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FINANCIAL NEWS DIGEST
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Money line

Social Security Mail Bag

Q: *I reach full retirement age this month. My wife will be 63 in August and continues to work. Can my wife receive spousal benefits once I reach full retirement age, even though she will continue to work, or are spousal benefits unavailable or reduced if the spouse continues to work?*

A: If your wife's full Social Security benefit is less than 50 percent of your full benefit, she may be eligible for spousal benefits on your record. Since she is still working, there is a limit on how much she can earn and collect all benefits payable. In 2010, that limit is $14,160. For every $2 over the limit, $1 will be withheld from benefits.

Q: *My wife has not worked fulltime most of her life. Will she qualify for Medicare at age 65, and does she get half of my Social Security? Her annual Social Security statement says that she needs five more credits in order not to have to buy Medicare.*

A: At age 65, your wife becomes eligible for Medicare based on your employment record. She would be eligible to receive 50 percent of your Social Security benefit at her own full retirement age.

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Financial Front

NEWS BRIEFS AND HIGHLIGHTS FROM THE FINANCIAL WORLD

Did you know that small-business credit cards get no benefits from new consumer-protection laws? On consumer cards, banks are limited in charging penalty fees and changing interest rates. These protections are not required for small businesses. If you run a small business, ask your card issuer if it is increasing protections voluntarily and, if so, what those protections are.

Severance packages are negotiable. Don't simply sign whatever severance agreement you are offered. Talk to your boss, the head of your division, or the company CEO, not someone in the human resources department. Ask that health benefits be extended while you are being paid severance, or longer. If your stock options will soon vest or bonuses will be paid, ask for your share immediately.

A 529 plan often may be used for graduate school as well as undergraduate education. Most graduate schools, including certain online graduate programs, are considered eligible institutions. Investment earnings in the plan are tax-free to the extent that the money is used for tuition, fees, books, supplies and equipment. Room and board count only for students enrolled in a degree program who attend at least half-time. Go to the US Department of Education's Web site, www.fafsa.ed.gov, and use its school-code look-up tool to find out if a specific graduate school is considered eligible for payments through a 529 plan. Also, check with your plan to confirm that it covers graduate education.

Warning for widows and widowers: Claim a Social Security survivor benefit carefully to maximize the amount you receive. A widow or widower is entitled to a benefit equal to 100% of the deceased spouse's benefit if the survivor waits until full retirement age. Claims before retirement age are reduced. But in some cases, earlier claims result in more total benefits. *Example:* For some people, it is better to start collecting survivor's benefits at age 60 or 62—and then, at age 66 or later, switch to benefits based on your own full earnings record if those benefits are worth more than the survivor benefit.

Say "no" to high-penalty overdraft protection. Under new federal rules that took effect this summer, if you try to make a debit card purchase or ATM withdrawal for more than is in your account, the bank will decline the transaction unless you have agreed to overdraft protection. That protection could trigger penalties of $30 or more. *Instead:* Sign up for a version of overdraft protection that has smaller penalties because it is linked to your savings account or to a line of credit.

Wit & Wisdom

"He who gathers money little by little makes it grow."

— Solomon

Will Health Care Reform Unleash 50-Plus Entrepreneurs?

By Mark Miller

Could health reform unleash the inner entrepreneur in millions of older workers?

There's plenty of evidence that baby boomers in their 50s and early 60s want more independence and flexibility in their work. Many are ready to take a risk via second careers and entrepreneurial ventures—but have been hanging on to jobs solely for health insurance benefits. They won't qualify for Medicare until age 65, and it's difficult to get affordable, quality coverage outside of employer group plans.

And while health insurance issues affect Americans of all ages, the problems are acute for people over 50, who tend to have more pre-existing conditions than younger people do, and use more health care.

The new health care reform law aims to help—over time—by creating private insurance exchanges that are intended to provide access to affordable, quality coverage for people without access to group plans. The exchanges will begin operating in 2014; in the meantime, many states are creating high-risk insurance pools intended to provide bridge coverage until the exchanges are up and running.

