrender value.

CASH VALUE INSURANCE

Cash value insurance combines a death benefit with a **cash value account** funded with part of each premium you pay. Earnings on the account's assets are tax deferred. If you die while the policy is in force, your beneficiary receives the death benefit, which includes the balance in the cash value account.

If you end your policy before you die, the insurer will subtract any outstanding loans you've taken against your cash value account, plus outstanding interest and any fees, and send you the remainder, called the **cash surrender value**. No death benefit will be paid.

If the policy has been in force for a number of years, it's possible that the amount you receive will be larger than the premiums you paid. If that's the case, you'll owe income tax on the difference between your cost and what you received, calculated at the same rate you pay on ordinary income.

COMPARING ALTERNATIVES

If you're not certain whether term or permanent insurance is right for you, it may help to think about how you would answer these questions:

- Is a cash value account an effective way to save for your goals or might investments be better choices?
- What's the comparative cost of purchasing the amount of coverage you need?
- Do you anticipate that your insurance needs will change significantly in the foreseeable future?
- Is there any reason to think you may be less insurable in the future than you are now?

TYPES OF POLICIES

Despite the seemingly endless varieties, there are two basic types of cash value insurance:

1 Whole life, sometimes called **straight life**, is the most traditional. The premiums stay the same for the length of the policy. Once you've paid all the premiums, the policy remains in effect until you die or, in some cases, turn 100. You accumulate a cash reserve, but you have no say over how the money is invested.

2 Universal life offers some flexibility. You can vary the amount of the premium by applying a portion of the accumulated savings to cover the cost. You can also increase or decrease the amount of the death benefit while the policy is in force. But you pay for this flexibility with higher fees and administrative costs.

Typically, there's a guaranteed rate of return on the savings portion for the first year, and a minimum, or floor, for the life of the policy.

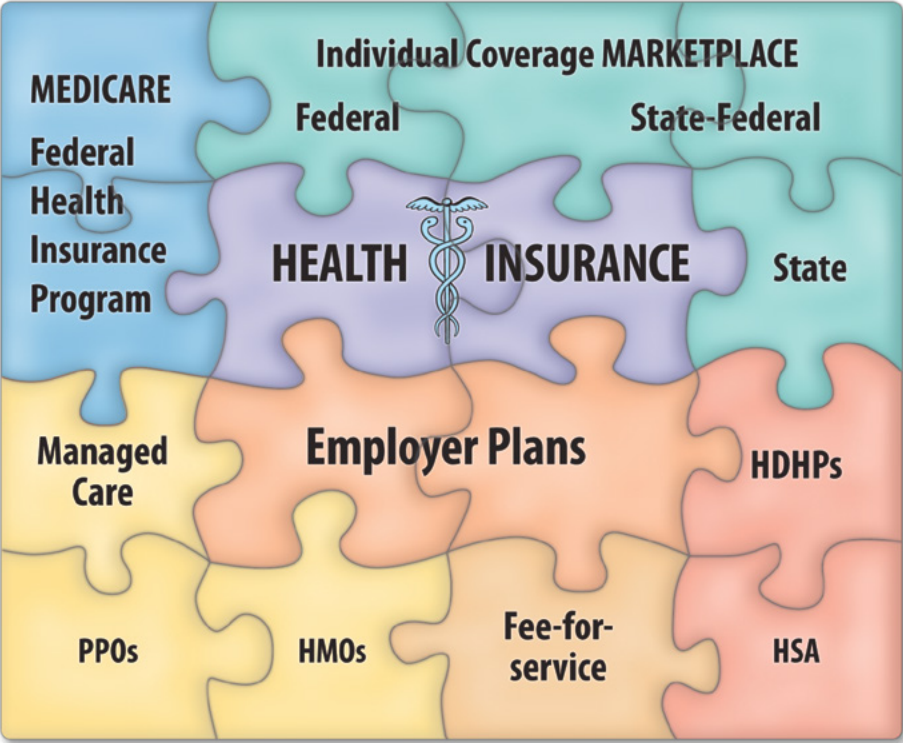
Health Insurance

Having the right healthcare coverage requires advance planning.

Illness and injury can put a major strain on your physical and emotional health. And, unless you have adequate insurance, either can undermine your financial security. The challenge is to understand the coverage options available to you so you can choose one that best fits your healthcare needs and financial situation.

