Financial Services

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Tapping Retirement Savings for College Expenses

Should you tap your retirement funds to help pay your child's college expenses? Well, you can. But is it a good idea?

The double problem with double dipping

Financial professionals generally recommend using your retirement funds for one purpose only--retirement. Why? Because frequent dips into your retirement funds will reduce your ultimate nest egg. Plus, there will be less money available to take advantage of the twin benefits of tax deferral and any compounding earnings. Depleting your retirement funds too soon can create a dire situation. Remember, there is financial aid available to help pay for college, but none for retirement.

But, if you must...

If you absolutely must dip into your IRA to pay college costs, there is a bit of good news. Generally, if you withdraw money from a Roth or traditional IRA before age 59½, you'll owe a 10% premature distribution penalty tax on the earnings portion of the withdrawal. However, there is an exception to this penalty if the money is used to pay the qualified education expenses for you, your spouse, your children, or your grandchildren. That's the good news.

The bad news is that you'll owe income tax on the earnings portion of your IRA withdrawal. But fortunately, for Roth IRAs, there is a tax ordering for distributions--contributions come out before earnings. This is important because contributions to a Roth IRA are made with after-tax dollars and can be withdrawn income tax free at any time (even before age 59½) and for any purpose. You'll only owe income tax if you dip into the earnings. (Once you reach age 59½ and have held your Roth IRA for five years, even earnings are income tax free.)

What about your 401(k)?

Generally, tapping your 401(k) is even worse than tapping your IRA, because 401(k) plans don't offer a college exception to the 10% penalty tax. Plus, you'll generally pay income tax on the entire amount of your withdrawal. So all other things being equal, withdrawing from your IRA is the better choice.

However, you might be able to borrow from your 401(k) account--something you can't do with an IRA. Assuming your plan allows plan loans, loans are not taxed or penalized, as long as you repay the funds within a specified period of time. But make sure to compare the cost of borrowing from your 401(k) account with other financing options. Although interest rates on plan loans may be favorable, the amount you can borrow is limited, and you generally must repay the loan within five years (some plans require that you repay the loan immediately if you lose your job).

The financial aid factor

Assets in retirement accounts aren't counted at all by the federal government's financial aid formula. So they don't affect your child's eligibility for federal financial aid. However, distributions are counted; specifically, all withdrawals from retirement accounts--principal and earnings--are counted as parental income and assessed at rates as high as 50%.

Alternatives

Before you dip into your IRA or 401(k) account to pay college expenses, make sure to investigate the cost of private borrowing, as well as any federal, state, or college-based financial aid loan programs that might be available. For example, under the federal PLUS loan program, you can borrow up to the full cost of your child's education (minus any financial aid received) if you have a good credit history. Similarly, your state's higher education authority might have a financing arm that offers favorable loan terms for college.

Have You Received Your Stimulus Rebate Payment Yet?

In early May, the Treasury Department began the process of issuing rebate payments to over 130 million individuals--the result of provisions included in the Economic Stimulus Act of 2008, which was signed into law in February.

Who qualifies?

If you have a valid Social Security number, filed a 2007 federal income tax return, and had $3,000 or more of income, you probably qualify for a stimulus rebate. The rebate can be up to $600 per individual (up to $1,200 in the case of a married couple filing a joint federal income tax return). You may also be entitled to an additional $300 for each qualifying child you have under age 17.

If your adjusted gross income (AGI) exceeds $75,000 ($150,000 if you file a joint return with your spouse), the amount of your rebate payment will be reduced, or eliminated altogether. If you're not sure how much you're entitled to, or if you've received a rebate that was less than you thought it should be, check out the Economic Stimulus Payment Calculator on the IRS website, www.irs.gov.

When will I get my rebate?

If you're entitled to a rebate, and filed your 2007 federal income tax return on time, the IRS will take it from there. If you had your 2007 federal income tax refund directly deposited into a bank account, your rebate payment will be directly deposited as well. (If you weren't due a refund, but filled out the direct deposit information anyway, your rebate payment will be directly deposited.) Otherwise, a paper check will be mailed to you.

The IRS has released a schedule for rebate payments for returns that were filed and processed by April 15, 2008. When you get your payment depends upon the last two digits of your Social Security number (on a joint return, it's the Social Security number of the primary filer--the individual who is listed first--that counts). Direct deposit rebate payments will be issued before paper checks.

