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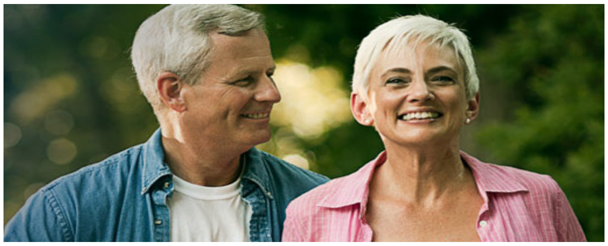


Nuclear Family Financial Models, Extended Family Realities

Look at this picture of the silver-haired couple. It is a stock photo, one that could be used as the advertising background for any number of products or services. But since this is a newsletter about personal financial issues, what topic is most likely associated with this image?

Can you say "Retirement Planning"?

You should, because that's the tagline that appears with this photo on the homepage for a prominent financial services company. And since a picture is worth a thousand words, there's a lot more being said in this image than just those two words. For instance, it would be easy to imagine…

The couple is married. While they are obviously older, they are healthy, attractive, well-dressed and self-confident. They are moderately wealthy, have led successful, happy lives and are optimistic about their future together.

With a bit more imagination, it would also be logical to assume…

The couple's two or three children are independent, successful adults who have careers and families of their own, and wonderful grandchildren that love to come and visit. With family, career and financial objectives completed, this wise, contented couple is now ready to plan a rewarding and relaxing retirement.

In summation, the unspoken message this photo presents is the picture-perfect financial conclusion for the ideal nuclear family. It's the last snapshot in a social motif that advertisers have been selling since the 1940s. The image sequence begins with boy meets girl. Soon after, the photos show they are working, getting married, having kids, and buying a house (the order may vary). Then, for the next two decades, there's a montage of raising children, establishing a career, and accumulating a nest egg. Finally, the sequence comes full circle, as the silver-haired boy and girl live happily ever after. It's the American Dream.

There's a lot to like about this idealized version of nuclear family life in the United States. Who wouldn't want to look and feel good after 60, have well-adjusted independent

In This Issue…

adult children, adorable grandchildren, and finish with both the money and companionship to enjoy a relaxed and rewarding retirement? That's not a bad life at all.

In the financial services field, it's no surprise that a lot of the marketing is designed to resonate with these nuclear family themes. Life insurance is often associated with protecting your nuclear family. College funding plans tap into the parental desire to help your children become successful nuclear family units of their own. Long-term care insurance is there so your nuclear family unit will not be a burden to other family units, particularly your children. And most retirement planning occurs within a nuclear family paradigm; the computer models and portfolio analyses are focused on guaranteeing you and your spouse have enough to live on for the rest of your lives.

But ironically, when advertisers in the financial services field focus their marketing efforts on nuclear family success, they may be making it harder to achieve it – and overlooking some great opportunities.

The Nuclear Family is an Anomaly in History


Modern ideas of a smaller, "nuclear" family may be deceiving – as often the extended family still affects the nuclear one and can even offer benefits.

The concept of the nuclear family unit – broadly defined as "a household consisting of a father, a mother and their children" – didn't exist before the 20th century. (The Merriam-Webster dictionary first listed the term in 1947.) Nuclear families have certainly existed, but in the past, they were typically identified as ***components of extended families***. One's true family unit included parents, siblings, grandparents, grandchildren, and other close relations. To a great extent, the well-being and obligations of any nuclear family units were intimately connected to the well-being and obligations of the extended family. The extended family owned property, provided a structure for transferring wealth to successive generations, and offered protection and support. In fact, prior to the Industrial Revolution, it was almost impossible for nuclear family units to be financially viable – a single family couldn't own enough property or provide enough labor or protection to function independently.

In Western societies, the Industrial Revolution freed nuclear family units from the need to remain connected to an extended family. Factory workers didn't need land to make a living, didn't need to become apprentices to find work, and didn't need to stay in their hometowns. Instead, nuclear families found they could derive extended family benefits from what Stanford professor Avner Greif calls "corporate" institutions, such as fraternal organizations, unions, large employers and governments. Since the end of the 19th century, these corporate entities have provided many of the institutional benefits that once could only be found in the context of an extended family. These developments allowed nuclear family units some freedom to determine how they will construct an extended family – who would assist in childcare, protect their employment rights, provide a retirement, care for them in their old age, etc. One hundred and fifty years later, most of us see this corporate model of social support simply as the way things are. But Greif points out that "providing institutions through corporations is a novelty."

