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CHRIS SHARP

A Good Time to Give To Family and Charity

CALL IT THE Great Giveaway. Anticipating that a slew of tax breaks will disappear next year, seniors are scrambling to make year-end gifts to family members and charity. And they're not just writing checks. Would-be donors are scouring their portfolios, safe deposit boxes and even the attic as they seek to transfer artwork, family business interests, real estate, stocks and other assets.

In addition to benefiting charities and family members, such year-end gifts can help donors reap once-in-a-lifetime benefits. Seniors can use today's generous lifetime gift- and estate-tax exemption, rack up charitable deductions, avoid capital-gains taxes, and transfer future growth out of their taxable estates. Another boon for gift givers that won't be around forever: rock-bottom interest rates, which can help seniors transfer more assets while minimizing tax consequences. "There's a really strong case" for making sizable gifts today, says Katherine Dean, managing director of wealth planning at Wells Fargo. "We may never see a time like this again."

This gift-giving scramble comes in advance of a tax-law shakeup that some policy prognosticators call "taxmageddon." The federal exemption of $5.12 million ($10.24 million for couples) for gift and estate taxes is scheduled to revert to $1 million in 2013, while the estate-tax rate is set to rise to 55%, from 35%. With the Bush-era tax cuts set to expire, the highest rates on ordinary income and long-term capital gains are scheduled to climb higher. And proposals are circulating that would limit deductions, including charitable deductions, for high-income taxpayers and reduce the benefits of some popular wealth-transfer

IN THIS ISSUE

INVESTING
7 Floating Rate Funds
MANAGING YOUR FINANCES
8 Insurance for Alzheimer's
10 Tap an IRA Early Penalty-Free
11 Cashing Out Life Insurance
12 Information to Act On
14 Your Questions Answered
TAXES
15 Last-Minute Tax Tips
TRAVEL
16 Multigenerational Villa Trips
RETIREMENT LIVING
18 Play a Musical Instrument

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vehicles, such as grantor retained annuity trusts.

To be sure, seniors overly eager to seize a big tax break risk giving away too much and running short of money in retirement. Individual circumstances, such as income fluctuations, can alter the cost-benefit calculus for making gifts in 2012. And although Kiplinger's predicts that Congress will continue the current gift- and estate-tax rates and exemptions, at least for 2013, future changes are hardly written in stone. "Nobody really knows what Congress is going to do," says Rande Spiegelman, vice-president for financial planning at the Schwab Center for Financial Research. "It puts everybody in a bind."

Despite all the question marks, many advisers believe the advantages of making gifts before year-end generally outweigh the risks. And many donors seem to agree. "Clearly, there's a rush" to talk with lawyers and draft gifting plans, says William Zatorski, partner in the Private Company Services practice at PricewaterhouseCoopers. At donor-advised fund provider Fidelity Charitable, contributions in the first nine months of this year jumped 63% from the same period last year, to $1.2 billion.

Gifts to Charity

Got a house full of rugs or antiques that you're ready to part with? You might do yourself—and charity—a favor by finding a philanthropic way to unload them.

In the wake of the financial crisis, many more donors are looking to give such assets to charity. In 2011, for example, Fidelity Charitable saw contributions of complex assets grow 30% from a year earlier. One factor driving the trend: Donating such holdings won't diminish the cash and other liquid assets available to cover the donor's living expenses, says Bryan Clontz, president of Jacksonville, Fla.–based Charitable Solutions, which works with philanthropic organizations to help donors contribute illiquid assets.

Charities are also making it easier for donors to contribute everything from Warhols to Windsor chairs. The National Philanthropic Trust, a donor-advised fund provider, recently launched the Charitable Asset Trust, which specializes in accepting such complex assets as artwork, real estate and derivatives. It then sells these holdings, with the proceeds going into the donor's donor-advised fund. In these funds, donors get an immediate charitable deduction for contributions and can recommend how the money should be dispersed to specific charities over time.

Laura Robb of Winchester, Va., sees the ability to donate artwork and antiques as a bonus for the donor-advised fund she established in September through the National Philanthropic Trust. As an education consultant and author of books on teaching, Robb is focusing her charitable efforts on getting books and other teaching materials to schools serving communities with high poverty rates. "I've inherited a lot of things from both sides of the family, and I have some beautiful antiques that my children don't want," she says. "I'd like to use some of it in a different way."

For tax purposes, non-cash gifts over $5,000 typically must be independently appraised. Given the year-end gifting rush, many appraisers are booked up right now. But donors can still make the gift this year and get the appraisal before filing their 2012 return.

Another wrinkle involving donations of tangible personal property, such as artwork: The donor can generally only deduct the full fair market value of the asset if the charity uses the gift for its charitable purpose, such as a museum exhibiting a donated painting. If you instead give the painting to a social-service organization that then sells it, you can deduct the lesser of the amount you paid for it or its market value.

Seniors looking to sell a family business also have an opportunity to slash their tax bills and support charity. If you are thinking of selling your business but don't

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From the Editor

The White House and Congress will avoid the dreaded across-the-board spending cuts if they reach an agreement, as is likely, on averting a tumble over the fiscal cliff. But federal spending could still be scaled back—and a possible target could be programs that deliver senior services.

According to the Leadership Council of Aging Organizations, programs on the chopping block could include home-delivered meals, which prevent the need for more costly medical intervention. Another program that receives federal funding provides transportation to medical appointments and grocery shopping.

Any reduction in personal-care services, such as help with dressing and bathing, and cutbacks in adult day care will lead to increased stress on family caregivers. And as elder abuse and financial fraud rise, expect a possible reduction in legal services for seniors.

Funding for these programs—authorized under the Older Americans Act—are generally funneled through state governments, which are already facing their own fiscal crises. Even if these programs survive unscathed for now, they will be up for grabs, as all programs will be, when lawmakers and the White House search over the next year for ways to shrink the budget deficit.

Susan B. Garland, *Editor*

yet have a formal sale agreement, you might donate a fractional interest—say, 2% or 3%—to charity. Typically, an appraiser would sharply discount that fractional interest to reflect lack of control and marketability, resulting in a smaller charitable deduction for the donor. But if you instead get the appraisal after you sell the business, "almost always the appraisal will match the sales price," allowing for a bigger charitable deduction, Clontz says. The charity can cash in on the gift by selling its fractional interest to your business buyer.

If you have income-producing real estate or an investment portfolio that is expected to make big gains in years to come, consider placing the asset in a charitable lead trust. This vehicle gives a charity a stream of payments—perhaps from real estate or investment income—with the remaining trust assets going to your beneficiaries at the end of the trust term.

For gift- and estate-tax purposes, the value of that remainder depends partly on the tax code's Section 7520 rate at the time the trust is established. To the extent those assets grow faster than the 7520 rate, excess growth is passed to beneficiaries free of gift and estate tax. With the 7520 rate currently hovering around a historically low 1%, it's relatively easy for trust assets to beat that hurdle rate and transfer more wealth to the next generation tax free. The charitable lead trust is "a good strategy, and it's made great by the right interest rates," says Andrew Auchincloss, a director at Bernstein Global Wealth Management.

