NAPFA Planning Perspectives

NAPFA Headquarters
3250 N. Arlington Heights Road
Suite 109
Arlington Heights, IL 60004
888-FEE-ONLY
847.483.5400

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NAPFA and NerdWallet

If you don't already work with a Fee-Only financial planner, you might wonder what sort of help one might be able to provide. You probably have a list of financial questions that you'd love for somebody to answer, but maybe you aren't sure whether it's worthwhile to enter into an arrangement with a financial professional—or even if they can answer the questions that you have.

One way to dip your toe into the world of financial planning is to go to NerdWallet.com and ask a question using the site's Ask an Advisor feature. Your question will then be available to the hundreds of advisors who work with the site, including many who are Fee-Only planners.

"We're happy to partner with NerdWallet," said Geof Brown, CEO of NAPFA, "a company that understands our and our members' belief in transparency and independent financial advice—in preparing consumers for their financial futures."

In this issue, you can read some of the questions that NAPFA members have received and see how they answered. Browsing the site will reveal thousands of questions on every financial topic imaginable and will demonstrate that much financial advice is specific to individual circumstances. Also in this issue, you can read about how to reduce healthcare expenses in an article written by some of the staff at NerdWallet.

"NAPFA's members have provided top-notch guidance to thousands of advice-seekers on our Ask an Advisor platform," said Cliff Goldstein, a financial advisor and member of the NerdWallet personal finance team, "and we look forward to working closely with the organization in the coming years to help consumers make smarter, more informed financial decisions."

In the first article this quarter, Bevin Callan, NAPFA's senior manager of membership services, shares some tips for finding a Fee-Only advisor, based on an inquiry she received. Because of the different ways that advisors are permitted to market their services, it can be confusing when trying to find a planner who will work in your best interests. By following Bevin's tips, you can be sure that the advisor you find is held to the high standards of an association that seeks the best interests of the consumer.

NAPFA Consumer Education Foundation
Promoting Consumer Financial Education

This year, NAPFA and Kiplinger's have offered the public several opportunities to have their financial questions answered by professional advisors in "Jump-Start Your Retirement Plan" online sessions. So far this year, three sessions have been held: Feb. 20, June 5, and Sept. 26. In each session, NAPFA members answered hundreds of questions from consumers. Some topics included saving for a down-payment on a home, when to start taking Social Security payments, how much money is necessary for retirement, and many more. Past and future sessions can also be viewed on the Kiplinger website.

The fourth and final session of the year will take place on Thursday, Dec. 11, from 9 a.m. to 5 p.m. EST. For more information, visit the NAPFA website.

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Finding a Fee-Only Advisor

By Bevin Callan, Senior Manager, Membership Services, NAPFA Staff

Here's a question that I recently received from a consumer who was struggling with her research while trying to locate a Fee-Only financial advisor whom she can trust:

I'm a consumer who recently started looking for a fee-only financial planner. I am interviewing several. I noticed that some of the largest RIA firms are not on your list, even though they claim to be a fee-only financial advising firm. In fact, the managing director whom I spoke with yesterday had never heard of NAPFA. Why is that? Is there a reason that these large firms claiming to be fee-only aren't on your list?

While I can't speak to other firm's knowledge of NAPFA or the process used by some sources to confirm that the firms they list are Fee-Only, I can confirm that NAPFA is the largest association of Fee-Only financial planners. We go beyond the self-proclaimed Fee-Only requirement of other financial planning organizations and vet our advisors to confirm that they are indeed Fee-Only. This vetting process takes place when they join and again at their annual renewal to guarantee that the members we promote to consumers are continuing to meet our strict standards.

Choosing the right financial advisor is one of the biggest decisions you'll make for your financial future. Be sure to use all the free resources available to you in your vetting process. If you're interested in researching Fee-Only financial planners, here are some tips.

1. Using the SEC's investment advisor search engine, you can look for firms and individual advisors to see the size of their firm, the amount of assets they manage, and their other business affiliations. You can also determine whether there have been any disciplinary actions against them, and you can review their business brochure, in which they are required to disclose their financial planning process and what they charge for their services.
2. NAPFA's website lists some free consumer resources that have been designed to help you identify what your requirements are and, ultimately, to select the Fee-Only advisor who will help you reach your retirement goals.
3. To find the closest Fee-Only advisor to you, use NAPFA's Find an Advisor search engine.
4. Finding qualified, independent financial advice is more difficult than it should be. There are many questions to ask before you even start speaking to your potential advisor: Where do I go? Where do I look? What do I ask? NAPFA has created the Pursuit of a Financial Advisor Field Guide to help you on your journey toward finding the right financial advisor for you.
5. Your life is ever-changing, and so are your financial needs. Take a look at NAPFA's free quarterly consumer newsletter Planning Perspectives. In it, we cover up-to-date information on a variety of financial topics that affect your life.
6. Every great transition in life is an opportunity for financial stress. The NAPFA Consumer Education Foundation (NCEF) was created by NAPFA to help educate consumers on the financial concerns that arise during these transitions. NCEF's Managing Life's Financial Journey project focuses on life's transitions rather than on academic financial topics, providing a tool that consumers can use to find just-in-time answers to real-life financial questions.