The Persistence of Extended Family Connections

Even as industrialized modern society has mitigated much of the financial necessity for extended family connections, it has also brought forth other issues that create new financial and social concerns between nuclear families and extended families.

Increased longevity makes for circumstances where adult children must become caretakers for their parents, perhaps even as these children are nearing retirement. Divorce, while no longer having a social stigma, often results in the realignment of nuclear families through remarriage and can result in major shifts in financial obligations and inheritance. "Boomerang" children – those who leave only to return because of a divorce, job loss or other disruption – can dramatically alter the nuclear family storyline. And because the health of corporate extended family units is closely connected to the economy and demographics, many of the financial supports once provided by corporate entities may no longer be available; there are no lifetime employment guarantees, government assistance programs may be slashed, and pensions may diminish or disappear. In short, even in "modern" society, it is difficult for a nuclear family to remain unaffected by its extended family connections. To make financial plans without considering one's extended family is short-sighted and unrealistic.

The Reality of Extended Family Connections

In some ways, the idealized nuclear family financial scenario is unrealistic. In order for a nuclear family to succeed "on its own," every nuclear family with a connection to it has to succeed as well – the parents need to be self-sufficient and so do the kids. It really helps if there's no divorce, no unemployment, no disease or disability, and no untimely deaths among the three generations – and it helps if the nuclear family plan consists of an only child, so there aren't any siblings who might have issues. That's a lot of variables that have to go right, and many are beyond individual control.

Consider just three statistics:

- In 2008, data compiled by the National Alliance for Caregiving from the U.S. Health and Retirement Study found that 28% of women in the United States were providing care for an aging parent.
- A 2005 report from the Census Bureau on disability determined that 2 in every 7 families reported at least one member with a disability.
- The same report stated that one in 26 American families is raising children with a disability.

Bottom line: The numbers say it is likely that your financial world will be impacted by your extended family.

The Value of Extended Family Connections

In this era where the cultural focus is on the nuclear family, it's easy to downplay extended family connections.

It's the stereotypical mother-in-law who always interferes, the ne'er-do-well brother who hits you up for a loan that will never be repaid, or the crazy uncle who says the most embarrassing things at family gatherings. But even today, extended family connections can be valuable assets in making a better financial life – for everyone involved.

There may not be the same binding sociological factors of 200 years ago, but kinship allegiances still matter. Most people have a keen interest in the well-being of family members, and given the right circumstances, have great incentive to help, even to sacrifice. Successful grandparents may be sources of financial wisdom and capital, perhaps assisting children and grandchildren with the costs of education, or subsidizing the purchase of a home. Siblings can often become great business partners. Specialized living arrangements for elderly family members may offer them a level of care and dignity that could never be obtained elsewhere.

Including extended family considerations in financial programs is not the prevailing mindset today, but historically, extended families have been powerhouses for wealth accumulation because there are strong incentives for long-term, multi-generational planning. Unlike a nuclear family perspective, an accumulation plan isn't intended simply for consumption in retirement. Rather, the extended family perspective is often about building, accumulating and passing wealth, as well as enjoying some of it today. If that mindset is maintained over several generations, the cumulative financial benefits can be tremendous.

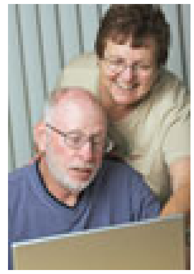
Of course, there can be challenges to extended family financial arrangements; one of the attractions of keeping your financial program "nuclear" is that you don't have to worry about anyone else's behavior. But considering how much might be accomplished when the finances of extended families are coordinated instead of separated, the possibilities are worth exploring. For example…

- Could you borrow from extended family at terms more favorable than a bank?
- Could you lend to extended family and receive a higher return than a financial institution is paying?
- Could pooling assets make it possible to acquire and enjoy a long-term asset (like a vacation property) that you can't afford on your own?
- Could a small amount invested today on behalf of your children and grandchildren be a legacy that reaps huge dividends long after you are gone?

The modern perspective may have changed a lot of our social and financial arrangements, but it hasn't eliminated the impact of extended family. Given today's nuclear family focus, we may see most extended family incidents as impediments to our financial well-being. However, it would be misguided to overlook the opportunities that might come from planning and operating with one's extended family in mind – particularly one's children.

DO YOUR FINANCIAL PLANS EXTEND BEYOND YOUR NUCLEAR FAMILY?

Extended Family Issue: Financing Independent Living Arrangements



As they have at every juncture in their lives, the demographics of the American Baby Boom generation are once again changing cultural norms. This time, the change is a "silver tsunami" encapsulated in the term "Senior Living."