Given recent years' sizable market gains, gifts of appreciated stock make sense for many donors now. When you donate appreciated stock held for more than a year, you get a charitable deduction for the full market value and avoid paying capital-gains tax on sale of the shares. Don't donate securities trading at a loss, since you can use the capital loss to offset taxable gains. You can sell them yourself and then give the proceeds to charity.

Cash may be the only option for those making donations at the last minute. Eileen Heisman, president and chief executive officer of the National Philanthropic Trust, has this tip for procrastinators: If you're sending a check to charity on December 31, drop it in the U.S. mail, not FedEx or UPS. As long as it's postmarked by December 31, it will count as a 2012 gift. If you send a FedEx package on the last day of the year, your ability to recall the package means it's still in your control until the charity receives it—and it will count as a 2013 gift.

Gifts to Family

You can make annual gifts of up to $13,000 to an unlimited number of individuals in 2012 without having to file a gift-tax return. But grandparents who don't want to hand a wad of cash to the grandkids can open a 529 college-savings plan for the benefit of a grandchild. They can contribute up to five years' worth of gifts, or $65,000 in 2012, to a 529 account without gift-tax consequences. If you're the owner of the account, you can generally get your money back if you need it, whereas most gifting strategies require the

donor to relinquish control of the asset.

The money grows tax deferred, and distributions are free of federal income tax when used to pay for qualified college costs. You also may be able to get a state tax deduction for 529 contributions. If you need to withdraw the money yourself—say, to cover unexpected medical costs—you'll owe federal income tax and a 10% penalty on the earnings. To compare state-sponsored 529 plans, go to SavingforCollege.com.

If you have a grandchild in school now, you can pay the tuition bill directly to the institution, whether it is a college or private elementary or secondary school. There's an unlimited gift-tax exclusion for such gifts, as well as for payments made directly to a health care provider for another person's medical care.

Record-high exemptions for the estate and gift tax make 2012 a good year to transfer assets to family members. From 2002 to 2010, the lifetime gift-tax exemption remained at $1 million, even as the estate-tax exemption rose. That meant you could give away in your lifetime up to $1 million free of gift taxes, above the annual exclusion. The estate- and gift-tax exemptions were "unified" at $5 million in 2011 and $5.12 million in 2012. (Each dollar you use of your gift-tax exemption reduces by a dollar the amount you can leave in your estate tax free.) That means you can transfer up to $5.12 million from your estate by year-end.

Many owners of smaller estates can benefit from the current tax law, especially if they want to move appreciating assets from their estates. But seniors thinking of giving shares of appreciated stock to the younger generation should step carefully, since they may cost the kids a tax break. Let's say you give your son shares of stock that you bought for $5 a share and are now worth $20 a share. Your $5 original cost, called the cost basis, transfers to your son, and he'll owe tax on the $15 gain if he sells the shares tomorrow. If you instead pass the shares to your son at your death, his cost basis will step up to the shares' market value on the date of your death, allowing him to immediately sell the stock without capital-gains tax consequences.

If you have an adult child or adult grandchild who qualifies for the 0% capital-gains rate (available to taxpayers in the 10% or 15% income-tax bracket), gifts of appreciated stock may make sense. And with the 0% capital-gains rate set to disappear in 2013, it may be "best to pull the trigger on that now," says Wells Fargo's Dean. For children holding investments, bear in mind that kids under age 18 and full-time students under 24 are subject to the "kiddie tax," meaning their investment income exceeding $1,900 will be taxed at the parent's higher income-tax rate.

An asset that is currently depressed in value but expected to increase significantly in the next few years—a family business, for example—may be an ideal candidate for a grantor retained annuity trust. Once you transfer assets to a GRAT, the trust pays you an annuity, typically based on the initial value of assets transferred. As with the charitable lead trust, the IRS assumes for purposes of calculating gift taxes that trust assets will grow at the 7520 rate at the time the trust is established. If your annuity payments over the trust's term equal the principal plus the 7520 rate, any appreciation of trust assets above that rate will pass to beneficiaries tax free at the end of the term. So today's low 7520 rate boosts the GRAT's potential to move future appreciation of assets out of your estate.

Many advisers recommend short two-year GRAT terms, since you must outlive the trust term for the assets to be transferred out of your estate. But the Obama administration has proposed a ten-year minimum term for GRATs. Given that attractive GRATs may be nixed, "it's something you might want to think about doing sooner rather than later," Spiegelman says.

Seniors who have previously made loans to kids or grandkids might consider a relatively simple year-end move: Forgive all or part of the loan. You can forgive up to $13,000 per person in 2012 without gift-tax consequences. Consult a lawyer to be sure the loan forgiveness is properly documented.

If you believe your estate will be subject to estate taxes, a life insurance policy may be another item to place on the giveaway pile. If you own a policy on your own life, death benefit proceeds are typically included in your taxable estate. If you transfer the policy to an irrevocable life insurance trust, it will be removed from your estate three years after the transfer—allowing the insurance proceeds to go to heirs tax free. (The trust owns the policy, and you relinquish all control of it.)

Such trusts are often set up so that the insurance proceeds will cover the estate-tax bill. They're particularly suitable for estates that are low on easily tapped assets, says James Duggan, co-founder of law firm Duggan Bertsch, in Chicago, "where we need a source of liquidity to pay future taxes." **K** —**ELEANOR LAISE**

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INVESTING

Seeking Higher Yield in Floating Rate Funds

LONG SEEN as bit players in income-focused portfolios, bank-loan funds are starting to play a more central role for yield-seeking investors. These funds invest in bank loans made to corporate borrowers, usually those with less-than-stellar credit ratings. The loans have a "floating" rate—one that's adjusted periodically based on changes in a benchmark short-term interest rate. So unlike traditional bonds paying a fixed rate, whose prices generally fall when interest rates climb, bank loans can insulate investors from losses caused by rising rates.

Given the floating-rate feature, it's easy to see why investors would pour money into bank-loan funds when the Federal Reserve is raising rates. But today, many investors are flocking to these funds in search of yield. The average bank-loan fund yields about 4.6%, according to Morningstar, while the average intermediate-term bond fund yields less than 3%. So even though the Fed has said it expects to keep rates on hold through mid 2015, investors added about $5.2 billion in new money to bank-loan funds in the first nine months of this year, bringing total assets to $66 billion.

Although investors may be waiting awhile for rate increases, "there's no good reason not to earn the extra yield while getting interest-rate protection in the meantime" with bank loans, says John Bell, co-manager of the Loomis Sayles Senior Floating Rate and Fixed Income Fund.

Older investors, however, should keep expectations in check and thoroughly understand the funds' strategies and risks. During times of market upheaval, investors will start to question whether borrowers can repay bank loans—with potentially ugly consequences. In 2008, for example, the average bank-loan fund lost a harrowing 30%.

Higher Yield, Higher Risk

Bank-loan yields generally fall somewhere between investment-grade corporate bonds and high yield, or "junk," bonds. The loans are generally seen as a bit more conservative than junk bonds because they're senior, secured debt—typically allowing investors a higher recovery rate than other creditors if the borrower goes belly up. The default rate on these loans is at historically low levels. Even sluggish economic growth is a decent scenario for bank loans "because the

companies will be reasonably healthy and able to make their payments," says Michael Schoenhaut, portfolio manager for the JPMorgan Income Builder Fund.