You can always contact us with any questions that you might have along the way. And remember, don't settle -- the first advisor you find isn't necessarily the best one for you.

Five Ways to Reduce Healthcare Expenses in Retirement

By Cliff Goldstein and Andrew Fitch www.nerdwallet.com

One of the biggest expenses during retirement is health care. You might think that Medicare will cover most or all of your medical costs, but this is not the case for many. In fact, Fidelity estimates that a couple who retired in 2013 will need more than $220,000 to cover out-of-pocket medical expenses during retirement—and this number doesn't take into consideration the costs of any nursing-home care.

Being educated about how you can manage health care costs is a valuable way to ensure that your wealth endures through retirement while leaving a legacy for your heirs. A Fee-Only financial advisor can help you to incorporate these strategies into your comprehensive financial plan.

Here are five practical ways to save money on health expenses in retirement.

1. Get a Medicare supplemental plan.
One way to protect against out-of-pocket health expenses and make health costs more predictable in retirement is to enroll in a fee-for-service Medicare supplement insurance plan. Also known as Medigap, this coverage plan can help pay for any copayments, coinsurance, and deductibles that Medicare doesn't cover.

Medicare can come with some very high deductibles and copays. For example, Medicare Part A, which covers hospital service, carries a deductible of $1,216 for each benefit period in 2014. With Medicare Part B, which covers physician and outpatient care expenses, most people pay a premium of $104.90 each month and a deductible of $147 per year, plus 20 percent in coinsurance for most medical services.

Medigap can save you a lot of money on these costs. In addition, some Medigap policies will pay for medical care when traveling outside of the U.S.—something that Medicare likely won't cover.

In order to get a Medigap policy, you must already have Medicare Part A and Part B. Also, there's a monthly premium for Medigap that varies by insurance company, the plan, and where you live. And a Medigap policy covers only one person (i.e., just you, not you and your spouse).

Medigap won't cover everything. For example, it generally won't cover vision or dental care, eyeglasses, hearing aids, or long-term care. In addition, Medigap plans sold after Jan. 1, 2006, don't include prescription drug coverage.

2. Enroll in Medicare Part D.
To get coverage that helps cove drug costs, retirees can join a Medicare prescription drug plan, better known as Medicare Part D. Most Part D plans charge a monthly fee in addition to a monthly premium, which varies by plan. Medicare drug plans also have a yearly deductible that varies between plans, but no drug plan can have a deductible of more than $310 in 2014.

Given the variety of insurance carriers and benefit structures, it's important to choose a plan based on your prescription history every year during the open enrollment period. Medicare provides a free online Plan Finder Tool that can help. There are professional patient advocates who can help by estimating your anticipated medical costs, interpreting medical bills, identifying inappropriate claims denials, and negotiating for reduced payment. Anyone can access patient advocates on NerdWallet's Ask an Advisor platform, under the Healthcare focus area.

Most Part D plans will also have a coverage gap—known as the "donut hole"—which is a coverage limit beginning after you've spent

Con't on page 3

Retirement

Con't from page 4

a certain amount on covered drugs. However, savings are available. Companies that make brand-name prescription drugs are required to participate in the Medicare's Coverage Gap Discount Program, which offers discounts on brand-name drugs specifically for people who are in the coverage gap.

For 2014, the coverage gap begins after you spend a total of $2,850 on covered drugs, which includes the deductible. Once you reach the coverage gap in 2014, you'll end up paying 47.5 percent of the plan's cost for covered brand-name prescriptions.

The entire cost of the drug, including the discount the drug company pays, is counted toward the amount needed to get out of the coverage gap. Catastrophic coverage kicks in when you reach the out-of-pocket threshold (which, for 2014, is $4,550). At this point, you'd have to pay only a small coinsurance payment or copay for the rest of the year.

The donut hole will shrink substantially over the next several years—by 2020, you'll only have to pay 25 percent for brand-name and generic drugs during the coverage gap period.

