



# financial monitor



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## Savings Tips for Young Adults

Young adults today face a variety of challenges in their quest for financial security. Some of these challenges are similar to those faced by previous generations, while others are unique to the times. If you are a young adult, here are five financial tips to help you manage your money and prepare for your future.

**1) Invest in your future.** Rapidly changing technology used in various fields may require continuing education. You may wish to make ongoing education a priority to enhance your skills and increase your professional potential. The more varied and flexible your skills, the more attractive you may be to prospective employers.

**2) Open an emergency savings account.** The uncertainty of the workplace may mean that your professional life will be interrupted by career changes. If you need to return to school full-time to change career paths, you may experience periods of time without steady income. Creating an emergency fund to cover several months' worth of living expenses can help you manage work-related transitions. This savings fund can also be used for opportunities, such as starting your own business.

**3) Save early and continuously for retirement.** Saving for your retirement is *your* responsibility. The more disciplined and diligent you are, the better. Social Security can only be depended on to provide a base level of income. With employer-sponsored **401(k) plans**, the responsibility of saving rests on your shoulders. Although you may be years away from retirement, the key is to make *time* and *compound interest* your allies.

**4) Let retirement funds accumulate.** If you change jobs early or often, consider rolling over your employer-sponsored retirement plan funds into an **Individual Retirement Account (IRA)** or new company retirement plan. It may be tempting to cash in the account, especially if you have



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## Key Elements in Disability Income Insurance

**P**rospective insurance buyers are often confused about **disability income insurance** because the features and benefits can vary widely from one policy to another. Essentially, there are a few key elements that could make a big difference when you make your choice. If you are in the market for disability income insurance, here are some significant points to consider:

### Definition of "Total Disability."

Does the policy define total disability as a condition during which you cannot perform the duties of your "own occupation" or "any occupation"? A policy that refers to your "own occupation" generally pays benefits if you cannot return to work in your own field, or if you return to work in a lower-paying job or a job in another occupation. A policy that refers to "any occupation" generally pays benefits only if you are unable to perform *any* job: your own job, a lower-paying job, or a job in a new occupation.

**Duration of Benefits.** Even if you have to choose a smaller benefit amount to keep the premiums affordable, look for coverage that protects you until age 65. *Note:* There are policies available that offer benefits

only for a limited period (such as a maximum of two or five years), and the nature of your occupation may affect the duration of coverage.

**Amount of Coverage.** Most plans set a limit on the percentage of income you can insure: usually 50% to 70% of your gross earnings. If you have an employer-provided plan that offers only limited group coverage, consider buying *supplemental* individual disability income coverage.

**Elimination Period.** The waiting or "elimination" period is the amount of time you must wait before disability benefits begin to be paid. While a shorter waiting period requires a higher premium, a longer waiting period may mean more out-of-pocket costs before benefits begin. The waiting period is determined when a policy is issued, not when you sustain the disability.

**Taxation of Benefits.** Benefits may be tax free if you pay the premiums using *after-tax* dollars. If you receive benefits under an employer-provided plan, they may be taxable if the premiums are paid by the employer. Consult your tax professional for specific guidance.

**Partial or "Residual" Coverage.** After a serious disability, many people are able to return to work only on a part-time basis. Partial or "residual" benefits allow you to receive partial disability benefits, as well as your part-time income, until you fully recover. Without this feature, your benefits may stop as soon as you return to work, even if it is only part-time.

**Portable Coverage.** Policies that allow you to carry your coverage from one job to another have an obvious advantage. For example, coverage from a professional association could provide portable coverage that is not tied to your place of employment, not to mention any individual disability income policy that you might purchase independently. This benefit may be available with the purchase of a rider.

Before shopping for a policy that best suits your situation, it is important to determine the amount of coverage needed. Make it a point to review your insurance coverage and needs on a regular basis to help ensure you are adequately protected.

## Maintain a Healthy Credit Report

**Y**our credit report is an accumulation of information about your bills and loans, your repayment history, your available credit, and your outstanding debts. These reports are typically used by lenders when deciding whether or not to accept a loan or credit application. A healthy credit report can help you secure the funding

you need to purchase a new home or car, fund a child's education, or start your own business. The following guidelines can help you maintain a healthy credit report.

### Establish and Maintain History:

A rich history about your ability to pay off debt over time will paint a more complete picture for a lender inquiring about your financial

habits. Therefore, consider maintaining your oldest credit card. Credit companies often suggest that you also maintain four to six accounts to demonstrate your commitment to managing multiple debt sources.

**Close Extra Accounts:** We've all been tempted by the free T-shirts, duffle bags, and contest giveaways offered by credit card companies to

## Estate Planning and the Importance of Drafting a Will

A will is a formal, legal document instructing your survivors on the settlement of your estate. Often, the prospect of writing a will generates feelings of discomfort. Yet, drafting a will is one of the most important aspects of estate planning, one that can promote feelings of security. Your will ensures that heirs will be provided for and your wishes for asset distribution will be met. Like many people, have you postponed the task of writing a will? Or, is it time to review a will drafted years ago? A qualified legal professional can help ensure your will is properly written and contributes to the overall success of your estate plan.

