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Greetings!

Hopefully everyone survived the monsters of Halloween. Welcome to November and the end of the year festivities.

**Thank you for your understanding about the October 6th email. If this email landed in your spam folder, and you want a copy, contact me.** Many of you responded in a very thoughtful and caring manner. I am grateful for the kind words and well wishes. I have been very fortunate to have worked with all of you during these years. I will miss our business dealings and personal connections.

I will be available to assist you and your new advisors as you see fit. Please feel free to call or email at any time. The business will close at the end of February, I will be available to support in this transition.

I will be out of town from November 3rd through November 17th. I will monitor the voice messages and emails, responses may be delayed. Thank you for your patience and understanding.

Thank you and have a great Thanksgiving! We all have much to be thankful for.

### November 2017

Five Myths About Group Disability Insurance

The Health-Wealth Connection

How much money should a family borrow for college?

How can families trim college costs?

## What You Can Do with a Will



A will is often the cornerstone of an estate plan. Here are five things you can do with a will.

### Distribute property as you wish

Wills enable you to leave your property at your death to a surviving spouse, a child, other relatives, friends, a trust, a charity, or anyone you choose. There are some limits, however, on how you can distribute property using a will. For instance, your spouse may have certain rights with respect to your property, regardless of the provisions of your will.

Transfers through your will take the form of specific bequests (e.g., an heirloom, jewelry, furniture, or cash), general bequests (e.g., a percentage of your property), or a residuary bequest of what's left after your other transfers. It is generally a good practice to name backup beneficiaries just in case they are needed.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property in which you have already named a beneficiary passes to the beneficiary (e.g., life insurance, pension plans, IRAs).

### Nominate a guardian for your minor children

In many states, a will is your only means of stating who you want to act as legal guardian for your minor children if you die. You can name a personal guardian, who takes personal custody of the children, and a property guardian, who manages the children's assets. This can be the same person or different people. The probate court has final approval, but courts will usually approve your choice of guardian unless there are compelling reasons not to.

### Nominate an executor

A will allows you to designate a person as your executor to act as your legal representative after your death. An executor carries out many estate settlement tasks, including locating your

will, collecting your assets, paying legitimate creditor claims, paying any taxes owed by your estate, and distributing any remaining assets to your beneficiaries. As with naming a guardian, the probate court has final approval but will usually approve whomever you nominate.

### Specify how to pay estate taxes and other expenses

The way in which estate taxes and other expenses are divided among your heirs is generally determined by state law unless you direct otherwise in your will. To ensure that the specific bequests you make to your beneficiaries are not reduced by taxes and other expenses, you can provide in your will that these costs be paid from your residuary estate. Or, you can specify which assets should be used or sold to pay these costs.

### Create a testamentary trust or fund a living trust

You can create a trust in your will, known as a testamentary trust, that comes into being when your will is probated. Your will sets out the terms of the trust, such as who the trustee is, who the beneficiaries are, how the trust is funded, how the distributions should be made, and when the trust terminates. This can be especially important if you have a spouse or minor children who are unable to manage assets or property themselves.

A living trust is a trust that you create during your lifetime. If you have a living trust, your will can transfer any assets that were not transferred to the trust while you were alive. This is known as a pour-over will because the will "pours over" your estate to your living trust.

### Caveat

Generally, a will is a written document that must be executed with appropriate formalities. These may include, for example, signing the document in front of at least two witnesses. Though it is not a legal requirement, a will should generally be drafted by an attorney.

There may be costs or expenses involved with the creation of a will or trust, the probate of a will, and the operation of a trust.



## Five Myths About Group Disability Insurance



<sup>1</sup> Social Security Administration, *The Facts About Social Security's Disability Program*, SSA Publication No. 05-10570, January 2017

<sup>2</sup> *Beyond the Numbers: Pay and Benefits*, vol. 4, no. 4 (U.S. Bureau of Labor Statistics, February 2015)

<sup>3</sup> Council for Disability Awareness, *The Average Duration of Long-Term Disability Is 31.2 Months. Are You Prepared?* January 18, 2016

You may think that the chances of becoming disabled during your working years are slight, and even if you did get hurt or had to miss time at work, you could get by because you have group disability insurance. Unfortunately, you may be in for a big surprise. Here are some myths and misunderstandings about group disability insurance.

### Myth 1: It won't happen to me.

You're not really worried about your group disability insurance coverage because you're sure you won't suffer a disability. In fact, your chances of being disabled for longer than three months are much greater than you may realize. Even the healthiest and ablest can become disabled. According to the Social Security Administration, one in five Americans lives with a disability, and more than one in four 20-year-olds becomes disabled before reaching retirement age.<sup>1</sup> So maybe you could miss work for an extended period of time due to a disability. But you have group disability insurance to cover all your income, right?