Most people who work full-time for a mid-sized or large employer, and many

who work for a small business or non-profit organization, have health insurance as an employee benefit. If you don't have employer-provided insurance, you must buy individual coverage for yourself and your family. If you're 65, or if you have certain disabilities, you'll probably be eligible for Medicare, the federal health insurance program. But unless your spouse is also eligible, he or she will need separate insurance.



EMPLOYER HEALTH PLANS

If you have coverage through your employer, you may have a choice of plans, including **managed care** plans, **fee-for-service** plans, and a **high deductible** plan (HDHP).

In managed care plans, which could be either **preferred provider organizations (PPOs)** or **health maintenance organizations (HMOs)**, you have access to a roster of participating doctors. A PPO negotiates a fee for each service with the healthcare providers in the plan, and your cost is whatever share of the **premium** your employer requires you to pay plus a **copayment**

for each visit. Most preventive care is fully covered. The copayment is a fixed dollar amount that the plan sets, often one amount for your primary care provider and a higher one for specialists. If you see a provider who doesn't participate, your plan may or may not pay a percentage of the cost.

An HMO, on the other hand, employs the plan's doctors and other providers and often owns the hospitals to which you are admitted. Typically, visits to other doctors or facilities aren't covered.

In a fee-for-service plan, you can see any doctor or service provider you wish.



MAJOR CHANGES

The Affordable Care Act (ACA) has made major changes in healthcare coverage, and more changes may occur.

Among the most notable provisions are:

- Insurers must cover everyone who applies, including people with pre-existing conditions who were previously uninsurable
- All plans must provide free preventive care and at a minimum must cover at least ten essential benefits, including emergency care, maternity care, and mental health
- Dollar caps on lifetime and yearly coverage have been eliminated

Your insurer will pay a percentage, typically between 70% and 80% of the cost it approves for the specific treatment—usually less than the amount you were charged. You pay your share of the premium and must meet an annual **deductible**, after which the insurer pays its share of your costs.

HDHPs are managed care plans with lower premiums but much higher deductibles than other plans—a \$1,400 minimum for individual coverage, and a \$2,800 minimum for family coverage in 2022. There are also annual limits on what you must pay in out-of-pocket expenses—\$7,050 for self-only and \$14,100 for family coverage in 2022. Both sets of caps tend to increase slightly each year.

If you participate in an HDHP, you are entitled to open a **health savings account (HSA)** and contribute pretax income to pay for qualifying but uncovered medical expenses. Any amount you don't spend one year can be rolled over to the following year.

INDIVIDUAL COVERAGE

You can purchase insurance either directly from an insurer or through a state, federal, or state-federal marketplace, or exchange, established under the Affordable Care Act.

In most cases, you make two choices when you use an exchange, among providers and among four levels of coverage: bronze, silver, gold, and

- Insurers must spend 80% of the premiums they receive on medical care or provide rebates
- Children may remain on a parent's employer-provided plans until they turn 26
- Employers with 50 or more full-time workers must provide insurance that covers a minimum of 60% of healthcare costs with a premium of no more than 9.5% of the employee's income
- If you have individual coverage, it can't be cancelled if you stay current on your premiums

However, if your plan was created before March 23, 2010, its terms are **grandfathered**, and these newly mandated provisions do not apply.

ACA UNDER FIRE

The ACA, from its controversial beginnings through multiple attempts to repeal it, has been the subject of extensive debate. It's interesting to note that two federal social programs that are now widely-accepted, popular programs—Social Security and Medicare—were similarly bitterly contested when first enacted. The future of the ACA and the federal role in providing healthcare appears secure in 2022.

platinum. Each level covers a different percentage of your healthcare costs, from 60% with bronze to 90% with platinum. Prices vary as well, with the most comprehensive plans having the highest premiums. Plans with the lowest premiums tend to have very high deductibles.

Premium credits and cost-sharing subsidies are available to those who qualify, making the cost of buying coverage more affordable. This includes anyone whose income is up to 400% of the federal poverty line, and is about that percentage in some geographic areas. In addition, there are limits to what you must pay in out-of-pocket expenses, similar but not identical to the out-of-pocket caps on HDHP plans.

For more information about ACA provisions, you can visit www.hhs.gov/Healthcare or www.healthcare.gov.

COBRA

If you leave a job where you've had health insurance, you may qualify for continued coverage under the Consolidated Omnibus Budget Reconciliation Act, better known as COBRA. It's not cheap—you normally pay 102% of your employer's cost—but it can be a good interim solution.