When choosing a fund, don't zero in on this year's top performers, which may have the most speculative holdings, says Sarah Bush, fund analyst at Morningstar. Check the credit quality of fund holdings against the category average by entering the fund name at Morningstar.com and clicking the "portfolio" tab. And read the fund's prospectus to understand whether it uses leverage, which can boost yield but also exacerbate losses.

Some advisers now favor the category's more conservative funds. ReKeithen Miller, a certified financial planner in Palisades Hudson Financial Group's Atlanta office, says the firm is using the **Fidelity Floating Rate High Income Fund** (symbol FFRHX) in client portfolios. The fund tends to focus on holdings with relatively high credit quality. The more sedate approach kept losses to 16% when the category tanked in 2008.

Some newer funds blend bank loans with high yield and other bond holdings, shifting allocations based on managers' market and economic outlooks. The Loomis Sayles fund, for example, must invest at least 65% of assets in bank loans but can devote the remaining assets to other debt. The strategy gives the fund flexibility to protect against the sort of meltdowns seen in 2008, says co-manager Kevin Perry.

Another way to rein in risk: Limit your bank-loan allocation. Miller, for example, keeps clients' bank-loan holdings under 15% of the bond allocation. And be prepared to hold on to these funds for at least several years. Because of the credit risk, Bush says, "they're not appropriate as a cash substitute." K —ELEANOR LAISE

MANAGING YOUR FINANCES

Insurance Options for Alzheimer's Patients

One in eight individuals 65 and older suffer from Alzheimer's disease—quite a sobering statistic for the growing number of baby boomers crossing over that age threshold. And the costs can be an "overwhelming financial burden," says Carol Steinberg, executive vice-president of the Alzheimer's Foundation of America.

Private and government insurance programs may cover some costs. Here's a primer on your options.

■ **Medicare.** Many seniors are shocked to discover that Medicare does not cover the long-term custodial care that Alzheimer's patients need. Custodial care is the non-medical care associated with activities of daily living, such as bathing and dressing.

Medicare does cover limited care in a nursing facility or at home. For home care, the patient must require skilled-nursing care or physical or occupational therapy to help with the recovery from an illness or injury—not to help an Alzheimer's patient go to the bathroom. "One of the most difficult situations is when a loved one needs personal or custodial home care, but Medicare will only cover that if there is some type of skilled-care need," says Frederic Riccardi, director of programs and outreach for the Medicare Rights Center, an advocacy group.

At-home services can be provided for up to seven days a week or less than eight hours a day, for no more than a 21-day period. Limited custodial care could be provided during these visits—perhaps if an Alzheimer's patient treated by a registered nurse for a broken hip needs help bathing. Medicare pays the cost of a skilled-nursing facility, but only to provide continuing treatment following a hospital stay of at least three days. Skilled care in a facility is limited to 100 days.

While Medicare offers little by way of custodial care, it does provide diagnostic and medical treatment that Alzheimer's patients, as all patients, need. The new annual wellness physical, which is free and part of the health care law, includes testing for cognitive impairment. "This is a critical, yet hardly known, provision," Steinberg says. Medicare also covers visits to a geriatric assessment clinic.

Alzheimer's patients and their families need to carefully choose a Medicare Part D prescription drug plan or private Medicare Advantage plan. Alzheimer's medications are generally covered under Part D, but plans vary on co-payments. Use the Medicare Plan Finder (www.medicare.gov/find-a-plan) to compare the total costs of your drugs for each policy. The Alzheimer's Association offers a guide on coverage for common Alzheimer's drugs. (Go to www.alz.org and type "Medicare Part D Drug Benefit" in the search field.)

If you choose an Advantage plan, make sure your neurologist and other physicians you see often are covered as in-network providers. Otherwise, you will pay higher out-of-pocket costs. You can compare Advantage plans by using the Plan Finder.

■ **Long-term-care insurance.** These policies provide coverage for the custodial care that Alzheimer's patients usually need. Benefits typically kick in if the patient needs help with at least two activities of daily living or if a doctor provides evidence of cognitive impairment. Because most people with Alzheimer's receive care in their own homes, look carefully at the policy's home-care requirements. Typically, a patient must wait 60 or 90 days before benefits begin. But policies differ on when the clock starts ticking—which could be a big headache for caregivers.

For example, some policies start the 60-day waiting period on the day the doctor certifies the cognitive impairment—and benefits kick in 60 days later. But

other policies count only the days a patient receives care from a qualified caregiver during the waiting period. If the caregiver visits two days a week, the policy only counts those two visits toward the 60-day waiting period—and benefits won't kick in for 30 weeks. In the meantime, the family picks up the tab for the caregiver.

Before you hire a caregiver, check the policy's fine print on the type of caregiver the company will cover. Some policies pay for any caregiver who is not a family member, while others only pay for licensed caregivers who work for an agency. Some families who hire an unlicensed caregiver later discover that the caregiver doesn't qualify under the policy.

Don't expect a policy to pick up round-the-clock home care. Daily coverage is based on the daily benefit. A policy with a $200 daily benefit, for example, will likely cover the cost of eight to ten hours of a home health aide. If a family caregiver can't fill in the gap, a nursing home may be a better option.

You can't use more than your daily benefit in a day, but you can stretch your daily benefit over longer periods. Say you choose a benefit period of three years, at $200 a day. If you only use $100 a day, your coverage can last for six years. Some policies cover adult day care, which can cost a lot less than daily caregivers. "Many adult day services specialize in care for those with Alzheimer's disease and similar disorders," says Kathy O'Brien, senior gerontologist with the MetLife Mature Market Institute.

■ **Medicaid.** This program, whose costs are shared by federal and state governments, is the primary payer of long-term-care services for the elderly. Unlike Medicare, it provides custodial care for Alzheimer's patients. Custodial care typically is provided in Medicaid-eligible nursing homes, but many states' Medicaid programs now pay for home care and sometimes adult day care or care in assisted-living facilities, says O'Brien.

The downside: You need to be virtually impoverished to qualify. Many people end up qualifying after spending their retirement savings on care. While state laws differ, generally you can't have more than $2,000 in countable assets, including investments; a spouse who lives at home can generally keep about $113,000. You're allowed to keep your home, car and assets in certain kinds of trusts (see www.medicaid.gov to find eligibility requirements in your state).

To protect more of your assets, you can buy a state-approved long-term-care policy that is "partnership" eligible. The policy would allow you to qualify for Medicaid without having to spend almost all of your money first. For example, if you buy a partnership policy that covers $200,000 of care, you would pay out of pocket until you have $200,000 left and still qualify for Medicaid. Go to the National Clearinghouse for Long Term Care Information (www.longtermcare.gov) to see if your state allows these policies.