Schedules for Stimulus Rebate Payments

Direct Deposit	
Last two SSN digits	**Payment scheduled**
00 - 20	May 2
21 - 75	May 9
76 - 99	May 16

Paper Check	
Last two SSN digits	**Payment scheduled**
00 - 09	May 16
10 - 18	May 23
19 - 25	May 30
26 - 38	June 6
39 - 51	June 13
52 - 63	June 20
64 - 75	June 27
76 - 87	July 4
88 - 99	July 11

What if I haven't yet filed my 2007 federal income tax return?

The announced schedules apply only to individuals with tax returns filed and processed by April 15, 2008. This is true even if you filed for an extension. In any case, to get a stimulus rebate payment this year, you'll need to file your return no later than October 15. After that date, the IRS will not commit to issuing rebate payments by the end of the year, and the Treasury Department has announced that no payments will be issued after December 31, 2008. So, if you don't file by October 15, you'll have to wait to claim the stimulus credit on your 2008 federal income tax return.

What if I'm not required to file a federal income tax return?

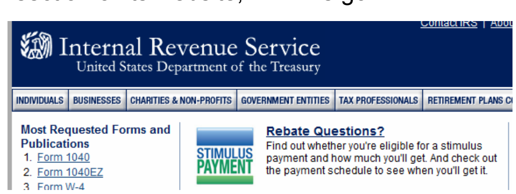
Many individuals who are not actually required to file a 2007 federal income tax return should do so anyway to claim their rebate payment. If you have at least $3,000 of qualifying income (qualifying income includes wages, net self-employment income, Social Security benefits, Tier 1 Railroad Retirement benefits, VA disability and survivor benefits, and combat pay), you may be eligible for a rebate payment of $300 ($600 for married individuals filing joint returns) even though you would owe no taxes and aren't required to file a federal income tax return. Again, if you're not sure, check the IRS calculator.

How will the rebate affect my 2008 taxes?

Your stimulus rebate payment is actually the prepayment of a 2008 tax credit. When you file your 2008 federal income tax return in 2009, you will reconcile the amount of the credit that you're entitled to--using 2008 figures--with any rebate payment that you've already received. If it turns out that you're actually entitled to a larger credit based on your 2008 tax return, you'll get the difference as a tax credit on your 2008 return. But, if it turns out that you should have received less than the amount that you received as a rebate, you don't have to pay back the difference.

Where can I get more information?

The IRS has consolidated all announcements and has posted an incredible amount of helpful information on a new "stimulus payment" section of its website, www.irs.gov.



Of course, a tax or financial professional can also help you with any questions you may have.

Can I Get Life Insurance After a Serious Illness?

Many Americans lack sufficient life insurance to provide financial security for their families. If you're in good health, you can probably get the life insurance you want at a relatively affordable cost. But what if you have an existing medical or health-related condition? What if you've had a heart attack or cancer? Can you still get life insurance? The answer in most instances is "yes," but it may be at a higher cost.

But I've been turned down before

The fact that you've been turned down before doesn't mean you can't get life insurance now. Life insurance for people with prior health conditions has become more available and affordable because people are living longer, resulting in more liberal insurer underwriting. Life insurance underwriting is the process used by the company's underwriter to decide whether to insure you and at what rate or cost, based on your medical history and sometimes other factors as well. In general, the longer your life expectancy as determined by the underwriter, the more likely you will qualify for life insurance, and the more affordable the cost.

What kind of information will insurers need?

Insurance companies generally request medical information from your primary care physician and any other doctors or hospitals that treated you for your illness. The insurer will also want to know the type and severity of your illness, the length of time since you were treated for the illness, and your prognosis.

The company may ask you to submit to an independent medical examination. Finally, the life insurance application will solicit information about the health history of your family, including your parents and siblings.

Will it cost more?

Possibly. Insurance companies commonly view your health history differently than your physician does. For instance, if you've had a heart attack, but now are active and leading a normal life, your doctor may say you're doing fine. But an insurance company's underwriter will review volumes of actuarial statistics and may conclude that, given your heart attack, your life expectancy is shorter than that of a person of the same age and gender who hasn't had a heart attack. Because it expects to have to pay the death benefit sooner, the company expects to have less time to collect premiums. The insurer then assesses a higher premium cost to you to compensate for the anticipated shorter premium-paying period.

Some helpful tips:

Discuss your situation with your doctor. You will then have some idea of the medical opinion your physician will give to the insurer concerning your prognosis.