Insuring Your Home

Insurance protects your investment in your home and your mortgage lender.

When you have a mortgage loan, you must have homeowners insurance. But you'd want the insurance anyway, to protect against potential damage to your home and its contents. In the language of an insurance policy, you're buying protection against **perils**. Some policies cover named perils—the ones they specifically identify, such as fire—while other policies cover all perils except the ones they specifically exclude.

You can buy homeowners insurance through a licensed agent who sells products from several insurance companies, an agent who represents a single insurer, or directly from a company that sells its products online. What coverage costs, or the annual **premium**, can vary significantly, depending on the insurer and the type of coverage. So can consumer service, particularly when you submit a **claim** for a loss. It's important to compare several quotes from different insurers, taking both price and service into account, before you buy a policy.

HOW MUCH INSURANCE?

Insurance companies require you to cover your home for at least 80% of its value, an amount that will be less than its market value because you are not insuring the land on which the home is built. It's almost always wiser to insure for 100% of its value, an amount the insurer sets.

There's generally a formula that determines how much coverage a homeowners policy will provide for your personal possessions (sometimes called contents coverage), any other buildings on the property, and loss of use. You choose the level of coverage you want for liability in case you are sued for injury or damages that occur on the property. You may also be able to buy added coverage, called **policy endorsements**, for perils, such as floods, earthquakes, or for expensive possessions, that aren't otherwise covered.



Benjamin Franklin organized the first fire insurance company in North America in 1752. It's still doing business in Philadelphia.

TYPES OF COVERAGE

If you own a single family home, there are five types, or forms, of coverage. The most basic form, which provides the least coverage, is known as dwelling fire. The most popular form, according to the National Association of Insurance Commissioners (NAIC), is the Special, which offers the most comprehensive protection. The other three are Basic,



Modified, and Broad. A Modified policy is designed for older homes with features that would make the cost of rebuilding greater than the market value of the home.

Some policies insure the **replacement value** of your home, or what it would cost to restore it, while others cover the **actual cash value**. The latter is generally less generous—and less expensive—because it may not provide enough money to actually replace your former home, having discounted its value to reflect age and use.

One of the advantages of talking to a number of agents is that you can compare their advice on the form of insurance that would best suit your needs. You may use a fee-only insurance consultant who provides advice but does not sell policies and so has nothing to gain from the decision you make.

If you're already working with a financial adviser, he or she may provide useful guidance. And, to get started, you can download a copy of NAIC's *A Consumer's Guide to Home Insurance* at www.naic.org.

THE COST OF COVERAGE

What you pay for homeowners insurance depends on a number of factors, particularly the characteristics of your home, the type of coverage, and

FAIR WARNING

You should always check an insurer's financial reputation with a rating company and any complaints about it with your state's insurance department.

WHAT'S A PICTURE WORTH?

Often, the answer is a lot. It's smart to take photographs and videos of your home and its contents and store them in a secure place—either in another location or in a fire-proof, water-resistant home safe. In case of a loss, the photos can help support your claims about the value of your losses.

the insurer you choose, but also on:

- Your credit history
- Your history of filing claims and the history of claims previously filed for the home
- Security systems and devices in the home
- The other policies you own with the insurer
- The deductible you choose

A deductible is the amount you're responsible for paying out-of-pocket for each loss. After you meet the deductible, the insurer pays the amount of the remaining claim it determines is appropriate. The higher the deductible you choose, the lower your premium will be. What you need to weigh is the benefit of a lower premium against the prospect of having to cover a larger portion of a loss yourself.

AFTER A LOSS

If your insured property is damaged by one of the perils against which you're protected, you file a claim with your insurer asking for money for the repairs. The faster you file, and the more back-up information you provide, the more quickly your claim should be resolved.

If you have loss that costs only a bit more than your deductible, you may decide not to involve the insurer at all. There may be little to gain and something to lose by filing a claim. Insurers have the right not to renew a homeowners policy when its term ends, and one reason for doing so is the number of claims you have filed, even if those claims are for legitimate losses.

Once you do file a claim, the insurance company's claims adjuster will contact you to assess the damage and report the findings to the insurer. If you don't agree with the adjuster, or with the settlement you're offered, don't hesitate to object. In the worst-case situation, you can appeal the decision to your state insurance department.

Protecting Your Financial Identity

Staying alert is the best defense against fraud.