■ **Disability benefits.** Individuals who develop Alzheimer's while they're still working may be eligible for some coverage from disability insurance, either through an employer or an individual policy. "Their cognitive impairment can quickly reach a point where they can no longer maintain gainful employment," says Beth Kallmyer, a vice-president of the Alzheimer's Association. Most policies tend to end benefits at 65, but rules vary by policy so it's worth checking.

The benefits triggers will depend on the policy's definition of disability. Some policies will make a partial payout if a newly diagnosed worker needs to cut back to part time and will pay more if the worker needs to leave the job, says Barry Lundquist, president of the Council for Disability Awareness.

Individuals with early-onset Alzheimer's could qualify for Social Security disability benefits if they can't work. Early-onset Alzheimer's disease is on the government's "compassionate allowance" list of conditions subject to fast-track benefits approval. When you reach full Social Security retirement age, your disability benefits will convert to retirement benefits. (For more details, go to www.socialsecurity.gov/disability.)

■ **Other sources of help.** Some veterans may be eligible for help from the U.S. Department of Veterans Affairs. The VA may provide custodial care at home, in adult day care centers and in VA nursing homes for veterans who pass strict eligibility tests (see www.va.gov/geriatrics/guide/longtermcare). Disabled lower-income vets may be eligible for Aid and Attendance benefits of up to $20,448 for an individual and $24,440 for married veterans. To qualify, a veteran must have wartime service and be unable to perform personal functions, such as bathing and dressing.

If you have a life insurance policy, you may qualify to withdraw most of the death benefit while you're still alive if your doctor certifies that you have less than two years to live. The accelerated death benefit could help pay for care.

To find more government programs to help pay for care, go to www.benefitscheckup.org, a free service of the National Council on Aging. Also visit the Alzheimer's Association's community resource finder (www.communityresourcefinder.org). K —KIMBERLY LANKFORD

MANAGING YOUR FINANCES

Tap Your IRA Early Without a Penalty

Taking money from a traditional IRA early is rarely a good idea. It's best to allow the assets to grow tax-deferred. What's more, if you're younger than 59½, you'll pay a 10% early-withdrawal tax penalty. But if you really need the cash—say, you're suddenly unemployed—you can avoid the penalty if you follow a number of complex rules.

The IRS allows younger account holders to escape the penalty if they agree to take out "substantially equal periodic payments," called SEPPs, from their IRAs. The payments must be withdrawn for a minimum of five years or until a person turns 59½, whichever comes later. For example, a 50-year-old has to take payments for at least nine and a half years, while a 58-year-old has to take payments until at least 63.

The "72(t)" strategy, named for the section of the tax code that sets out exceptions to the early-withdrawal penalty, should be a last resort. Once you start taking distributions, you're locked in. You can't make new contributions to the IRA or take additional withdrawals. If you violate any of the rules, you could pay big penalties. "The biggest disadvantage of 72(t) is inflexibility," says Mike Piershale, a financial adviser in Crystal Lake, Ill. As with typical withdrawals from a traditional IRA, distributions will be taxed at your ordinary-income tax rate.

The strategy could be useful if you need to supplement your income stream. Kimberly Foss, president of Empyrion Wealth Management, in Roseville, Cal., says a client used these payouts to bridge an income gap. He retired early at 55, but his pension didn't kick in until age 60.

Withdrawing the Money

The IRS provides three methods to calculate 72(t) payments. The annuitization and amortization methods are similar—you must take out the same amount every year. Payments from the distribution method may vary each year and tend to be smaller. Before choosing a method, says Denise Appleby, of Appleby Retirement Consulting, in Grayson, Ga., "run calculations through all three methods and see what matches the amount you need."

Let's say you choose the amortization method, which often provides the highest payout. With this method, the balance of your IRA is amortized over your life expectancy, based on IRS lifespan tables. The IRS limits the withdrawal size by using an interest rate that assumes that earnings won't grow faster than 120% of the midterm applicable federal rate. However, you can choose the best rate from the two months before the month you start payouts. For example, if you start 72(t) payouts in December, you could use October's rate of 1.12%, instead of November's 1.07% rate.

You can figure out the annual payouts by using the calculator at 72t on the Net (www.72t.net). With the amortization method, a 50-year-old with a $400,000 IRA who uses an interest rate of 1.12% would take a $14,143 payout each year.

The IRS allows a one-time switch from amortization or annuitization to the distribution method. Say you are taking $5,000 a year from a $140,000 IRA. If a market downturn slashes the balance, you could decide to switch to the distribution method's smaller payout.

If the projected payouts are more than you need because your account balance is large, do a reverse calculation. Decide how much money you want each year, and then calculate the size of the IRA that provides that payout. You can split that amount into a second IRA, and take the 72(t) payouts from that account.

Before committing to at least five years of payments, consider other income sources first. Perhaps you can tap a home equity line of credit. Or maybe you're eligible for an exception to the early-withdrawal penalty—say, if you have a disability or high medical expenses. Also, if you leave your job in the year you turn 55 or later, you can take money from your company 401(k) without paying a 10% early-withdrawal penalty.

To set up 72(t) payments, notify your custodian. At tax time, make sure the 1099-R you receive has "Code 2" in Box 7, which tells the IRS the distribution is taxable but not subject to the penalty. K —RACHEL L. SHEEDY

MANAGING YOUR FINANCES

Turn Life Insurance Into Cash Flow

If you bought a whole-life insurance policy when your kids were babies, you've probably built up a sizable stash of cash. And if you're heading into retirement with a decimated investment portfolio, that cash in your policy may be more useful now than later—especially if your loved ones don't need the death benefit after you're gone.

To get at the cash without selling your policy, your options include partial withdrawals, policy loans, cashing in the policy and letting it lapse. If you'd like an income stream, you could trade your policy for an annuity.

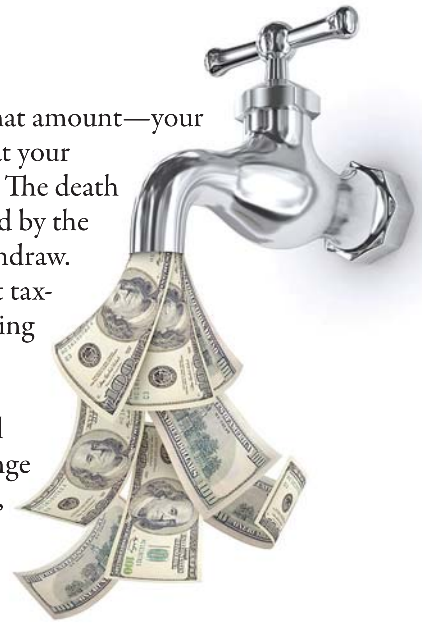
Before you decide which tool to use, consider the tax ramifications: Withdrawals on gains, beyond what you've paid in premiums, are taxable. Plus, if you've owned the policy for a long time, it's probably earning a better return than you could get on your own without taking a lot of risk, says Michael Kitces, a certified financial planner in Columbia, Md. "We still see a lot of policies that have returns ranging from 3% to 6%," says Kitces.

A permanent life insurance policy has two components. One is the face value, or the amount that will be paid to your beneficiaries when you die. The other is the cash value, which is a savings account that's funded by a portion of your premiums.

