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"An investment in knowledge pays the best interest." - Benjamin Franklin

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Famous People Who Failed to Properly Plan

It's almost impossible to overstate the importance of estate planning, regardless of the size of your estate or the stage of life you're in. A close second to the need to plan your estate is getting it done correctly, based on your individual circumstances.

You might think that those who are rich and famous would be way ahead of the curve when it comes to planning their estates properly, considering the resources and lawyers presumably available to them. Yet, there are plenty of celebrities and people of note who died with inadequate (or nonexistent) estate plans.

No estate plan

It's hard to imagine why some famous people left this world with no estate plan. A case in point involves former entertainer-turned-congressman Salvatore Phillip "Sonny" Bono. He died in a skiing accident in 1998, leaving no will or estate plan of any kind. His surviving wife had to petition the probate court to be appointed her deceased husband's administrator, seek court permission to continue various business ventures in which Sonny was involved, and settle multiple claims against the estate (including one from Sonny's more famous prior spouse, Cher). To make matters worse, a claim against the estate was brought by a purported extramarital child, which necessitated a DNA test from Sonny's body to determine whether he'd fathered the claimant (he did not).

Do-it-yourself disaster

We've all seen the ads for do-your-own legal documents, including wills and trusts. And the law does not require that you hire an attorney to prepare your will. But even the highest ranking jurist of his time should have relied on estate planning experts to prepare his estate plan. Instead, U.S. Supreme Court Chief Justice Warren E. Burger, who died in 1995, apparently typed his own will (consisting of only 176 words), which contained several typographical errors. More importantly, he neglected to address several issues that a well-drafted will would typically include. His family paid over $450,000 in taxes and had to seek the probate court's permission to complete administrative tasks like selling real estate.

The importance of updating your estate plan

Sure, formulating and executing an estate plan is important, but it shouldn't be an "out-of-sight, out-of-mind" endeavor. It's equally important to periodically review your documents to be sure they're up-to-date. The problems that can arise by failing to review and update your estate plan are evidenced by the estate of actor Heath Ledger. Although Ledger had prepared a will years before his death, there were several changes in his life that transpired after the will had been written, not the least of which was his relationship with actress Michelle Williams and the birth of their daughter, Matilda Rose. His will left everything to his parents and sister, and failed to provide for his "significant other" and their daughter. Apparently his family eventually agreed to provide for Matilda Rose, but not without some family disharmony.

Let someone know where the documents are kept

An updated estate plan only works if the people responsible for carrying out your wishes know where to find these important documents. Olympic medalist Florence Griffith Joyner died at the young age of 38, but her husband claimed he couldn't locate her will, leading to a dispute between Mr. Joyner and Flo Jo's mother, who claimed the right to live in the Joyner house for the rest of her life.

The will of baseball star Ted Williams instructed his executor to cremate his body and sprinkle the ashes at sea. However, one of William's daughters produced a note, allegedly signed by Ted and two of his children, agreeing that their bodies would be cryogenically stored. Before the will could be filed with the probate court, the body was taken to a cryogenic company, where its head was severed and placed in a container.

It's Time to Review Your Life Insurance Needs

Regularly reviewing your life insurance can help it keep pace with your changing needs, and your financial and family obligations.

Your life insurance needs may change without you even realizing it. You may have purchased life insurance years ago, and never gave it a second thought. Or, you may not have life insurance at all--and now you need it. When your life circumstances change, you have a fresh opportunity to make sure the people you love are protected.

You're tying the knot

When you were single, you may not have thought much about life insurance. But now that you're getting married, someone else may be depending on your income. If one of you should die, the other spouse may need to rely on life insurance benefits to meet expenses and pay off debts.

The amount of life insurance coverage you need depends on your income, your debts and assets, your financial goals, and other personal factors. Even if you have some low-cost life insurance through work, this may not be enough. To be adequately protected, you may each need to buy life insurance policies from a private insurer. The cost of an individual policy will be based on your age and health, the amount of coverage you buy, the type of policy (e.g., cash value or term insurance), and other variables.

You've become a parent

When you become a parent, it's time to take another look at your life insurance needs because your family's financial security is at stake. Married, single, and stay-at-home parents all need life insurance. Life insurance proceeds can help your family meet both their current expenses (such as a mortgage, child care, or car payments) and future expenses (such as a child's college education). Even if you already have life insurance, it's time to review your policy limits and beneficiary designations.

You're contemplating divorce

During a divorce, you'll have a number of pressing financial issues to address. Make sure that one of these is life insurance. You'll want to think about what protection you need, and what protection your children (if any) will need in the future. For example, if you'll be paying or receiving child support, you may want to use life insurance to ensure continuation of those payments. During a divorce, you may also need to negotiate ownership of life insurance policies. Life insurance ownership and obligations may be addressed in your divorce settlement, and state laws vary, so ask your attorney for advice and information. Finally, you'll want to evaluate your own life insurance needs to make sure your family is protected in the event of your death.