The best way to prevent fraud is to stay informed, aware, and on top of your finances. The nature of fraud is to deceive, so it's often difficult to recognize when you've gotten involved in a fraudulent situation. Unfortunately, getting out of the resulting mess can be made more difficult by the false, missing, or misleading paper trails that fraud may leave in its wake.

IDENTITY THEFT

If you are asked to give out your name, credit card number, or Social Security number (or you've had them stolen), others can use that information to assume your identity, spend your money, or make you liable for debts or charges. Unfortunately, almost 18% of Americans have been subject to ATM, debit, or credit card fraud, according to The Pew Research Center.

With credit cards in particular, your cash liability is limited and relatively easy to resolve. For instance, both Visa and Mastercard have created zero-liability policies, so you're protected in cases of identity theft. But your creditors may assume you are at fault for unpaid bills until you can prove otherwise. That takes time, as does straightening out the records. And you may have to reestablish downgraded credit ratings. To prevent that, keep the following tips in mind:

- Be very cautious about giving people—even friends—your key numbers and information, since they might be less careful than you
- Don't make theft easy—choose unique PINs, and avoid using your Social Security or other easily identifiable number combinations
- Don't write PINs on cards or keep them in your wallet
- Check your credit card bills carefully to be sure you authorized all of the charges

If you do lose your cards or codes, make sure you have a list of the relevant numbers in a secure place, along with

ways to invalidate missing cards, passwords, and other important information

INTERNET FRAUD

Online fraud is everywhere, and continually increasing – in scope as well as sophistication. But you can escape the fraud trap by being clear about who you're working with, what you're being offered, and when and how you can get out of any quick commitments. Hard sells that demand instant action or payment should be treated with caution.

One way to ensure your safety is to evaluate any online pitches very carefully. If it seems too good to be true, it probably is.

BUYING ONLINE

While it's completely commonplace to make purchases on your computer or phone, security can still be an issue. You'll want to look for the security padlock symbol in the URL bar, to the left of the company's name. To make sure it's legitimate, click on it to make sure it takes you to a site security certificate. You should also double-check that the URL begins with "HTTPS," which means the data you send and receive from the site is encrypted.

But what about buying something from a vendor that's trying to make sales directly on social media? Or a company site that doesn't seem to have security in place? In that case, if you do decide to go ahead with the purchase, you're on much safer ground if you've established a PayPal account linked to your credit card or bank. The purchase order PayPal sends the seller is encrypted, and the seller has no access to your account number, so it can't hack your account.

TELEMARKETING

You're probably familiar with phone calls offering you free trips, discounted magazine subscriptions, and other special offers. These calls are the most common form of telemarketing, and they're extremely common.



How do you avoid illegal telemarketing schemes? If you get a call from a company you don't know, ask them to send you information in the mail regarding their products or the specific offer.

And, perhaps most importantly, experts advise that you don't give out the following information over the phone to anyone except companies you trust, and only for necessary transactions:

- Bank account information
- Credit card numbers
- Social Security number

CYBER SECURITY

Whenever you're online, you're sharing information, whether you mean to or not. It's up to you to protect your data, your privacy, and your identity.

First, be sure your devices have up-to-date antivirus software to protect you from malware. At the very least, make sure that you've installed free antivirus protection from a reputable provider, like AVG, and that you run the software's updates when they are available.

For most people, though, it's worth the money to subscribe to security software that protects against spyware, which mines your personal information, and ransomware, which encrypts your files so that they're inaccessible until you pay money to restore your access.

VPNS

You may want to go even further to protect your online activity and download a virtual private network (VPN.) When you have a VPN service, your data is encrypted by the software, and then is sent through the VPN server before it goes to your online destination. That means it's extremely difficult to trace that data back to you.



Never post anything you don't want the world to read.

PRIVACY IS PARAMOUNT

While the first line of defense against cyber threats is strictly limiting the personal information you share online, you also want to be cautious about social media comments that reflect your personal thoughts or that go into detail about your private life. The bottom line is that the more information about you that's out there, the more likely it can be used against you.

On social media, you can help protect yourself by making full use of the privacy options on Twitter, Facebook, LinkedIn, and the other sites you use, and by always choosing the highest possible privacy settings. And as a rule, never post anything you don't want the world to read.