With whole life and universal life, the insurance company usually promises that a minimum level of interest, after insurance costs and expenses are deducted, will be credited to your account every year. You may earn more if its investments perform well. With variable universal life policies, you choose the investments and may not get a guarantee. With any kind of policy, if you surrender it, you'll receive the balance in the cash-value account, minus any loans or unpaid premiums.

Turn on the Cash Spigot

If you have a large cash-value account, you have several options. If you're still paying premiums, you can use the funds in the account to pay them. If you need cash but don't want to surrender your policy, you can withdraw your basis—the amount in the cash-value account you have paid in premiums—tax free. Withdrawals that exceed that amount—your gains—will be taxed at your ordinary income rate. The death benefit will be reduced by the total amount you withdraw.



Another way to get tax-free cash is by borrowing against your policy. A loan is a good option if you need occasional cash. Interest rates range from about 4% to 8%, depending on market rates and the type of policy you have. If you don't repay the loan, or you pay only part of it back, the balance will be deducted from your death benefit when you die.

When you take a loan, you are not withdrawing money from your account. The insurance company is lending you money and holding your policy as collateral. Unless you pay the interest out of pocket, it will be added to the loan balance (you may be able to pay interest with the accumulated dividends or interest building up in your account). If your loan balance exceeds the policy's cash value, your policy could lapse. If your policy does lapse, you'll owe taxes on the amount of the cash value, including loans that exceed the premiums you paid in—a real problem if the money you borrowed is long gone.

Before you use your policy as a bank, note that the loans could deprive your family of a tax-free inheritance when the loans are deducted from the death benefit. For that reason, you should only borrow money that you intend to repay, says Peter Katt, a fee-only life insurance adviser in Mattawan, Mich.

Another way to get cash from your policy is to do a 1035 exchange, converting your life insurance into an income annuity without paying taxes on your gains. You'll give up the death benefit, but you'll no longer have to pay premiums, and you'll lock in income for the rest of your life (or a specific number of years). The conversion is tax free, but you'll pay taxes on a portion of each payout, based on the proportion of your basis to your gains.

Shop around for the annuity provider that offers the largest payout. You can compare payouts at www.immediateannuities.com. A financial planner with experience in the insurance industry can also help you select the best payout. K —SANDRA BLOCK

Information to Act On

ECONOMY

■ **Not budging.** Interest rates continue to hover at the low end. The rate on ten-year Treasury notes will remain below 2% into spring 2013. Rates for 30-year home loans will remain below 4% for the next six months. As demand increases for mortgages, business loans and other credit next year, expect only a slight hike in rates.

INVESTING

■ **ETF education site.** The Investment Company Institute's new Web site, www.understandetfs.org, helps investors learn more about exchange-traded funds. It answers nine questions about ETFs.

■ **Savings bonds.** Series I savings bonds that are issued from November 2012 through April 2013 carry a fixed rate of 0% for the life of the bond, but the semiannual inflation rate is the equivalent of 1.76% annually. Series EE savings bonds that are issued from November 2012 through April 2013 earn a rate of 0.20%. Visit TreasuryDirect.gov.

■ **Sandy scams.** The Securities and Exchange Commission is warning investors to watch out for investment scams in the aftermath of Hurricane Sandy. People getting lump sum insurance payouts should be extremely wary, says the SEC. Read the alert at www.sec.gov.

TAXES

■ **Save more.** In 2013, the limit for contributing to 401(k)s and 403(b)s rises to $17,500, up $500 from 2012. The catch-up contribution limit for those 50 and older stays at $5,500. The contribution limit for IRAs rises to $5,500, up $500; the catch-up remains $1,000.

■ **State tax.** Georgia is reining in its generous retirement income tax exclusion. Under previous law, the $65,000 exclusion for those 65 and older for 2012 was to gradually rise so that by 2016 all retirement income would be excluded from state tax. A new law caps the exclusion at $65,000 permanently.

TAX TIP

Breaks When Disaster Hits

If you suffered property damage from Hurricane Sandy, check to see if you qualify for a tax break to offset losses. If you itemize, you can deduct losses that aren't reimbursed by your insurer after you make a claim.

To deduct a loss, you must first reduce the amount by $100. Then, you can deduct the balance only to the extent it exceeds 10% of your adjusted gross income. Use Form 4684 to report your casualty losses. To help figure your deduction, use our calculator at kiplinger.com/tools/storm and consult IRS Publication 547.

HEALTH CARE

■ **Flexible enrollment.** Medicare beneficiaries affected by Hurricane Sandy have received some relief from the Centers for Medicare & Medicaid. While Medicare open enrollment ends on December 7, any beneficiary who needs more time can make a change after the deadline by calling 800-633-4227. Coverage in a new plan will start the first day of the month after you enroll.

LONG-TERM CARE

■ **Cost of care.** National average rates for long-term care are on the rise, according to MetLife Mature Market Institute's tenth annual survey. The average cost of a semiprivate nursing-home room climbed 3.7% in 2012 from 2011, to $222 daily, while assisted-living rates rose 2.1% to $3,550 a month. The rate for a home health aide remained at $21 an hour.

RETIREMENT PLANS

■ **Stock plans.** Nearly 60% of participants in company stock plans intend to eventually use the assets for investment or retirement savings after the stock is sold, according to Fidelity Investments. Meanwhile, 13% plan to use the assets to pay off bills or debt.

■ **Income.** Thirty-three percent of retirees received income from private-sector retirement plans in 2011, compared with 21% in 1975, according to the Investment Company Institute. The median income received by those retirees was $6,300 in 2011, compared with $4,700 in 1975 (in 2011 dollars).

CONSUMER INFORMATION

■ **Plastic rules.** Learn about the rules for credit cards, debit cards, prepaid cards and gift cards at KnowYourCard.org. Launched by nonprofit Consumer Action, the Web site covers such topics as minimum purchase requirements, fees and payment rules.

■ **Free shipping day.** More than 1,000 merchants will offer free shipping and other discounts on Monday, December 17, with delivery by Christmas Eve in the contiguous U.S. Check FreeShippingDay.com for participating merchants.

■ **Credit report complaints.** The Consumer Financial Protection Bureau is taking complaints about credit reports, from incorrect information on a report to the improper use of a credit report. The bureau suggests first trying to resolve the issue with the credit bureau that produced the report. File a complaint online at www.consumerfinance.gov/complaint.

RETIREMENT PLANNING

■ **Public sector.** Nearly 75% of full-time public-sector workers are confident they will have enough money for a comfortable retirement, according to the Center for State and Local Government Excellence and the TIAA-CREF Institute. Just over 70% believe they will be able to cover medical expenses. Nearly all participate in an employment-based retirement plan.

■ **City stats.** The Hartford-New Haven metropolitan area ranked at the top of 30 metro areas most prepared for retirement, according to an Ameriprise Financial survey. San Diego was second, and Minneapolis-St. Paul was third. At the bottom: Charlotte, Indianapolis and Washington, D.C. The survey measures the amount residents are saving for retirement.

