Financial focus

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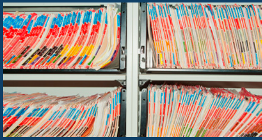
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Say Good Luck and Goodbye, but Don't Forget the Important Things…

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HIPAA Authorization
It's been 18 long, mostly wonderful (?) years but it is now time to send them off to college! You may be thrilled, or weepy, or both. But don't forget they will still need you, possibly at a very critical time. If your child is over the age of 18, privacy laws in the US will deny you, the parent, access to your now-adult child's medical records without their written permission.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) established national standards to protect individuals' medical records and other personal health information and applies to most health plans and healthcare providers. Interestingly, university health facilities are not covered by HIPAA. Instead, college students' health records fall under the Family Educational Rights and Privacy Act, which gives parents the right to inspect their children's records at an educational institution.

So, which is it? Can you access your student's health/medical records, or not? It may depend on where your child gets treated. Some schools just have a nursing/urgent care area for minor illnesses, but someone injured playing sports may have to go to a local emergency room. In that case, HIPAA would apply at the off-campus hospital and you would need your student's authorization to access their records and/or to talk with their doctors, nurses, or other healthcare providers about their care.

The bottom line here – you may want to fill out a HIPAA privacy authorization form for medical providers and have your adult student complete and sign it to authorize you as parent(s) to be able to obtain medical information. At the least, discuss with your child the need for them to fill out an authorization form at each clinic or healthcare facility in order for you to have access to information about their healthcare.

In addition, some scenarios, while unlikely, might necessitate further action. What if your child is off snowboarding during spring break and breaks a leg? While inconvenient for everyone, if your child can verbally direct or sign a HIPAA authorization on-site, you should be able to get information from the doctors and hospitals.

Advance Healthcare Directive
But, consider the worst case scenario…they wipeout, hit their head, and lose consciousness. What happens if your child remains in coma or is declared brain dead? As awful and unthinkable as this is, preparing a signed medical directive with your child now will help you make decisions that will honor your child's wishes and avoid additional bureaucracy such as needing to obtain a court order.

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Why Timing is **NOT** Everything

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The old phrase "timing is everything" seems to capture the way random, chance events affect us throughout life. Of course these sometimes life-changing events can be either negative or positive. There are numerous examples:

- You have to stop for gas on your drive to work and find out you miss a 10-car accident by two minutes.
- You run into an old friend, get invited to a cookout the next weekend and end up meeting a future business partner.
- Your son is studying in Italy and runs into a girl from grade school who ends up being your daughter-in-law.

We could all rattle off an odd set of circumstances which ended up profoundly impacting us and can be perceived in any number of different ways. One person might think their situation was a result of divine providence; another, mathematical chance; still another, a mystic power in the universe; or another, just dumb luck. Regardless of how events are perceived, it's almost universally accepted that "timing is everything".

While the way we see random events in life may lead us to believe that "timing is everything," we believe that applying this mindset to investing is at best unprofitable and at worst, downright hazardous to your financial health. Why? Because the financial markets are so unpredictable; it's almost impossible to accurately time the market in a consistently profitable way. One has to make two accurate calls for "market timing" to work; when to get out, and when to get back into the markets. History has proven this very difficult, if not impossible, to do consistently and profitably.

With the stock market touching new record highs the last few weeks, we seem to be getting more and more questions about whether or not it makes sense to continue investing "at these levels". Our immediate question is: "When will you need to use this money?" We certainly can't provide appropriate advice without knowing the answer to that question as we always consider each family's individual circumstances.

But taking it a step further, history suggests missing just a few days of market moves can have dramatic effects on a family's portfolio. In fact, a recent study by JP Morgan Bank shows just how volatile markets can be. The study finds that missing just 10 of the best trading DAYS out of 20 YEARS of investing would have cut your return nearly in half. Even more importantly, the study points out that "six of the 10 best days occurred within two weeks of the 10 worst days", which means when things looked their darkest, those that remained invested usually recovered and made healthy profits. Keep in mind, the typical year has about 252 trading days so 20 years of trading days is over 5,000 days!