PHISHING

Phishing happens when scammers try to install malware on your device so they can steal your information. The best protection is not to open any attachments or click on any links that you don't know for sure are legitimate. In addition to suspicious attachments and links, there are some other telltale signs that an email is a scam, including the use of incorrect company names or URLs, poor spelling and grammar, and a generic greeting rather than your name. Another tip-off is when emails contain urgent calls to action, such as a threat that an account will be cancelled or a bill sent to a collection agency.

Activities

HANDS ON PERSONAL FINANCE

Making sure you are managing your finances in a way that is helping you build financial stability means taking a careful look at what you are doing right—and ways you could consider improving.

1. TAKE INVENTORY

When you think about your approach to handling your money, ask yourself:

What do I do well?

Where could I improve?

Take stock of your financial situation, and your approach to money. You can start with these short lists:

THE POSITIVE

What are your three most exemplary money habits? Some examples:

- I pay off my whole credit card bill every month – no credit card debt.
- I avoid splurge purchases.
- I have an emergency fund of about 6 months’ worth of expenses.

THE NEGATIVE

What are three of your financial pitfalls? Some examples:

- I pay a lot of avoidable fees—like out of network ATMs and overdraft charges.
- I don’t put any money towards retirement savings.
- I frequently owe late fees because I miss due dates on bills.

Next steps? Keep doing everything you’ve listed in the Positive category. Then it’s time to make some adjustments.

2. CHOOSE A WAY TO IMPROVE

Decide on one financial goal that you work towards each month. It could be reversing your behavior on one of the items you put on the **NEGATIVE** list. Some examples of best practices goals:

- Don’t put any new charges on a credit card with an unpaid balance
- Pay all your utility bills on time
- Make a special meal at home instead of going to a restaurant
- Contribute to your retirement savings plan
- Find a financial advisor. If you already have one, schedule a check-up call.
- Drop one bad habit—like paying fees at an out-of-network ATM

Budget

A budget is a spending plan you use to allocate your income to cover your expenses and to track how closely your actual expenditures line up with what you had planned to spend. A budget covers a specific time period, typically a year.

Cash flow

Your personal cash flow includes the money coming into your accounts and the money you are spending over a specific period such as a year. To determine if your cash flow is positive or negative, you subtract the money you receive the money you spend on expenses. If there’s money left over, your cash flow is positive. If you spend more than you have coming in, it’s negative.

Compounding

Compounding occurs when your investment earnings or savings account interest is added to your principal, forming a larger base on which future earnings may accumulate. As your investment base gets larger, it has the potential to grow faster. And the longer your money is invested, the more you stand to gain from compounding.

Credit Score

Your credit score is a number, calculated based on information in your credit report, that lenders, insurers, employers, landlords, and others use to assess the credit risk you pose and the interest rate they will offer you if they agree to lend you money.

Default

A default occurs if a person or institution responsible for repaying a loan or making an interest payment fails to meet that obligation on time. If you are in default, you may lose any property that you put up as collateral to arrange a secured loan. Defaulting has a negative impact on your credit history and your credit score.

Emergency Funds

An emergency fund is designed to provide financial back-up for unexpected expenses or for a period when you aren’t working and need income. To create an emergency fund, you generally accumulate three to six months’ worth of living expenses in a secure, liquid account so that the money is available if you need it.

Growth

Growth is an increase in the value of an investment over time. Unlike investments that produce income, those that are designed for growth don’t necessarily provide you with a regular source of cash.

Income

Income is money that you receive, on either a regular or irregular basis. It may be earned income, which you are paid for work you do, investment income in the form of interest, dividends, or capital gains, or income from another source, such as gifts, rent, royalties, prizes and inheritance, or a financial settlement.

Inflation

Inflation is a persistent increase in prices, often triggered when demand for goods is greater than the available supply or when unemployment is low and workers can command higher salaries.

Interest

Interest is what you pay a lender as compensation for borrowing money using a loan, credit card, or line of credit. It is calculated at either a fixed or variable rate that’s expressed as a percentage of the amount you borrow, pegged to a specific time period. Interest also refers to the income, figured as a percentage of principal, that you’re paid for making your money available to a borrower.

Return

Return is the profit or loss on an investment, including any income plus change in value. Return can be expressed as a percentage and is calculated by adding the income and the change in value and dividing by the initial principal, or investment amount. You can find the average annual return by dividing the percent return by the number of years you have held the investment.

Premium

A premium is the purchase price of an insurance policy or an annuity contract. You may pay the premium as a single lump sum, in regular monthly or quarterly installments, or in some cases on a flexible schedule over the term of the policy or contract.

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