### Myth 2: I work for a good employer, so I'm sure it provides disability insurance.

Well, you better get something in writing confirming that you're covered under your employer-sponsored group disability insurance. According to the Bureau of Labor Statistics, 39% of private industry workers took part in employer-sponsored short-term disability insurance, and 33% were covered by group long-term disability insurance. Workers in service occupations, such as waiters/waitresses, hair stylists, and dental hygienists have the lowest access rates, about 20% for short-term disability insurance and only about 10% for long-term group coverage. On the other hand, 54% of workers in management, professional, and related occupations have access to short-term disability coverage, and 59% are covered by long-term group disability insurance.<sup>2</sup>

### Myth 3: Group disability insurance will replace my income.

Actually, group disability insurance replaces some of your income — typically about 60% of income if you become disabled and can't work. And most coverage has a monthly income cap of roughly \$5,000 to \$8,000, which may be less than 60% of your income. Also, the income used to calculate your disability insurance benefit usually applies only to your base salary and doesn't include bonuses and commissions.

### Myth 4: I won't be taxed on my disability insurance benefits.

You won't be taxed on your disability insurance benefits if premiums are paid from your income with after-tax dollars. However, most employers pay the premium for group policies, which means any benefits you receive are likely taxable to you as ordinary income.

### Myth 5: As long as I'm with the company, I'll have coverage.

Generally, group disability insurance is a voluntary benefit offered by the employer, which is under no compulsion to maintain coverage or pay for its cost. The employer can switch plans to a policy that doesn't offer the same coverage options, or the employer can stop offering coverage altogether. Sometimes, if the company has an unusually high number of expensive disability claims, the insurer may exercise its right to significantly increase the premium or terminate the coverage.

### Okay, so what are my options?

First, verify with your employer that you do, in fact, have group disability insurance coverage. Then review your plan to see how much income it actually would pay. Also, understand the group policy's definition of disability. Not every injury or illness that causes you to miss work may be covered.

Once you know how much you'd receive from the disability insurance, estimate whether it would be enough to cover your monthly expenses. If there's a shortfall, do you have other sources of income (e.g., investment income, spouse's income) to cover the difference, or would you have to access your savings? If you'll be using savings to supplement your disability income, you'll want to gauge how long your savings will last. The average duration of long-term disability is 31.2 months.<sup>3</sup>

You could consider purchasing supplemental disability coverage to help pay for some of your lost income not covered by your group disability policy. For instance, if your group plan pays 60% of your salary, a supplemental disability plan may increase your total benefit to 80% of your income. In any case, disability income policies contain certain exclusions, waiting periods, reductions, limitations, and terms for keeping them in force. Individual disability income insurance policies provide disability income insurance only. They do NOT provide basic hospital, basic medical, or major medical insurance.



## The Health-Wealth Connection



*"Always keep two things in stock: crunchy vegetables and an emergency savings account."*

*Michael F. Roizen, MD, and Jean Chatzky, personal finance commentator*

*Authors of [Ageproof: Living Longer Without Running Out of Money or Breaking a Hip](#)*

<sup>1</sup> *American Psychological Association, February 4, 2015; [The Telomere Effect: A Revolutionary Approach to Living Younger, Healthier, Longer](#), by Blackburn and Epel; and [Ageproof: Living Longer Without Running Out of Money or Breaking a Hip](#), by Chatzky and Roizen*

<sup>2</sup> *The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that long-term care carriers have the discretion to raise their rates and remove their products from the marketplace.*

It's a vicious cycle: Money is one of the greatest causes of stress, prolonged stress can lead to serious health issues, and health issues often result in yet more financial struggles.<sup>1</sup> The clear connection between health and wealth is why it's so important to develop and maintain lifelong plans to manage both.

### The big picture

Consider the following statistics:

1. More than 20% of Americans say they have either considered skipping or skipped going to the doctor due to financial worries. (American Psychological Association, 2015)
2. More than half of retirees who retired earlier than planned did so because of their own health issues or to care for a family member. (Employee Benefit Research Institute, 2017)
3. Chronic diseases such as heart disease, type 2 diabetes, obesity, and arthritis are among the most common, costly, and preventable of all health problems. (Centers for Disease Control and Prevention, 2017)
4. Chronic conditions make you more likely to need long-term care, which can cost anywhere from \$21 per hour for a home health aide to more than \$6,000 a month for a nursing home. (Department of Health and Human Services, 2017)
5. A 65-year-old married couple on Medicare with median prescription drug costs would need about \$265,000 to have a 90% chance of covering their medical expenses in retirement. (Employee Benefit Research Institute, 2017)

### Develop a plan for long-term health ...

The recommendations for living a healthy lifestyle are fairly straightforward: eat right, exercise regularly, don't smoke or engage in other risky behaviors, limit soda and alcohol consumption, get enough sleep (at least seven hours for most adults), and manage stress. And before embarking on any new health-related endeavor, talk to your doctor, especially if you haven't received a physical exam within the past year. Your doctor will benchmark important information such as your current weight and risk factors for developing chronic disease. Come to the appointment prepared to share your family's medical history, be honest about your daily habits, and set goals with your doctor.