3. Save big money on prescriptions
You might want to consider switching from brand-name drugs to generics, which can work just as well and might result in big savings. Another way to save on prescriptions is by ordering in bulk. For example, a drug might be available in a 90-day supply, as opposed to a monthly supply. Ask your pharmacy if they offer a discount on bulk orders of your particular drug.

Choosing the right pharmacy to fill your prescriptions also matters. According to a 2013 study by Consumer Reports, Costco's pharmacy had the lowest retail prices overall for drugs, while CVS had the highest.

4. Live an active, healthy lifestyle.
By being physically active, you can increase your health—simply talking a 30-minute walk each day can increase heart health, and improving your diet can help to prevent diabetes. But exercising also gives your wallet a boost: According to the American Heart Association, physically active people save $500 a year in health care costs, primarily in the form of reduced insurance premiums and out-of-pocket costs.
Still smoking? Quitting is great not just for your health, but also for your wallet. A pack a day at $10 per pack costs $3,650 per year. Over 10 years, that's $36,500, before accounting for inflation. You can imagine the significant financial benefit if you saved those funds instead and invested them in a diversified portfolio.

5. Plan early for end-of-life care.
Average out-of-pocket expenditures in the five years prior to a person's death are $38,688, according to a recent study by researchers at the Mount Sinai School of Medicine. By planning ahead, you can avoid some big expenses.

The first thing you can do to plan for end-of-life care is create an advanced directive (i.e., a living will). This legal document gives a set of written instructions that specify the actions to take if you are no longer able to make decisions due to illness or incapacity.

Next, consider buying long-term care insurance, which usually covers home care, assisted living, hospice care, nursing homes, and more. This helps cover out-of-pocket expenses, which can drain savings and retirement funds.

There is also a tax benefit to long-term care insurance, with premiums considered a medical expense by the IRS. Carefully shop and compare several policies before choosing a plan. For questions about tax treatment of medical expenses, connect with Enrolled Agents or CPAs on NerdWallet's Ask an Advisor platform.

www.NAPFA.org

Ask An Advisor

Ask An Advisor Anything

by Chris Hale, Managing Editor NAPFA Advisor

On the NerdWallet website, anyone can ask any question about finance, and a professional financial advisor—often more than one—will provide an answer. Advisors have answered thousands of questions since NerdWallet began offering its Ask an Advisor feature. Of the hundreds of advisors who participate, NAPFA members account for roughly one in five. Here are some of the most viewed answers from just a few of the many NAPFA advisors who answer questions for Ask an Advisor.

Q: I will be 59-and-a-half this year with an outstanding 401(k) balance. Can I withdraw without penalty?

Joseph Alfonso, CFP®, ChFC, EA, Lake Oswego, OR

A: The IRS rules say you can withdraw without penalty given your age. However, if you are still working for the employer, you need to check with the 401(k) plan administrator to see if they allow "in service" withdrawals. Not all do, in which case you would need to wait until after you leave [your current employer].

Q: If I rollover my old 401(K) to my new work, could I still borrow 50 percent of my old 401(k) money without penalties to purchase a home for the first time?

Gary Alt, AIF®,CFP®, Pleasanton, CA

A: Some 401(k) plans allow you to borrow 50 percent of your vested account balance. However, your new plan may or may not allow you to even take a loan. First, contact a company representative, usually in the HR department, to see if the plan allows loans. Second, even if it allows loans, you'll want to check to be sure it allows loans on the amount you rolled over from your previous 401(k) plan. Aside from the loan, it would be good to find out if your money is locked in that new plan, or if you have the flexibility to roll over the money to an IRA to save costs.

Since the maximum 401(k) loan by law is $50,000, the most you might want to rollover into the new company plan is $100,000. The rest of your old 401(k) could be rolled over into an IRA where the fees will be lower than the 401(k), saving you money.

Since 401(k) loans are required to be paid back through payroll deductions, your old employer's plan won't allow you to borrow after you've left the company.

For those who are self-employed, a solo 401(k) is another option to rollover and borrow from.

Bonnie Sewell, AIF®, CDFA, CFP®, Leesburg, VA

A: What I can add to Gary's answer is what you may already have considered. Try not to use your 401(k) to fund a first (or any) home purchase. You have indicated a few layers of financial decisions here and, assuming we look at the early one—whether you should roll your old 401(k) into your new 401(k)—it's the rare plan I've reviewed where this is the best decision. From high costs to poor investing choices (and constantly changing investment choices), most of the time it makes more sense to roll your 401(k) into an IRA.

So I think my recommendation is to step back from the "how do I get into a home" decision and run some scenarios on the complete cost of doing that different ways, including taking retirement money.

Hopefully, you've looked at and evaluated your state's first home buyer programs. Good luck to you.

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