GIFT GIVING

■ **Online gifts.** Betterment Gifts is a new registry that lets friends and relatives chip in toward a financial goal. For instance, a granddaughter who wants to buy a house can set up an account at www.gifts.betterment.com, and you can contribute to the account, which is deposited in low-cost stock or Treasury bond exchange-traded funds. Annual fees range from 0.15% to 0.35% of account assets.

■ **Gift subscription.** Give your family and friends a head start on a prosperous new year with a subscription to *Kiplinger's Retirement Report.* The discounted gift rate is $29.95 a year. To order by phone, call 800-544-0155, operator 0075, or order online at kiplinger.com/holiday/retire.

Rates and Yields

Certificates of Deposit

SIX MONTHS	YIELD	PHONE NUMBER
Doral Bank (Fla.)	**0.91%**	855-513-6725
GiantBank.com (Fla.)	**0.80**	877-446-4200
National Average	**0.18%**	
ONE YEAR	**YIELD**	**PHONE NUMBER**
AbleBanking (Mass.)	**1.12%**	877-412-9590
AloStar Bank of Commerce (Ala.)	**1.11**	877-738-6391
National Average	**0.29%**	
FIVE YEARS	**YIELD**	**PHONE NUMBER**
CIT Bank (N.Y.)	**1.80%**	866-532-4095
Discover Bank (Del.)	**1.75**	800-347-7000
National Average	**0.94%**	

Yields include compounding and are as of November 7, 2012. For information on deposit insurance, go to the Web site of the Federal Deposit Insurance Corp. (www.fdic.gov). SOURCE: Bankrate.com

Top Yielding Money-Market Funds

TAXABLE	YIELD	PHONE NUMBER
Direxion U.S. Government MMF A*	**0.13%**	800-851-0511
Flex-funds Money Market Retail*	**0.10**	800-325-3539
Category Average	**0.03%**	
TAX-FREE	**YIELD**	**PHONE NUMBER**
Alpine Municipal Money Fund/Inv*	**0.10%**	888-785-5578
Invesco Tax-Exempt Cash/Inv*	**0.09**	800-659-1005
Category Average	**0.01%**	

*Fund is waiving all or a portion of its expenses. The 30-day simple yields are to November 5, 2012. SOURCE: *Money Fund Report*

High-Dividend Stocks

We used Kiplinger.com's stock-finder tool to screen stocks for at least five years of consecutive dividend increases.

DIVIDEND STOCKS	YIELD	SHARE PRICE
AT&T (T)	**5.3%**	$33
ConocoPhillips (COP)	**4.7**	55
Verizon Communications (VZ)	**4.7**	43

Benchmarks

	THIS MONTH	3 MONTHS AGO	YEAR AGO
Inflation rate*	**2.00%**	1.70%	3.90%
Six-month Treasury	**0.15**	0.14	0.03
One-year Treasury (CMT)**	**0.19**	0.19	0.10
Ten-year Treasury	**1.78**	1.68	2.10

*Year-to-year change in CPI as of Sept. 2012, June 2012 and Sept. 2011.
**Constant Maturity Treasury yield.

Fixed Annuities

SINGLE-PREMIUM IMMEDIATE-ANNUITY MONTHLY PAYOUT FACTOR	HIGHEST	AVERAGE
Male age 65	$6.05	$5.34
Female age 65	5.69	4.97
Male age 70	6.88	6.18
Female age 70	6.37	5.68

Payouts are guaranteed to the annuitant for life, with a minimum payout period of ten years. Payout factors are per each $1,000. SOURCE: *Comparative Annuity Reports* (www.comparativeannuityreports.com). Data are to November 1, 2012.

FROM THE MAILBOX

Your Questions Answered

Social Security Lump Sum Reduces Monthly Benefit

I am turning 70 and will apply for Social Security benefits. I was told that I may receive a lump sum benefit. Will I?

When you apply for benefits after your full retirement age, you can get up to six months' worth of retroactive benefits in a lump sum. However, if you want the maximum amount of delayed retirement credits, do not ask for retroactive benefits. If you get six months of retroactive benefits, your monthly Social Security benefit—cranked in to the six months' lump sum and going forward—will be based on the monthly amount due at age 69½ instead of at age 70.

Worker With a Disability Can Keep Medicare

I am 55 and receiving Medicare because of a disability. I am returning to work. Will I lose my Medicare benefits?

As long as you remain medically disabled, you can keep your Medicare coverage, according to the Medicare Rights Center, an advocacy group. For the first eight and a half years after you return to work, you will not have to pay the premium for Part A, which pays for hospital services. After that, you will have to pay the Part A premium, which costs up to $451 a month, until you turn 65. You always must pay for Part B, which covers outpatient services and runs about $99 a month.

Couple Can Change Long-Term-Care Insurance Policy

I'm in my sixties and about to get divorced. A few years ago, I bought a long-term-care insurance policy with a rider that lets me share the benefit period with my husband. Can I detach my coverage from his without losing it altogether?

The rules vary by company, but some large insurers make it easy to drop the shared-benefit rider and continue separate policies—and your rates may even decrease. Shared-benefit policies let spouses share a pool of benefits rather than have two separate benefit periods. For example, if you each buy a four-year shared-benefit policy, you have a pool of eight years of benefits that you can use between the two of you. Genworth lets either person request removal of the shared benefits as long as both spouses agree. Instead of having a joint pool of eight years, you will each end up with a regular four-year policy. Shared-benefit policies cost more than individual policies, and both Genworth and John Hancock waive the extra charge when you discontinue the shared benefit. That may result in a 10% to 15% drop in premiums. If your policy is with another insurer, ask about its rules.

You Can't Roll a 401(k) Loan Into an IRA

I am leaving my job, but I still have a loan from my 401(k). Can I roll my 401(k) into an IRA and pay off the loan to the IRA?

The law does not allow loans from IRAs. You would only be allowed to roll the net amount of the 401(k) to the IRA. Before you leave your job, you need to pay off the loan. Typically employers require full repayment within 30 days to 60 days of departure from a job. If the loan is not repaid, it will be considered a default and you will owe income tax on the outstanding balance. You also will pay a 10% federal tax penalty if you are younger than 55.

Social Security Benefits Cut for Some Public Workers

I worked as a public-school teacher for many years and paid into the school's retirement program. I also worked for about 20 years where I paid into Social Security. I plan to retire soon. Will I receive my full Social Security benefit, in addition to my school pension?

You'll get your public pension, but don't count on getting your full Social Security benefit. Under federal law, any Social Security benefits you earned will be reduced if you were a federal, state or local government employee who earned a pension on wages that were not covered by Social Security. The rule is called the windfall elimination provision, or WEP. You can use a WEP calculator on the Social Security Web site (www.socialsecurity.gov) to figure your benefit.

Your WEP-reduced benefit could change based on your age when you claim it. Consider this example: After 20 years of covered earnings, you turned 62 in 2012. Your full monthly benefit at 66 would be $1,372, which is reduced $372 by the windfall provision. If you claimed at 62, your benefit would be cut 25%, to $750. For each year you delay past 66, you get an 8% delayed retirement credit until you reach 70. K

TAXES

Last-Minute Tactics To Cut the Tax Bill

It's a head-scratching time for taxpayers engaging in year-end tax strategies. At press time, President Obama and the Congress had yet to forge a deal on extending Bush-era tax cuts into 2013. Also unknown was whether lawmakers would revive many popular tax breaks that expired at the end of 2011, such as the state and local sales tax deduction.