Generally classified as the population born between 1946 and 1964, the first of the Baby Boomers turned 65 in 2011. Not only are many of them retiring and collecting Social Security, these Boomers are also looking for long-term residential living options better suited to their lifestyle changes. This swell in demand is creating many different choices, as well as a new financial question: how will we pay for this?

The term "Senior Living" covers the spectrum of living options available to retirees, and can be broadly categorized in three types of facilities:

- Nursing homes;
- Assisted care facilities;
- Independent living communities.

These three facilities reflect differing levels of care and independence.

Nursing homes are more commonly referred to as skilled nursing and rehab centers. Nursing care is typically provided for people who need long-term care, or rehabilitation from surgery or recovery from a severe medical condition like a stroke.

Long-term care in a nursing home is for older adults who need around-the-clock nursing care. These residents need help not only with basic ADLs (activities of daily living) but need the supervision of staff to maintain their safety. Residents typically live in private or shared accommodations, often with bathrooms shared between patients or even between two rooms.

Nursing home care is usually the most expensive type of care due to the personnel and equipment required to maintain patient care. According to Chris Orestis, in an April 2011 article for the Life Care Funding Group, the national average cost for a nursing home is currently around $6,000/mo. For long-term care residents, private funds, Medicaid, and long-term care insurance are the typical methods of payment.

Assisted care facilities are a residential option for seniors who want or need help with some of the activities of daily living, but are still able to manage most aspects of life on their own. A typical assisted living facility will provide three meals a day served in a common dining area, housekeeping services, transportation, access to health and medical services, and security, as well as exercise and wellness programs and social and recreational activities.

The cost for assisted care facilities is a monthly rent, plus additional fees based on the level of individual attention the resident requires. According to the American Elder Care Research Organization, the 2011 national monthly average cost of assisted care was $3,477/mo. with a range of $2,156 to $5,757. Depending on the definition of terms and a resident's condition, a long-term care insurance policy may cover some or all of the costs, but most long-term residents pay for assisted living from personal assets.

Independent living communities may be retirement communities, retirement homes, senior housing or senior apartments. These housing arrangements, from apartment-style living to freestanding homes, are designed exclusively for seniors, generally those age 55 and over. The physical arrangement is friendlier to older adults, often being more compact, with easier navigation, little or no maintenance responsibilities, and security. While some care services may be available, residents must have the ability to live independently, according to terms defined by the facility.

The costs for independent living facilities will vary, from government-subsidized rental units for low-income seniors to retirement homes requiring an initial investment as well as monthly fees. In some instances, a portion of the initial investment may be refunded to the resident when he/she leaves the facility.

For seniors considering an independent living retirement community, all of the funds will come from personal assets; neither government programs like Medicaid or individual insurance coverage will apply.

Continuing Care Retirement Communities (CCRC) are all-in-one facilities that provide a continuum of care from independent living to assisted living to skilled nursing, typically as a complex of buildings on one campus. CCRCs are designed to enable seniors to remain in a single residential location, which is attractive for seniors with declining health conditions, or couples in mixed health. While CCRCs offer much for seniors, they are the most expensive senior living solution available. The typical CCRC requires a one-time entrance fee and monthly maintenance fees. Entrance fees range from $60,000-$120,000 and monthly maintenance fees from $400 to $2,500. Some facilities offer return-of-capital guarantees and long-term insurance as part of their pricing structures. These options guarantee some assets will be left to the resident's estate, and make future medical expenses a fixed cost.

A common funding paradigm for independent living communities is to sell one's existing home, then use the proceeds to pay for the initial buy-in purchase. Monthly facility expenses are structured to equal a retiree's Social Security income, leaving other needs and wants to be paid from savings. Many facilities will offer the option of financing the initial fee through a short-term bridge loan drawn against the equity in the applicant's residence. When the house sells, the facility is repaid from the proceeds.

Navigating the Funding Maze of Senior Living

The type of senior living arrangements, the amount of the individual's assets, and the availability of insurance all figure prominently in determining how to pay for senior living arrangements. And many of these decisions can have significant financial ramifications, so each step should be carefully considered, with input from family members and trusted advisers.

While almost all seniors are covered by the federal government's Medicare and Medicaid programs, one's eligibility to receive benefits, particularly Medicaid, is dependent on one's assets, or lack of assets. Attempting to preserve assets for heirs and qualify sooner for Medicaid, some individuals reposition, gift or liquidate assets in anticipation of going to a nursing home. While Medicaid allows a spouse to keep some assets, the agency also has the authority to "claw back" assets it feels were removed or transferred incorrectly. To find out how these rules apply, you or a family member may need to consult an informed counselor or a qualified elder law attorney.