Your children have left the nest

If having children was the reason you originally purchased life insurance, you may feel that you no longer need coverage once your children are living on their own. But this isn't necessarily the case. Before making any decision, take a look at the types and amounts of life insurance you have to make sure your spouse is protected (if you're married). And keep in mind that life insurance can still be an important tool to help you transfer wealth to the next generation--your children and any future grandchildren.

You're ready to retire

As you prepare to leave the workforce, you should revisit your need for life insurance. You may find that you can do without life insurance now if you've paid off all of your debts and achieved financial security.

But if you're like some retirees, your financial picture may not be so rosy. You may still be saddled with mortgage payments, tuition bills, and other obligations. You may also need protection if you haven't accumulated sufficient assets to provide for your family. Or maybe you're looking for a way to pay your estate tax bill or leave something to your family members or to charity. You may need to keep some of your life insurance in force or even buy a different type of coverage.

Your health has changed

If your health declines, how will it affect your life insurance? A common worry is that if your health changes, your life insurance coverage will end if your insurer finds out. But if you've been paying your premiums, changes to your health will not matter. In fact, you should take a closer look at your life insurance policy to find out if it offers any accelerated (living) benefits that you can access in the event of a serious or long-term illness.

It's also possible that you'll be able to buy additional life insurance if you need it, especially if you purchase group insurance through your employer during an open enrollment period. Purchasing an individual policy may be possible, but more difficult and more expensive.

Of course, it's also possible that your health has changed for the better. For example, perhaps you've stopped smoking or lost a significant amount of weight. If so, you may want to request a reevaluation of your life insurance premium--ask your insurer for more information.

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Is College Debt the Next Bubble?

Growing debt

The average amount of student loan debt for the Class of 2011 was $26,600, a 5% increase from 2010 (source: Project on Student Debt, Student Debt and the Class of 2011, October 2012). But some students--and their parents--borrow much, much more.

Sources

[1] Mark Kantrowitz, Student Loan Debt Clock Reaches $1 Trillion, May 8, 2012

[2] Federal Reserve Bank of New York, Grading Student Loans, March 5, 2012

[3] Federal Reserve Bank of New York, Q4 2012 Quarterly Report on Household Debt and Credit, February 28, 2013

[4] U.S. Census Bureau, America's Families and Living Arrangements: 2011

[5] Federal Reserve Bank of New York, Q4 2012 Quarterly Report on Household Debt and Credit, February 28, 2013

What might a 23-year-old recent college graduate, a 45-year-old entrepreneur, and a 60-year-old pre-retiree have in common financially? They may all be hobbled by student loan debt. According to financial aid expert Mark Kantrowitz, the student loan "debt clock" reached the $1 trillion milestone last year.[1] And even as Americans have reduced their credit card debt over the past few years, student loan debt has continued to climb--both for students and for parents borrowing on their behalf.

A perfect storm

The last few years have stirred up the perfect storm for student loan debt: soaring college costs, stagnating incomes, declining home values, rising unemployment (particularly for young adults), and increasing exhortations about the importance of a college degree--all of which have led to an increase in borrowing to pay for college. According to the Federal Reserve Bank of New York, as of 2011, there were approximately 37 million student loan borrowers with outstanding loans.[2] And from 2004 through 2012, the number of student loan borrowers increased by 70%.[3]

With total costs at four-year private colleges pushing $250,000, the maximum borrowing limit for dependent undergraduate students of $31,000 for federal Stafford Loans (the most popular type of federal student loan) hardly makes a dent, leading many families to turn to additional borrowing, most commonly: (1) private student loans, which parents typically must cosign, leaving them on the hook later if their child can't repay; and/or (2) federal PLUS Loans, where parents with good credit histories can generally borrow the full remaining cost of their child's undergraduate education from Uncle Sam.

The ripple effect

The implications of student loan debt are ominous--both for students and the economy as a whole. Students who borrow too much are often forced to delay life events that traditionally have marked the transition into adulthood, such as living on their own, getting married, and having children. According to the U.S. Census Bureau, there has been a marked increase in the number of young adults between the ages of 25 and 34 living at home with their parents--19% of men and 10% of women in 2011 (up from 14% and 8%, respectively, in 2005).[4] This demographic group often finds themselves trapped: with a greater percentage of their salary going to student loan payments, many young adults are unable to amass a down payment for a home or even qualify for a mortgage.

And it's not just young people who are having problems managing their student loan debt. Borrowers who extended their student loan payments beyond the traditional 10-year repayment period, postponed their loans through repeated deferments, or took out more loans to attend graduate school may discover that their student loans are now competing with the need to save for their own children's college education. And parents who cosigned private student loans and/or took out federal PLUS Loans to help pay for their children's education may find themselves saddled with education debt just as they reach their retirement years.