Kiplinger's expects Congress will extend current rates for individuals with adjusted gross income of less than $200,000 (couples, $250,000). During his campaign, Obama supported a tax-rate increase for taxpayers above these thresholds. More likely: Taxpayers with AGI of $500,000 or more should expect a hike.

Regardless of any decision in Washington, you can still employ a number of year-end tax-trimming moves. We covered many in the November issue ("Year-End Tips to Trim Your 2012 Tax Tab"). Here are a few more.

■ **Itemize or standard deduction?** You may have been a longtime itemizer, but if you've paid off your mortgage and your health expenses are relatively low, avoid the aggravation and take the standard deduction. Plus, taxpayers 65 or older get a larger standard deduction.

The 2012 standard deduction is $11,900 for married joint filers, plus an extra $1,150 for each spouse 65 and over. Singles get a $5,950 standard deduction, with older taxpayers getting a $1,450 boost.

You should itemize only if your expenses exceed your standard deduction. If you think your bracket will stay the same next year, delay as much income as you can into 2013 and accelerate deductions. Maybe you can pay your January mortgage bill or 2013 real estate taxes now. Or you can move up some deductible charitable donations that you planned for next year. You can charge the contributions now on your credit card and pay off the card next month—the donation is deductible in the year it's charged.

■ **The 0.9% Medicare surtax.** Obama's reelection guarantees that two new taxes in the health care law will go into effect in 2013. One is an additional 0.9% Medicare payroll tax on higher earners, and the other is a 3.8% surtax on certain investment income. (We explained tax strategies for the surtax last month.)

The 0.9% Medicare tax boost (bringing the rate to 2.35% for employees and 3.8% for self-employeds) will be imposed on wages and self-employment income that exceeds $200,000 for single filers and $250,000 for couples who file a joint return.

If you're self-employed, you may have more control than other workers to eliminate or minimize this additional tax. Sole proprietors may be able to accelerate income by billing clients immediately. Also, try to defer deductible expenses, such as repairs to equipment and the purchase of office supplies.

■ **Deduction limits reappear.** High-income taxpayers may lose a recently renewed benefit next year: unlimited itemized deductions. In 2013, the limitations will shrink the value of certain itemized deductions for joint filers and single taxpayers with adjusted gross income of more than $174,450 ($87,225 for married couples filing separately). If Congress doesn't act, high-income taxpayers could lose up to 80% of their itemized deductions. These limitations had been in effect before 2001, but they were phased out and then repealed as part of the Bush tax cuts.

If you expect to be subject to these limits, consider making a large charitable contribution now rather than holding off until next year. Even if tax rates rise on high-income taxpayers, your deduction is likely to be worth more this year than in 2013 or beyond. Also consider accelerating other deductible expenses.

■ **IRA-to-charity maneuver.** Seniors hoping to make charitable contributions from their IRAs remain in limbo. The provision that expired at the end of 2011 allowed people over 70½ to transfer up to $100,000 tax-free directly to a charity. Many advisers expect the provision will be reinstated for 2012.

Rather than waiting for clarity on this issue, IRA owners might want to make the IRA transfer directly to charity—at least up to the amount of the required minimum distribution. That way, you've satisfied your RMD, and if the provision is not reinstated, you'll include that amount in your taxable income and take a deduction for your charitable contribution if you itemize. K

TRAVEL

It Takes a Villa For a Family Getaway

Last Thanksgiving, my extended family, a multigenerational group of 11, ages 20 to 84, sat down to a dinner of grilled fish and curried vegetables, whipped up by the chef at my sister's rented villa in Barbados. We had spent the day relaxing and swimming in the infinity pool, not standing over a hot stove. There wasn't a roasted turkey or a sweet potato in sight, but we agreed that this was the best holiday dinner ever.

It was especially sweet for the regular cooking and clean-up crew for large family dinners: That includes my sister, who was celebrating her 60th birthday, my 84-year-old mother, and me, then 57. The day involved no grocery shopping, food preparation or dish washing—chores all handled by the villa's resident housekeeper and chef.

Like my family, many travelers are choosing multigenerational villa vacations as a way to combine family bonding, privacy and relaxation. Popular destinations are the Caribbean and Mexico, although you can travel overseas as well. "I probably book a multigenerational villa vacation every week," says Kim Palmer, a senior villa specialist for travel company Villas of Distinction (www.villasofdistinction.com), based in White Plains, N.Y. Palmer attributes the growing trend to the desire for more family time and to the Internet, which makes it easy to locate and screen rental properties.

Another factor is that many grandparents and adult children, often baby boomers, are very active at work and at play. When they find time for a break, they enjoy spending leisure time with their extended families. Many grandparents often possess the disposable income to fund a multigenerational vacation. "My kids and grandkids live near us, but everyone is so busy with work and school and sports that the only way to get undivided attention is to go away together," says Peg Walsh, president of St. Barth Properties (www.stbarth.com), a firm based in Franklin, Mass., and St. Barth.

Walsh and her husband, Steve, who is a retired dentist, are in their mid sixties. For the past 15 years, they have been enjoying villa vacations with 14 relatives, including their three adult children and their spouses and their grandchildren, ages 9 through 21. "My grandchildren appreciate that we're fun. We play wiffle ball, we hike, we go on boat trips, we do water sports," she says.

Contrary to popular belief, renting a villa, even one that comes equipped with a housekeeper and a cook, is not limited to the rich and famous. Villas come in all price points, sizes and locations, and they can be more affordable than staying at a three- or four-star hotel. "Villas offer more intimacy than hotel rooms, they can be more economical, and they offer more amenities," says Jennifer Rastegar, co-owner of Villa Luxe (www.villaluxe.com), a company in Carmel, Ind. "Try getting 12 pool chairs next to each other at a resort hotel during a holiday week," she says.

Finding a Good Deal

Travel specialists say vacationers can obtain discounts of as much as 40% off peak prices for travel off-season, usually from mid April through mid December. Rates are most expensive during high-demand periods, which are Christmas through New Year's, President's Day week, and school spring-break weeks.

If you have the super-big bucks, you can ask Walsh for the St. Barth villa recently featured on *The Real Housewives of New York*. That rents for $140,000 a week at Christmas, not including household staff.

On the less pricey side is a five-bedroom villa, with a pool, fitness room and breathtaking view, which rents for $16,000 a week in high season and $9,300 a week in low season. Divide the cost by two or three family members, and it's a great deal compared with a hotel getaway.

Besides going through a travel company, you can rent a villa directly from owners. On the Web site VRBO.com, a five-bedroom ocean-view villa in the Dominican Republic, with household help and a pool, is advertised for a weekly rate of $1,288 in low season (September through mid December) and $2,754 a week in high season.

Jamaica, Mexico and the U.S. Virgin Islands often cost less than Anguilla or St. Barth's. Palmer of Villas of Distinction says her firm offers "last-minute specials if you travel within 30 or 60 days." Some clients can spend as little as $1,500 a week for a villa in the Cayman Islands, she says.