Some of the payment programs offered by Continuing Care Retirement Communities are essentially "housing annuities." For a lump-sum and a fixed monthly cost, housing (and in some cases, long-term care) are guaranteed for life. Similar to purchasing a regular annuity, the individual is exchanging control over one's assets for a certain outcome, and must weigh the costs and benefits of surrendering control and receiving a guarantee. And just like an annuity, the options for revoking a senior living agreement are limited once the program has begun.

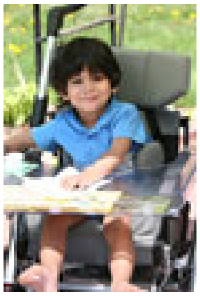
Other assets may be in play as well. Owners of life insurance policies may have the option of exchanging them for long term care benefit plans. In a January 5, 2011, article ("Funding Long Term Care with Life Insurance," lifehealthpro.com), Orestis notes that several states have passed laws in which…

> "life insurance companies are legally required to inform policy owners older than 60, or if they have a terminal or chronic condition, that they have eight alternative options to consider before lapsing or surrendering a policy - and one of them is converting a life insurance policy into a long term care benefit plan."

This arrangement is similar to a life settlement, and is brokered by a "senior care company." Orestis states that this agreement "will convert any form of life insurance to pay directly for the costs of long term care in a nursing home, assisted living facility and home healthcare. (The) option also allows the owner to preserve a portion of the death benefit throughout the spend down period, protecting it from Medicaid Recovery legal action against the estate."

If you or your parents are considering entering into a senior living arrangement, it is strongly recommended that you seek input from your team of financial professionals. A 2009 paper published by J. Carl Holowaty declared that "moving into an institutional care facility is possibly the single most disruptive event to patterns of social engagement that a person could experience (ranking maybe even higher than the death of a spouse)." Knowing how to best use assets and quantify costs can go a long way toward making a good decision, for you or your extended family.

IF YOU OR AN EXTENDED FAMILY MEMBER ARE CONTEMPLATING A SENIOR LIVING ARRANGE-MENT, A GOOD PLACE TO START IS A REVIEW OF YOUR ASSETS, AND HOW THEY MIGHT BE USED FOR MAXIMUM BENEFIT.



Extended Family Issue: Special Needs Planning

Raising a family is challenging under any circumstances, but for parents with special needs children the stakes are dramatically higher because the parenting responsibilities may last the child's entire life. This reality can be overwhelming, both emotionally and financially. One of the best ways to face these long-term challenges is to systematically establish a long-term plan, one that considers both the emotional and financial issues likely to be encountered.

Immediate Concerns

Many special needs children may qualify for government assistance through the Social Security Administration, from either the Supplemental Security Income program (SSI), or the Social Security Disability Income program (SSDI). Eligibility for either of these programs can be complex, as both involve some means-testing to determine the extent of aid; financial decisions by the parents (such as investing in a tax-qualified retirement account or buying a home) can impact the amount of assistance received. This factor means parents must consistently monitor and review their financial plans.

Long-term Issues

In addition to handling the details that every-day parenting requires, parents who have special needs children usually have two primary long-term concerns:

1. Who will be around to ensure the welfare of their children or make decisions for them if they are unable to care for themselves?

2. How will they pay for it?

Answering these two questions is usually an interconnected process. If there is no money set aside for care, even the most qualified and trustworthy guardians (such as siblings) may not be up to the task. A good special needs care plan addresses both questions. Typically, this is accomplished through the establishment of a trust.

The trust will specify guardians, trustees and beneficiaries, as well as defining which assets should be placed in the trust. Two common types are Support Trusts and Special Needs Trusts. **Support Trusts** require the trustee to make distributions for the child's support in areas like food, shelter, clothing, medical care, and educational services. It is important to note that beneficiaries of Support Trusts may not be eligible for SSI or Medicaid. If the special needs child will rely on government benefits for a significant portion of care, it may be best to avoid a Support Trust.