Other specific tips from the Department of Health and Human Services include:

**Nutrition:** Current nutritional guidelines call for eating a variety of vegetables and whole fruits; whole grains; low-fat dairy; a wide variety of protein sources including lean meats, fish, eggs, legumes, and nuts; and healthy oils. Some medical professionals are hailing the long-term benefits of the so-called "Mediterranean diet." Details for a basic healthy diet and the Mediterranean diet can be found at [health.gov/dietaryguidelines](http://health.gov/dietaryguidelines).

**Exercise:** Any physical activity is better than none. Inactive adults can achieve some health benefits from as little as 60 minutes of moderate-intensity aerobic activity per week. However, the ideal target is at least 150 minutes of moderate-intensity or 75 minutes of high-intensity workouts per week. For more information, visit [health.gov/paguidelines](http://health.gov/paguidelines).

### ... and long-term wealth

The recommendations for living a financially healthy life aren't quite as straightforward because they depend so much on your individual circumstances. But there are a few basic principles to ponder:

**Emergency savings:** The amount you need can vary depending on whether you're single or married, self-employed or work for an organization (and if that organization is a risky startup or an established entity). Typical recommendations range from three months' to a year's worth of expenses.

**Retirement savings:** Personal finance commentator Jean Chatzky advocates striving to save 15% of your income toward retirement, including any employer contributions. If this seems like a lofty goal, bear in mind that as with exercise, any activity is better than none — setting aside even a few dollars per pay period can lead to good financial habits. Consider starting small and then increasing your contributions as your financial circumstances improve.

**Insurance:** Make sure you have adequate amounts of health and disability income insurance, and life insurance if others depend on your income. You might also consider long-term care coverage.<sup>2</sup>

**Health savings accounts:** These tax-advantaged accounts are designed to help those with high-deductible health plans set aside money specifically for medical expenses. If you have access to an HSA at work, consider the potential benefits of using it to help save for health expenses.

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## How much money should a family borrow for college?

There is no magic formula to determine how much you or your child should borrow to pay for college. But there is such a thing as borrowing too

much. How much is too much? Well, one guideline for students is to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned by taking out larger mortgages than they could afford (even though lenders may have told them they were qualified for that amount), students can get burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years or longer. A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car payments come into play? What if a borrower steps out of the workforce for an extended period to care for children and

isn't earning an income? There are many variables, and every student's situation is different. Of course, a loan deferment is available in certain situations, but postponing payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently \$27,000 for four years of college. Over a 10-year term with a 4.45% interest rate (the current 2017/2018 rate on federal student loans), this equals a \$279 monthly payment. Borrow more by adding in co-signed private loans, and the monthly payment will jump: \$40,000 in loans (at the same interest rate) equals a monthly payment of \$414, while \$60,000 in loans will result in a \$620 monthly payment. Before borrowing, students should know *exactly* what their monthly payment will be.

As for families, there is no one-size-fits-all rule on how much to borrow. Many factors come into play including, but not limited to, the number of children in the family, total household income and assets, and current and projected retirement savings.



## How can families trim college costs?

Trimming college costs up front can help families avoid excessive college borrowing and the burdensome student loan payments that come with it. Here are some ideas.

- 1. Pick a college with a lower net price.** You can use a college's net price calculator (available on every college's website) to estimate what your net price (out-of-pocket cost) will be at individual colleges. A net price calculator does this by estimating how much grant aid a student is likely to receive based on a family's financial and personal information. Colleges differ on their aid generosity, so after entering identical information in different calculators, you may find that College A's net price is \$35,000 per year while College B's net price is \$22,000. By establishing an ideal net price range, your child can target schools that hit your affordable zone.
- 2. Investigate in-state universities.** Research in-state options and encourage your child to apply to at least one in-state school. In-state schools generally offer the lowest *sticker* price (though not necessarily the lowest *net* price) and may offer scholarships to state residents.

- 3. Research colleges that offer generous merit aid.** All colleges are not created equal in terms of how much institutional aid they offer. Spend time researching colleges that offer generous merit aid to students whose academic profile your child matches.

- 4. Graduate early.** Earn college credit in high school by taking AP/IB classes and then graduate a semester or two early. Or look at colleges that specifically offer three-year accelerated degree programs.

- 5. Seek out free room and board.** There are two ways to do this: The first is to live at home (though transportation costs might eat into your savings), and the second way is to become a resident assistant (RA) on campus, a job that typically offers free room and board.

- 6. Work during college.** Working during college and contributing modest amounts to tuition along the way — say \$1,500 to \$3,000 a year — can help students avoid another \$6,000 to \$12,000 in loans.

- 7. Combine traditional and online courses.** Does the college offer online classes? If so, you may be able to earn some credits at a lower cost over the summer or during breaks.