If your estate is not covered by a will (known as **intestate**), your state's intestacy rules will govern how and by whom your estate will be divided. Some people may believe their estate is too minor to require a will, but even if you believe this is the case, consider writing one anyway. The reason is simple: If you die without a will, you automatically forfeit the chance to direct

the dealings of your estate. In addition to facilitating bequests, a will is an opportunity for you to designate your own **executor**, **guardians** for minor children, and other **fiduciaries**.



If you have decided that you would like your estate to pass to personal friends or charity, a will is the primary means of fulfilling these wishes. Without a will, the courts will have no way of knowing your preferences and will seek relatives—however distant—for distribution purposes. For unmarried couples, a will may help ensure that a partner will be included.

In addition, a will offers the opportunity to designate a **secondary** beneficiary in the event of the **primary** beneficiary's death.

Even those who have shifted the majority of their assets into **trusts** or who use **joint ownership** should draw up a will. While these methods are designed to bypass **probate** (the judicial process that establishes the validity of a will), they are not able to cover all assets. A will, however, does have the potential to cover all assets, leaving no property unaccounted for and no stone unturned.

Wills are a means of providing security for you and your loved ones. The topic may be emotionally challenging, but when the many advantages are considered, they far outweigh the temporary discomfort. Careful estate planning is the best way to identify how your assets will be divided, who is to be named executor, and who will receive benefits according to your wishes. Consult a legal professional for specific guidance. ■

### savings tips for young adults

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accumulated only a small amount, but doing so would make it immediately taxable, and you may also incur an early withdrawal penalty. Perhaps a greater concern, however, is that you may be unable to make up for time already spent to accrue these savings.

5) **Use credit wisely.** Credit card companies frequently target young adults with the lure of "easy money."

While credit cards offer convenience (it's virtually impossible to conduct some transactions, such as reserving airline tickets, without one), they also have the potential to create debt problems. Because payments can be extended far into the future, overspending on credit can create an illusion of wealth. Paying off the full balance each month is the best way to control your use of credit.

### Plan Now for the Future

Remember, the funds you accumulate during your working years may be your **primary** source of retirement income. Although inflation may threaten your nest egg, a little discipline and common sense over time may help you better manage your current and future financial affairs. ■

## maintain a healthy credit report

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attract new customers. However, after we've received the gifts, we often forget about the accounts we've just opened. Many open accounts on a credit report may be a red flag to a lender, indicating that you could get into financial danger due to the large amount of readily available credit. Consider closing any accounts that you do not use. This may also minimize your risk for identity theft.

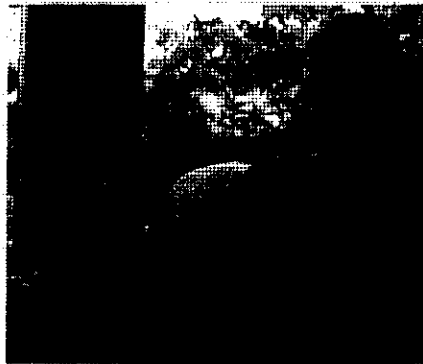
Remember that cutting up the credit card itself or just not using it does not mean the account is closed. To properly close an account, you must call or write to the company with your request.

### Make the Minimum Payments:

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

If you are in a financial bind and decide to ignore an account for a period of time, be aware that accounts sent to collection agencies or charged off by creditors, meaning they have written the debt off as a loss, will also remain on your credit report for seven years. If you find yourself in this situation, consider contacting your creditor, rather than just ignoring the problem.

**Pay Down Your Debt and Keep Debt in Line with Income:** Determine your debt-to-income ratio by adding up the balances of all your loans and credit cards, and comparing that with the amount of income you receive annually. If your total debt exceeds more than 20% of your annual income, lenders may be hesitant to grant you more credit. If you have a large amount of debt, develop a strategy to pay it off gradually and within your budget. In the meantime, curb excess spending and avoid further debt.



**Control the Number of Inquiries about Your Credit:** A large number of inquiries on your report may signal to a lender that you are in need of a lot of credit or preparing to take on a large debt. Neither situation bodes well for your ability to take on additional debt. Be aware that each time you apply for a new credit card, even if it is only to

receive a free gift, an inquiry will appear on your report. Inquiries remain on your report for two years.

**OPT-OUT of Inclusion on Marketing Lists:** While soft inquiries, those made by marketers and others wishing to sell you something, do not usually appear on the version of your credit report shown to lenders, these inquiries indicate that your personal information may be available and used by the companies listed, increasing your exposure to identity theft. Many marketers receive lists of potential customers directly from credit bureaus. You can "opt out" of inclusion on lists sold to these companies by either writing to each of the three credit bureaus or calling (888) 5OPTOUT. This will remove your name from marketing lists for two years.

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

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