For many parents, a **Special Needs Trust** is the most effective way to help their child with a disability. A Special Needs Trust manages resources while also maintaining the child's eligibility for public assistance benefits. When the trust is funded by the parents' assets, it is called a **Third-Party Special Needs Trust*.** In some instances, the trust may be funded by the child's assets (for example, when the child receives a settlement from a personal injury lawsuit). This arrangement is called a **Self-Settled Special Needs Trust.**

Funding the Trust

Parents of a special needs child face some daunting financial challenges. From the moment the special need is recognized, all the financial metrics change. Not only is there a compelling desire for the parents to provide an estate at their deaths, but there is also the consideration that other aspects of their financial life must be altered, such as:

- If the parents' diminishing health affects their ability to provide care, someone else must take their place.
- With continuing parental duties, the dynamics (and costs) of retirement will be different.
- Besides providing immediate protection, a life insurance program might be constructed to provide guaranteed funding for a special needs trust.

Extended Family Considerations

The time and financial resources devoted to a special needs child can create imbalance and stress for other family members, particularly siblings. Because brothers and sisters will be a part of a special needs child's life longer than anyone, the Sibling Support Project (siblingsupport.org) states that "Early in life, many brothers and sisters worry about what obligations they will have toward their sibling in the days to come." And in many instances, one or more of the siblings will assume guardian and care responsibilities after the parents have passed away.

The immediate realities of receiving less attention and the future possibility of having to care for a special needs child – perhaps at significant emotional and financial cost – can lead to resentment. Extended family planning can mitigate these feelings and help reshape the discussion. Experts in special needs care recommend that parents involve other children in the decision-making process as early as possible, because in the long run, this is not just a nuclear family issue. In addition, establishing an estate plan that provides an equitable inheritance for the rest of the family can help the extended family members support the special needs program, because it is seen as part of a larger financial plan made for the purpose of benefiting all children.

Don't Go It Alone

These plans, and the details they involve, require expert assistance. Integrating government regulations, legal designations and funding combinations is not a do-it-yourself project. Finding competent financial professionals and maintaining regular communication with them will go a long way toward maximizing the benefits of a special needs plan.

IF YOU HAVE CHILDREN OR GRAND-CHILDREN WITH SPECIAL NEEDS, PLANNING IS ESSENTIAL TO THEIR LONG-TERM WELL-BEING. NEED ASSISTANCE? WE CAN PROVIDE PRODUCTS, RESOURCES, AND FINANCIAL KNOWLEDGE.

(See footnote on next page)

* From website of the *Learning Disabilities of America* organization: Self-Settled Special Needs Trusts are much more complicated than their third-party equivalents. Usually (but not always), a Self-Settled Special Needs Trust must comply with a federal law first enacted in 1993. That law requires that most Self-Settled Special Needs Trusts actually be established by a judge, a court-appointed guardian, or the parents or grandparents of the beneficiary (Social Security regulations may limit creation of trusts to the first two categories in most circumstances). In addition most Self-Settled Special Needs Trusts will have to include a provision repaying state Medicaid agencies for any benefits, payable at the death of the beneficiary. Such a provision is often called a "pay-back" provision."

2012 CHANGES IN RETIREMENT PLAN CONTRIBUTION LIMITS

Every year, the Internal Revenue Service announces changes in the amounts individuals can deposit to qualified retirement plans. Here are some of the notable changes for 2012:

- The maximum employee contribution for 401(k), 403(b), most 457 plans or the federal government's Thrift Savings Plan is **$17,000** (the limit was $16,500 in 2011).
- Workers who will reach age 50 anytime in 2012 can make "catch-up" contributions of up to an extra **$5,500** for the year (the same amount as in 2011).
- The maximum IRA contribution limit for 2012 remains unchanged at **$5,000**. An additional **$1,000** can be added as "catch-up" if you are age 50 or older by the end of the year.
- Not all IRA contributions are deductible. If you (or a spouse) have a workplace retirement plan, the deductibility of contributions is dependent on your adjusted gross income. (Individuals who do not participate in a workplace retirement savings plan can deduct their full IRA contribution regardless of income.) For 2012, these thresholds have increased.
- While Roth IRAs don't offer tax deductible contributions, the amount that can be deposited is also conditional upon AGI. Single filers and heads of household can make the maximum Roth IRA contribution of **$5,000** if their adjusted gross income is less than $110,000 in 2012.

Those five bullet points are just the tip of the iceberg when it comes to assessing the criteria for participation in qualified retirement plans. And while tax deductibility can provide some extra saving incentive, it is prudent to consider these deductions (and restrictions) within the context of your larger financial picture.

WHEN IS THE LAST TIME YOU ASSESSED YOUR RETIREMENT PLAN SAVINGS? START 2012 WITH A CLEAR IDEA OF YOUR "BIG PICTURE" BEFORE YOU ADD (OR SUBTRACT) FROM YOUR RETIREMENT CONTRIBUTIONS.

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