I've been harboring a hunch for some time: If the exchanges work as designed, it could give older workers the assurance they need to head for the exits of Corporate America and into the land of self-employed entrepreneurship. Older Americans already have the highest rate of new business formation in the country, according to the Kauffman Index of Entrepreneurial Activity; many of those new businesses are individuals hanging out a shingle to work on their own.

Older workers burned out on careers they've been hacking away at for 30 years or more will gain the freedom to strike out on their own.

That's why a newly published research brief investigating the relationship between health insurance and older workers locked into their jobs really caught my eye. The brief, from the Center for Retirement Research at Boston College, looks at whether universal health coverage will spur greater employment mobility by examining the impact of an actual expansion of coverage implemented by the U.S. Department of Veterans Affairs in the 1990s.

The VA reforms provided a dramatic expansion of coverage. "It changed from a system that was mainly an inpatient system with catastrophic coverage to look like real health insurance," says Joanna Lahey, a co-author of the report and an assistant professor of public policy at Texas A&M University. "Veterans could get things like flu shots, and the coverage was opened up to all veterans, not just those below certain thresholds. It even offered a prescription drug benefit."

The report concludes that more educated workers did, indeed, take advantage of the expanded health coverage to move to self-employment--the specific increase was 8.4 percent compared with the period before the VA reforms were implemented.

Lahey notes that VA benefits are provided at no charge, but she thinks national health reform will lead to similar results. "Surveys of boomers say they want part-time work options with autonomy. But prior to health care reform, there was no way for most of them to get insurance, even in the private market. So if reform does provide a good option for affordable coverage, we're going to see a decline in job-lock."

This means that older workers burned out on careers they've been hacking away at for 30 years or more will gain the freedom to strike out on their own. Some will continue to serve the industries where they've worked, while others will launch into entirely new encore careers.

Dr. David DeLong, an expert in organizational behavior, thinks the big challenge with health reform will be educating older workers on the changes that are coming. "I find many are oblivious to the health insurance challenges until they actually retire."

DeLong is the author of "Lost Knowledge: Confronting the Threat of an Aging Workforce" (Oxford University Press, 2004). He has studied the challenges aging boomers face in the job market, and has interviewed hundreds of workers and employers.

"But if you can show older workers that they can get quality health care as a self-employed person, there will be a percentage that say, 'You know what? I'm 55 years old--I'm out of here.' If the picture is clear and they see that they have options, it will be a huge trend."

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Mortgage Planning

Shorter-Term Mortgages Make Sense For Some

By Kathy Kristof

Should you shorten the term of your mortgage?

Today's low rates have millions of homeowners rushing to refinance. However, a large number of mortgage owners in the U.S. are switching from the old industry standard of 30-year fixed-rate loans to those that must be paid off in 15 or 20 years, said Jeff Lazerson, president of the online brokerage Mortgage Grader.

Lazerson estimates that between 40 percent and 50 percent of his customers have been choosing shorter-term loans in recent months.

The shorter-term loans can save a half-percentage point in interest charges. And repaying sooner means you pay less interest over time.

The downside? You obligate yourself to a higher monthly payment. And even if you can afford that, there may be better ways to invest your cash.

"The long-term benefits of a shorter-term mortgage are real," said Keith Gumbinger, vice president of the consumer mortgage website HSH.com. "Is it the best use of your cash? That's going to depend."

Let's take a look at the options, using two hypothetical consumers — Suzie Secure and John Chance — who each need a $300,000 loan.

In today's market, they could secure 30-year fixed-rate mortgages at about 4.5 percent or 15-year loans at about 4 percent.

Suzie Secure chooses the lower-rate 15-year mortgage, which comes with a monthly payment of $2,219.

John Chance secures the 30-year loan, paying $1,520 a month — nearly $700 less than Secure.

Secure pays off her loan after 180 monthly payments, for a total cost of $399,420. Chance pays for 360 months, which brings his total cost to $547,223 — $147,792 more than Secure.