It can be less expensive to rent villas directly from owners, through Web sites such as VRBO.com or HomeAway.com, or from ads posted in alumni magazines. If you go this route, ask the owner to give you names of previous renters to contact for a reference and to provide photos of the property before you rent it. Ask

COURTESY ST. BARTH PROPERTIES

A five-bedroom St. Barth's villa could host several generations.

who will handle any emergencies that could arise when you are in the house. Many absentee villa owners hire a local real estate manager to oversee their properties.

Going through a reputable travel company provides an extra layer of protection. "We make sure any villa we rent has been inspected by someone in our company for quality control and lives up to its description," says Dale Fuller, a travel consultant at Covington Travel, in Richmond, Va. Travel companies provide numbers to call for help from a local management team or concierge. They can help with car rentals, refer you to a medical clinic, stock the house with food for your arrival, and book restaurant reservations or sightseeing tours. A travel specialist can also steer you to the right house for your group.

You also should check if the villa is located on or near the grounds of a resort, which gives your family access to golf courses, beaches, restaurants and other amenities. Over the past four years, Chris Neumann of Syracuse, N.Y., stayed at resort villas in Anguilla, the Dominican Republic and Jamaica with his parents, siblings and their six offspring ages 7 to 14. "It's easy to schedule tennis or golf lessons for the kids, and the adults can work out in an air-conditioned gym," says Neumann. Some travelers prefer the safety of a gated resort rather than a stand-alone villa.

Activities for Everyone

The advantage of a villa is that there is usually something for every generation and activity level. If you want to take a break from activities, you can sit in a lovely home and read or nap. Although our villa didn't come with resort privileges, my sister's villa did—and she was allowed to bring guests. My two nephews took advantage of the golf course. Some of us spent one afternoon at the resort's beach club, swimming in the ocean and eating lunch at the outdoor café.

Another day, all 11 of us went on a boat excursion, where everyone but my mother went in the water to swim alongside giant turtles. Another key to family harmony is to rent more than one car, so people can break off into smaller groups to follow their interests.

If family members are traveling from different directions, choose a destination with easily available flights. You also need to find out how all family members can reach a possibly remote small town if you are renting a villa in Tuscany or the Pyrenees, for example.

Our travel experience was less than ideal. There were direct flights to Barbados for those in our group leaving from New York City and Miami. The flights from Washington, D.C., Boston and Chicago proved more troublesome. My husband and I lost almost an entire vacation day when our flight to New York from Washington was delayed, causing us to miss our connecting flight to Barbados. Instead, we had to fly to Miami and spend eight hours in the airport there to catch another flight to the island. After a frustrating day, we arrived in Barbados at 11 p.m., not early afternoon, as we had planned.

Some villas come with housekeepers and a cook, and others don't. "There is no standard, but we can always hire staff in any location," says Palmer. Villas that come with staff are more common in Jamaica and Barbados, while in the Caymans and St. John's, you'll likely do your own cooking.

Neumann says that "one of the best parts of our vacations is having a personal staff. The adults can linger around the table and the kids can play."

Before you book, ask all family members about any medical conditions. Some remote islands may not be a good choice if someone has a health issue. Choose a destination that is better equipped for medical emergencies. Also, if anyone uses a wheelchair or a walker, make sure the villa is on one level and there are no steep steps to climb.

If anyone in your group needs Internet access, make sure to ask in advance whether the villa is connected. Access varies by villa and locality. You may need to travel into town to use your computer.

Plan your vacation as much as nine to 12 months ahead for the best selection. Ask about cancellation fees. Advance booking is especially important if you are looking for adjacent villas for family members, or if your group needs six bedrooms, which can be hard to find. I'm already scouting potential villas for my 60th birthday. **K** —**BETH BROPHY**

RETIREMENT LIVING

From Horns to Strings, Retirees Make Music

Seniors in a New Horizons swing band play at a concert.

UNTIL EARLY March 2011, I played the piano nearly every day. Then I had a stroke, and I could no longer use my left hand. Playing one-handed is not very satisfactory, so my days at the keyboard are over for now.

I've played piano since I was six years old. When I was in the Air Force, I found a beat-up piano at an officers' club. Lacking sheet music, I started playing the piano by ear, using a talent that I never knew I had.

Fast forward 50 years. My late wife and I had a piano, which I played for about 30 minutes every day, picking out tunes from shows and movies. I found playing relaxing, but I had no intention of taking lessons. I guess I could be classified as a dilettante pianist.

Other retirees are more ambitious. They take lessons to improve their skills, join orchestras and enjoy the camaraderie of being part of musical groups. For them, music becomes a social outlet to meet others with similar interests.

That's the case with Charles Coultra, 72, a retired electrician in Rochester, N.Y., and a drummer since high school. During his working years, he played regularly with a jazz band. "Besides the enjoyment, I drummed to make some extra money to help put shoes on my four children," he says.

When Coultra retired, he joined the New Horizons program, which is part of the University of Rochester's Eastman School of Music. (There are 200 New Horizons programs in the U.S.) The Rochester program, which was designed for senior adults, has several bands, two orchestras, a choir and chamber ensembles. "Besides giving me a retirement activity, I enjoy the sociability, playing with other musicians, attending rehearsals and doing several concerts a year," he says.

Many retirement communities sponsor their own musical activities. Professional violinist Sylvia Arnett, 82, directs the Forest Players, a 35-member choral group for residents of the Forest at Duke, a continuing-care retirement community in Durham. The Forest Players perform at several concerts a year both for residents and local civic groups. "The members of our choral group enjoy the rehearsals, since it helps give structure to their day," she says.

Jeff Zenter, a music teacher at a local private school, directs Duke University's Osher Lifelong Learning Institute and its swing and concert bands, made up of 100 players who are retirees. "Some are veteran musicians, while others are dropouts who returned to music upon retirement," he says. "We also encourage musical newcomers who never played an instrument before but are now learning." The bands rehearse several hours a week and perform at several concerts a year.

Music Neophytes Take Lessons

John King, 74, who lives in a retirement community in Pittsboro, N.C., and runs a small military hardware company, has played the trumpet with the Osher swing and concert bands for ten years. He hadn't played since college. After his brother gave him an old trumpet, he says, "I took private lessons for several years to rebuild my skills." His wife, Betty, plays the clarinet and saxophone with the same bands.

When he retired as an urban planner, Al Lebeau, 76, moved to the Pittsboro retirement community. He got involved with a local men's singing group, the Harmony Grits, but left to play saxophone with a new band. "As a youngster, I fell in love with Glenn Miller music and the mellow sounds of the tenor sax," he says.

Lebeau helped form Osher's swing band ten years ago. "Besides the personal enjoyment of playing the sax and taking lessons, I meet people with similar musical interests," Lebeau says. In his retirement community, he says, his neighbors play musical instruments, "so the noise from my practicing doesn't annoy them."

If you want to take up an instrument for the first time or brush up on old skills, check music instructors in your area. To find a New Horizons music program, go to www.newhorizonsmusic.org. K —ROBERT K. OTTERBOURG

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