Shop for life insurance. Different insurance companies often take significantly different views of various illnesses. While one company may deny coverage entirely or charge a much higher premium due to a specific ailment, another insurer may offer coverage for the same illness at a lower cost.

Get help. Some companies offer insurance to higher-risk applicants because they share the cost with another insurance company. Companies that work with other companies (called "reinsurance") are more likely to insure you if you have health issues. Consider using special-risk advocates or impaired-risk specialists who help find impaired-risk life insurance coverage.

Start with your employer. Many offer life insurance to all employees, regardless of their health histories. Some alumni associations and professional organizations also offer life insurance on a group basis without requiring a physical.

Show the insurer you're doing better. Demonstrate that you're taking steps to control or improve your health. Proof that you exercise and have a healthy diet increase the chances of living a longer life, making you a better insurance risk.

Weighing the risk

Insurance companies use several categories of risk, including preferred risk, standard risk, and substandard risk. Depending on the insurer, some use subcategories within each risk class. Based on your health history, you'll likely fall within a certain risk class which will determine how much life insurance you can get and the cost.

A special- or impaired-risk advocate is a specialist who works with the insurance underwriters to try to get you life insurance at an affordable price in spite of your medical history.

Ask the Experts

Can I enroll in Medicare at age 65, even if I'm not yet eligible for full Social Security benefits?

Yes. Although full retirement age for Social Security is increasing, 65 remains the age at which most Americans become eligible for Medicare. You don't have to be retired to enroll in Medicare, so you should still consider signing up for Medicare Part A (hospital insurance) and Medicare Part B (medical insurance) at age 65, even if you plan on working longer. Make sure to contact the Social Security Administration approximately 3 months before your 65th birthday to discuss your options, because enrollment rules are relatively complicated, and there may be consequences if you wait until later to sign up.

For example, when you become eligible for Medicare Part A at age 65, you have a certain period, called your initial enrollment period, in which to sign up for Medicare Part B. Most people won't pay a premium for Part A, but you'll always pay a premium for Part B. Your initial enrollment period is a seven-month period that begins three months before your 65th birthday, includes the month you turn age 65, and ends three months after your 65th birthday. If you don't sign up for Part B during your initial enrollment period, you can't sign up until the next general enrollment period that runs from January 1 through March 31 of each year, and you'll generally pay a higher premium for Part B coverage. Your monthly premium will increase by 10% for each 12-month period you were eligible for, but did not enroll in, Medicare Part B, unless you were covered by group health insurance through your employer or your spouse's employer. In that case, you may qualify for a special enrollment period, and you may not have to pay a premium penalty.

For more information about enrollment requirements and other factors you should consider when deciding when to sign up for Medicare, contact the Social Security Administration at (800) 772-1213 or visit the Medicare website at www.medicare.gov.

What are Medicare Advantage plans?

Most people who are covered by Medicare are enrolled in original Medicare. Original Medicare includes Part A, which helps cover inpatient hospital care, skilled nursing care, hospice care, and some home health care, and Part B, which covers medically necessary services, including doctor's visits, outpatient care, and some preventative services.

As an alternative to original Medicare, you may opt to enroll in a Medicare Advantage (MA) plan when you first become eligible for Medicare (and have already enrolled in Parts A and B), or during certain enrollment periods. MA plans are also called Part C plans, and although they are part of the Medicare program, they are managed by private companies. MA plans provide all the benefits and cover all of the services that original Medicare provides. However, they may also offer benefits and services that are not covered under original Medicare (but which may be covered under an optional supplemental policy), including prescription drug coverage, vision care, dental services, and hearing aids, although coverages vary.

But while original Medicare allows you to visit any health-care provider or facility that accepts Medicare, most MA plans are managed care plans--either HMOs or PPOs--that have provider networks. This means that you'll usually need to see a health-care provider who belongs to the plan or receive health-care services through a facility included in the network. This may limit your choice of health-care providers. Other MA plan types may be available, including private fee-for-service plans, but these are less common.

You can generally join an MA plan if you live in the service area covered by the plan, and you have Medicare Parts A and B. But before choosing an MA plan, make sure it suits your needs. Review the benefits provided and coverage limits, and the provider network (if any). You should also make sure you understand what out-of-pocket costs may apply. These may include premiums, deductibles, and copayments that are different than those in original Medicare or a supplemental policy.

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