So is Secure better off? That depends on what Chance does with his monthly savings. If he invests that money regularly and is able to earn more than 4.5 percent in interest, he'd be comparatively better off.

Let's say, for example, that Chance invested in a diversified portfolio in the stock market, which has earned an average of about 9.6 percent over the 83-year period tracked by Ibbotson Associates, a market research firm headquartered in Chicago.

> ***"The long-term benefits of a shorter-term mortgage are real."***

Assuming he got that average return, Chance would end up with a nest egg worth $279,305 at the end of 15 years, but he'd still owe $198,701 on his mortgage. If he wanted to be debt-free like Secure, he could take that savings and pay off his loan, and still have more than $80,000 left in his investment portfolio.

Of course stock returns are anything but guaranteed, as the last "lost decade" so vividly illustrates.

What about taxes? Chance will pay less federal income tax over the life of his loan because he can write off mortgage interest — and he's paying more of it than Secure — but he'd owe tax on his investments when they are sold. For purposes of this example, we've assumed that this combination makes the tax issue a wash.

The catch is that stock market returns are not guaranteed. So where Chance might end up with a windfall, he also might end up with less. In today's market, there are no guaranteed investments that earn more than 4.5 percent.

That said, there have only been a handful of 10-year periods when average stock market returns have been negative — two of them during the Great Depression and the rest during this last decade.

Investors have a tendency to believe that whatever happened most recently is most likely to happen in the future, but Ibbotson data refute that notion. If you look at decade-by-decade returns, bad decades were often followed by blockbuster decades; good decades — such as the 1980s and 1990s — were followed by this miserable decade, which was the worst in recorded history.

But, Gumbinger said, there's another risk. Namely, Chance might not be disciplined enough to invest his savings. If he's not, he ends up paying more with the longer-term loan and has nothing but depreciating consumer products to show for it.

"Too many of us, when we have an extra $100 bucks, say 'woo-hoo' and the next thing you know it's gone," Gumbinger said. "You've got to look at these questions in the context of your life when you decide the smartest thing to do."

[Note: Past performance is not an indicator of future performance.]

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On The Money

"I think the seller will accept your offer, but the Homeowners Association will never approve that shirt."

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Retirement Strategies

Avoid IRA Tax Pitfalls

By Humberto Cruz

Two readers ask about protecting their nest eggs from the taxman — you can do it sometimes, but not always:

Q: *I took money out of my traditional IRA for several years and paid the taxes on the withdrawals. Then I stopped withdrawing on a regular basis. Do I still have to start withdrawing again when I turn 70-and-a-half? I think of this money as kind of insurance for my family.*

A: It makes no difference whether you made earlier withdrawals or not. Once you turn 70-and-a-half, you must by law start taking minimum annual distributions from your traditional IRA. (In response to the financial crisis and plunging IRA values, Congress waived traditional IRA distributions for 2009 only, but they are back in force for 2010.)

If your main goal is to preserve the IRA for your heirs, you may consider converting your traditional IRA to a Roth IRA, paying taxes on the conversion but in return avoiding all future mandatory withdrawals. This is a complex topic for which you may want to seek personalized professional advice.

Q: *Down the road, maybe when I turn 65, could I convert my six-figure traditional IRA to an immediate lifetime income annuity without taking a big hit on taxes? I'm not sure how this would work.*

A: If you cash in your traditional IRA and then buy a lifetime income annuity with the proceeds, you would — ouch! — be liable for all taxes due on the entire IRA balance.

Fortunately, you don't have to do that.

You can instead transfer all or part of your traditional IRA into a new IRA that is in the form of a lifetime annuity that pays you a monthly income for life. This, by the way, is what I have done with part of my IRA money.

Insurance companies that issue lifetime income annuities can help with the paperwork so the annuity is properly set up as an IRA. The transfer of the IRA money would not incur any taxes. You would owe taxes only on the income payments you receive from the annuity, which would be considered IRA withdrawals.

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