There's evidence that major cracks are starting to appear. According to the Federal Reserve Bank of New York, as of 2012, 17% of the 37 million student loan borrowers with outstanding balances had loans at least 90 days past due--the official definition of "delinquent."[5] Unfortunately, student loan debt is the only type of consumer debt that generally can't be discharged in bankruptcy, and in a classic catch-22, defaulting on a student loan can ruin a borrower's credit--and chances of landing a job.

Tools to help

The federal government has made a big push in recent years to help families research college costs and borrowers repay student loans. For example, net price calculators, which give students an estimate of how much grant aid they'll likely be eligible for based on their individual financial and academic profiles, are now required on all college websites. The government also expanded its income-based repayment (IBR) program last year for federal student loans (called Pay As You Earn)--monthly payments are now limited to 10% of a borrower's discretionary income, and all debt is generally forgiven after 20 years of on-time payments. (Private student loans don't have an equivalent repayment option.)

Families are taking a much more active role, too. Increasingly, they are researching majors, job prospects, and salary ranges, as well as comparing out-of-pocket costs and job placement results at different schools to determine a college's return on investment (ROI). For example, parents might find that, with similar majors and job placement success but widely disparate costs, State U has a better ROI than Private U. At the end of the day, it's up to parents to make sure that their children--and they--don't borrow too much for college. Otherwise, they may find themselves living under a big, black cloud.

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What rate of return should I expect from stocks?

That depends on many factors, including your time frame and the types of stocks involved. Many retirement planning calculators project a portfolio's future value based on historical returns. However, past performance is no guarantee of future results, and you should take any such assumptions with a grain of salt.

You may have heard that stocks have historically averaged a 10% return. However, be careful about relying too much on that number. First, the figure on which that statement is based--9.8%--reflects the compounded annual total return of the S&P 500 between 1926 and 2012. Is your time frame likely to be that long? Second, equities' performance in recent years hasn't been as robust. The last time the S&P's compounded annual 10-year total return was 9.8% or more was 2004; from 1999 to 2008 it was negative for the first time in decades, and from 2003 to 2012, it was 7.1%.*

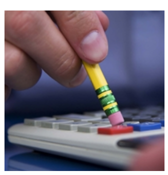
Third, that 7.1% was the index's nominal return; it doesn't take into account inflation or taxes. As of April, the annual inflation rate was a little over 1%, according to the Bureau of Labor Statistics. That would cut that 7.1% to just over 6%. And a 1% inflation rate is very low; over the last 20 years, it has averaged roughly 2.4% a year, which would mean an inflation-adjusted return under 5%. That's less than half the often-quoted 10% average, not including any taxes owed.

What would that mean to a hypothetical $100,000 portfolio? Even if you managed to achieve a 9.8% nominal return compounded annually for 10 years, adjusting it for 2.4% inflation would mean a projected balance of almost $255,000 would actually be worth roughly $200,000 before taxes. That's a pretty substantial gap.

Returns for stocks other than the large caps of the S&P 500 can be different. Still, when planning for income or long-term goals, focusing on real returns could help keep your expectations realistic.

*Calculations based on total returns compounded annually through December 2012 on the S&P 500 Index, which is an unmanaged market-cap weighted index composed of the common stocks of 500 leading companies in leading U.S. industries. It is not available for direct investment.

What return are you really earning on your money?



If you're like most people, you probably want to know what return you might expect before you invest. But to translate a given rate of return into actual income or growth potential, you'll need to understand the difference between nominal return and real return, and how that difference can affect your ability to achieve financial goals.

Let's say you have a certificate of deposit (CD) that's about to expire. The yield on the new five-year CD you're considering is 1.5%. It's not great, you think, but it's better than the 0.85% offered by a five-year Treasury note.*

But that 1.5% is the CD's nominal rate of return; it doesn't account for inflation or taxes. If you're taxed at the 28% federal income tax rate, roughly 0.42% of that 1.5% will be gobbled up by federal taxes on the interest. Okay, you say, that still leaves an interest rate of 1.08%; at least you're earning something.

However, you've also got to consider the purchasing power of the interest that the CD pays. Even though inflation is relatively low today, it can still affect your purchasing power, especially over time. Consumer prices have gone up by roughly 1% over the past year.** Adjust your 1.08% after-tax return for inflation, and suddenly you're barely breaking even on your investment.

What's left after the impact of inflation and taxes is called your real return, because that's what you're really earning in actual purchasing power. If the nominal return on an investment is low enough, the real return can actually be negative, depending on your tax bracket and the inflation rate over time. Though this hypothetical example doesn't represent the performance of any actual investment, it illustrates the importance of understanding what you're really earning.

In some cases, the security an investment offers may be important enough that you're essentially willing to pay someone to keep your money safe. For example, Treasury yields have sometimes been negative when people worried more about protecting their principal than about their real return. However, you should understand the cost of such a decision.

*Source: Department of the Treasury Resource Center (www.treasury.gov) as of April 2013.

**Source: Bureau of Labor Statistics, Consumer Price Index as of April 2013.

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