Successful investors determine an allocation between stocks, bonds, and cash with which they are comfortable and determine to live with it through the various market moves. With that mindset, they never miss the 10 best trading days out of twenty years and reap the benefits that the equity markets have historically always provided. Thus, as those much smarter than I have observed, "It is time in the market that ultimately matters, not market timing!"

Say Good Luck and Goodbye, But Don't Forget the Important Things. . . (cont)

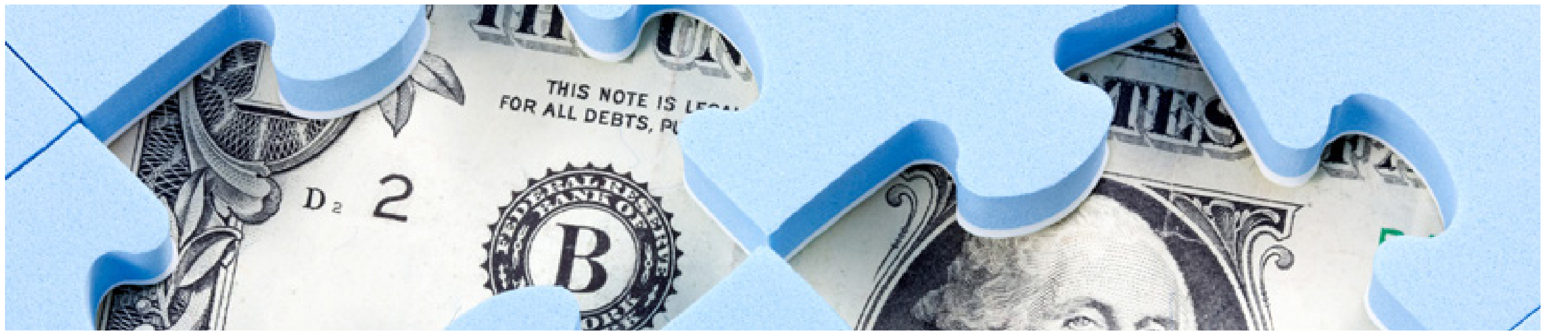
An advance healthcare directive (also known as a medical power of attorney or healthcare proxy) allows an adult to appoint a person they trust as their healthcare agent/surrogate to make medical decisions on their behalf if they lose the ability to do so. Consider having your majority-age child fill out a medical directive (and do so for yourself as well if you do not have one). In an emergency situation without a directive, one or two persons will be designated to make decisions; by having a signed medical directive, your student will choose that person (designated agent) and a backup in advance.

This is an opportunity for you to have an important discussion with your adult children. They may never have considered that life-prolonging/terminating decisions sometimes have to be made. Your grown children are now facing life decisions and responsibilities that they have never had before, so help them understand the importance of planning ahead. This is also a chance for you to convey and document your own wishes for your healthcare in worst case scenarios (and prepare your own healthcare directive if you haven't done so). Plan for the worst but expect the best is as important at this age as establishing a guardian for your minor children was years ago – you hope that you will never need it, but it may be one of the most important actions you ever take.

You may have a healthcare advance directive prepared by an attorney as part of your estate planning process. For your student, you may want to obtain a state-specific standard medical directive form and follow its instructions for completion. You can access each state's medical directives at www.caringinfo.org. While each state has its own form, they are similar – with areas to designate a healthcare power of attorney (in the case of your college student, this should most likely be you or another parent or guardian) and indicate preferences about life-prolonging care, treatment, services, and procedures.

While most states will honor other states' directives, it is most prudent to fill out a medical directive for the state(s) your student will spend the most time in. Differences between states' medical directives can include what is age of majority/a competent adult, number of witnesses required, how incapacity is determined, and/or a living will as a separate document from the healthcare power of attorney.

Now that we have covered medical records access, guess what? You aren't allowed access to your college student's education records either due to the FERPA (Family Educational Rights and Privacy Act) without written permission. So, don't forget to get a grade/education record access waiver signed by your college student for their institution. But that's another battle to wage.



