FEATURE

USAFA instructors offer advice:

$tart investing now, know your benefits

By Lt. Col. Ed Memi
437 AW Public Affairs

Eighty Charleston AFB families have a better idea on how to invest, save money and preserve their estates because of a visit from the U.S. Air Force Academy's Personal Estate Planning Team April 5.

The two-person PEP team, sponsored by the Family Support Center, conducted a Benefits and Estate Planning session and a separate session for those interested in investing their money. In providing their advice to Team Charleston members, they said the information provided represented their opinions, but has historically been proven true.

"Our primary goal is to help people to start to plan their estates and also their financial plan," said Maj. Kevin Fleming, an assistant professor in the department of law at the USAFA and a lawyer.

The purpose of the seminars is to help people to assess and provide for the security of family members in the event of death or disability.

Fleming said the team wanted people to understand what benefits are available when the active duty member dies prematurely.

"You then need to assess what you'll get and whether you will need more," said Fleming.

"I liked the class a lot and it was at the right level for me. I haven't been investing yet, but have been thinking about it lately," said Tech. Sgt. Tony Trodglen, 437th Aircraft Generation Squadron. "I now know the differences between Individual Retirement Accounts."

Tom Warden, 437th Aerial Port Squadron, had similar compliments about the course. "It was motivating and educational at the same time. The seminar gave me some good ways to invest. I am starting to invest now and I wanted to know everything I could before jumping into it."

Survivors benfits

The instructors gave examples of how much income surviving family members could receive through Dependency Indemnity Compensation, VA Survivor and Dependent Education Assistance program, Survivor's Social Security coverage and Survivor Benefits Plans.

DIC payments are tax-free payments to survivors for their lifetime (until remarriage) and for their children until they reach 18 or 23 if still attending school.

There is no built in cost of living adjustment to this payment. However, Congress does periodically increase those amounts, Fleming said. "The minute you come on active duty, you are deemed fully insured under social security system, should you die. Typically, it takes people ten years of paying into the social security system to become fully insured."

If on active duty and past the 20-year point, you are automatically enrolled in the SBP at no cost.

"If you were to die on active duty, your spouse would receive 55 percent of what your retired pay would have been the day you died. At age 62, that payment would drop to 35 percent due in part because of social security death benefit," Fleming said.

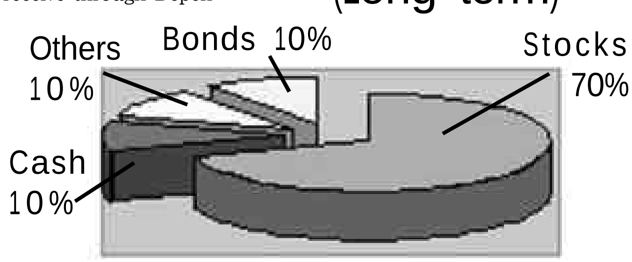
The SBP is also available upon retirement as optional insurance that guarantees a portion of your pay to a surviving spouse.

"If you want a going-in position, then what you need to do is sit down with your spouse and if you can logically, rationally and economically satisfy yourself that you have other assets to protect your surviving spouse upon your death, then you don't need SBP," Fleming said.

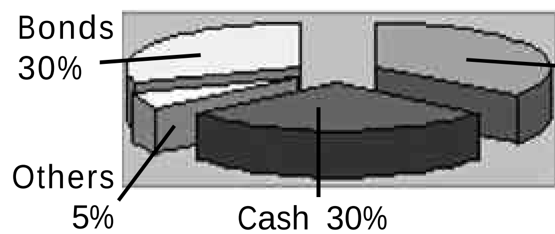
Capt. Steve Carney, an instructor in the management department at the USAFA, provided tips for people to make up for the income drop when an airman dies. Insurance is one option.

"There are basically only two types of insurance programs: whole life and term insurance," Carney said. "Life insurance is about protecting your assets and your spouse's income, lifestyle, house, etc. Life insurance is not about making your kids rich."

Life Cycle Investing (Long term)



Life Cycle Investing (Short term)



graphics by Staff Sgt. Pamela Smith

Investing

Financial planning is not a one-time prospect, but requires a lifestyle change and a disciplined approach to investing.

"It's all about balancing what you need versus what you want," Carney said. "It is never too late to start investing. A simple investment of $100 per month at 12 percent interest, which is a historical return rate for the stock market, over 35 years is up to $643,096. The average rate of inflation is about 3.5 percent. Assuming a 21-year-old starts investing $100 for nine years then stops, they will accumulate $1.2 million by age 65."

When choosing between investing in bonds, stocks, cash or other investments, let your own situation be your guide.

"Everybody's situation is different," Carney said.

The more return you want, the more risk you will assume.

"Over time, stocks are less risky. Based on historical study, if you take a bundle of stocks over 25 years, there is no downside to it…they have grown over that time period. You get more bang for your buck," said Carney.

In selecting a mutual fund, Carney suggests people avoid chasing the hot fund.

"The funds that did the best last year, the technology funds, are not doing as well this year," Carney said. "I do like to look at performance over time. Do the mutual funds match or exceed the standard indexes of stocks?"

Some interesting facts about indexing: Two-thirds of all money managers in the past 25 years have failed to beat the S&P 500. In 1998, only ten percent beat the Standard and Poor 500. So when deciding which fund to select, remember that two thirds are not beating the unmanaged S&P 500," Carney said.

Fleming said, "If you want to do this investing, then you are going to have to educate yourself to some degree. The best thing is for you to be comfortable and understand what you are doing."

IRA vs. Roth IRA

The major difference between the traditional Individual Retirement Account and Roth IRA, is that the traditional IRA defers tax, while the Roth earnings are tax-free.

"Now you can put up to $4,000 into an IRA account for you and your spouse. The traditional IRA allows you to deduct that money if you are under the income limits and save roughly $600 in taxes (if in the 15 percent tax bracket). When you pull that money out, that is when Uncle Sam is going to tax you for that money," Carney said. "In the Roth IRA, we do not give people that tax deduction up front, but protect their money from taxes when they go to take it out of that account."

When discussing the protection of assets, among some of the considerations people should take into account is the possible need for nursing care as they age and what it could do financially to them.

At 65, one in four will spend one or more years in a nursing home. Forty-three percent will enter a nursing home at an average cost of $40,000, Carney said.

Fleming said people should avoid getting the insurance minimums and recommended that airmen get the maximum amount of liability coverage on their home and car.

Fleming concluded the presentation by talking about methods to protect estates by using a will, various trusts and a durable powers of attorney in the event you become disabled.

"A will basically decides on how your property will be distributed upon your death," he said. "If you don't have a will, most states don't give all your assets to your spouse."