Combining Target Date Funds with Other Funds

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Since the mid 1990s, target date funds, also called life cycle or age-based funds, have become increasingly popular, especially in qualified retirement plans. They not only take the emotion out of investing but also automatically perform the sometimes complicated process of asset allocation. The average investor rarely changes their asset allocation and might retire with the same mix of stocks and bonds as when their portfolio was first started. Automatic rebalancing makes sense in these cases and is a much better alternative than doing nothing. In short, target date funds offer the 'set it and forget it' approach and are perfectly suitable for those who don't have the inclination to go through the investment process themselves.

That being said, I question the wisdom of mixing target date funds with other funds in a retirement or taxable investment portfolio. Many employers use target date funds as the default fund in their retirement plans and new hires are automatically enrolled in an age-appropriate fund. As the dollar amount increases in their plans, enrollees might invest in additional funds in the attempt to diversify their portfolios. However, target date funds are actually funds made up of many other funds. As a result, rather than increasing diversification they might find themselves over-weighted in stocks, bonds, geographic location or otherwise.

In addition to increasing concentration risk, combining target date funds with other funds can be costlier because each individual fund in the target date fund has its own expenses and fees. Many target date funds also include actively managed funds with much higher expense ratios. When added up, the additional costs will negatively impact the overall return to the investor.

Target date funds do serve a purpose in retirement plans, especially when employers lack the means to offer financial education to plan participants. They provide a simple approach, eliminating the burden of choosing from a selection of funds, and providing automatic rebalancing. Target date funds offer diversification by their very nature and should be the solo fund in a retirement plan. As financial advisors and fiduciaries, we should let our clients know of the risks associated with combining target date funds with other funds in their retirement or taxable portfolios.

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Rich Kids, Poor Kids (Part 3)
The Most Important Lesson to Teach Our Children Now

Bert Whitehead, MBA, JD ©2014
Bloomfield Hills, MI

This is the third and final of three related blogs covering a broad topic: reviewing the impact our legacy will have on our children and grandchildren.

The foremost lesson for children is to always save 10 percent of all of their income – whether from their allowance, babysitting earnings, or gifts, as well their gross earnings and investment income. Even during retirement, save 10 percent of your income.

Often people think that "save" means to put money away for spending later, rather than investing their savings to grow their financial base, or building "investment capital." When we refer to savings in this context, we are referring to saving money for investment capital, not to spending the principal.

As children develop the habit of continually saving 10 percent of their income, their total investment capital will grow. This is an opportunity to teach them the basics of investing, starting with a savings account or money market. Once they have accumulated enough, move their investments to an S&P 500 Index mutual fund; these are offered at a low price by Vanguard and other no-load funds. They have very low minimums if automatic investment is selected, so savings can be transferred monthly from the savings account to the mutual fund.

Once the child's investment capital savings reaches a total of more than three times their annual savings, they will experience the "Miracle of Compounding." This is the tipping point when they will realize that the amount earned from their investment capital now exceeds the amount they are saving each year. At this point, their capital mushrooms exponentially and the increase in their wealth created through their investment capital exceeds the amount they are contributing to their savings account.

There is a widespread misconception that rich people become wealthy by taking money away from poor people. The truth is that wealthy people are rich because they always invest part of their earnings. Poor people who spend more than they earn always stay poor. Even people who make a lot of money often still spend more than they make, so they never become wealthy. But people without much money are never broke if they always save 10 percent!

Tyrone Solee wrote a blogpost that beautifully explains the difference between people who are wealthy, and people who are simply rich (Millionaire Acts blog, 03 Mar 2012). He says (excerpted):

"The main difference between being rich and being wealthy is knowledge. Wealthy people know how to make money, while rich people only have money. (…) Being wealthy is defined as that status of an individual's existing financial resources that supports his or her way of living for a longer duration, even if he or she does not work to generate a recurring income. (…) Wealthy people can build sustainable wealth that can last for years through asset investments producing multiple streams of income. (…) Rich people, on the other hand, may get money in an instant such as inheritance or winning a lottery. However, because of lack of proper mindset and poor money management skills, all of it can be lost in a short period of time. (…) In essence, wealthy people are financially free while rich people are not."

The name of this game is Capitalism and the winners are those who at some point are able to live off the earnings from their money instead of by the sweat of their brow. This is true freedom and an important lesson for all of our children. Rich kids always save 10 percent of their income and poor kids always spend every last dime!