

Investment Planning

This information is meant to be a general introduction to this topic. The purpose is to provide a starting point for you to become more informed about important matters that may be affecting your life as a survivor and to provide ideas about steps you can take to learn more. This information is not intended nor should it be interpreted as providing professional legal and financial advice. You should consult a trained professional for more information.

Survivors may have concerns about how their health status affects their financial planning. If investing is a part of your overall financial plan, or if you are interested in making it part of your plan, you may want to know how you can balance your financial goals with your health care needs. There is no one simple answer for all survivors. However, understanding general investment guidelines, and thinking about your individual health situation, can help as you evaluate your financial goals.

You may find that some areas of investment that you now want to consider are new to you, or are difficult to understand. While some people are comfortable handling their own investments, many people find investment planning is something for which they do not have the time or expertise. Whether you do your own investing, or work with a professional financial planner, it will be helpful to think about specific issues related to investment planning for survivors. Consider asking someone you trust to help you understand how these suggestions may apply to your specific situation.

This document is a good starting point for survivors who want investing to be a part of planning for the future. The information is not meant to cover all aspects of investment planning, so you are encouraged to continue to learn about the subject and how it specifically applies to your needs. Topics that will be discussed include:

- Investment strategy
- Liquid investments
- High risk vs. low risk investments
- Life expectancy considerations
- Using financial professionals
- Comparing investment options

Understanding the language used by investment professionals is important to successful investing. The following list includes some of the most common terms used in the investment world:

- **Asset allocation:** The grouping of investments among different kinds of assets, such as stocks, bonds, real estate and cash, to get the best return within a selected risk and goal situation.

- **Bonds (fixed income):** A bond is a loan you make to a government or corporation that will be repaid by a specified future date, usually with interest. Interest may also be paid to you on a monthly or quarterly basis.
- **Cash (fixed principal):** For purposes of this discussion, cash includes not just the money in a bank account but also credit that is readily available, including credit cards and lines of credit at a bank.
- **Inflation:** The general upward movement of the price of goods and services in an economy is called inflation. As the cost of goods and services increases, the value of the dollar falls and there is an inability to purchase as much with that dollar.
- **Investment return:** The percentage change in the value of an investment over a specified period of time is called the return on investment. This can be a gain or loss. Ideally, it will be an increase in the amount of money that the investment earns over a specified period of time.
- **Investment strategy:** An individualized plan for using different types of investments to meet the needs of the investor.
- **Money market mutual funds:** An open-end mutual fund which invests only in money markets or short-term debt such as Treasury bills and certificates of deposit. There is an ability to turn an investment into cash whenever desired.
- **Mutual funds:** A mutual fund is a professionally managed group of stocks or bonds, or both. Mutual funds let investors diversify their investments (invest in many different companies and industries) while only dealing with one investment company.
- **Principal:** The amount of money invested in a stock or bond.
- **Return:** The amount of money earned on an investment.
- **Stocks (equity):** A certificate issued by a corporation that represents a share of ownership in the company. Instead of interest, the owner of a stock may receive a dividend (a share in the corporation's profit) and possibly an increase in the price per share.

Why does being a survivor influence how I should make investments?

As a cancer survivor, there may be times in the future when your need for cash may be greater than the average person. This could be due to a possible loss of income from work, expenses that come up for health maintenance or expenses relating to a recurrence. In addition, if your life expectancy has changed because of your diagnosis, you may want

to change your investment strategy so that you will have money available when you want or need it.

To think about how your health history may affect your investment choices, you need to think about the four parts of every investment strategy:

1. **Liquidity** - The ability to turn an investment into cash whenever you want.

Money in bank accounts (cash) and money market mutual funds are completely liquid. You can withdraw money whenever you want, for no fee or penalty. At the other extreme, an investment in real estate is not liquid because of the time and effort usually involved in selling it, as well as the challenges of finding a buyer at a particular time.

2. **Risk** - The likelihood of loss or less-than-expected performance, including the possibility that you could lose the principal you invest:

- With a **high-risk investment**, you could lose your entire principal (the money you invested). People invest in a high-risk investment because there is generally the possibility of a very high return on the investment. Examples of high-risk investment would be investing in a start-up company or an oil well.
- With a **low-risk investment**, you are likely to maintain the principal amount invested. However, the amount you earn will often be smaller than with a high-risk investment. An example of a low-risk investment would be a U.S. government savings or treasury bond.

3. **Income** - The amount of money the investment provides you.

The amount of income you can expect from an investment usually relates to the amount of risk involved. The lower the risk, the lower the amount of income you will receive. The greater the risk, the greater the income you could receive.

4. **Growth** - The increase in your principal or dollar value of your assets.

Like income, the amount of growth usually depends on the amount of risk you are willing to take. For example, if you put your money into a low-risk bank savings account, there is usually no growth on the principal unless you leave the interest in the account. On the other hand, if you invest in a place to live (your residence), it is hoped that the real estate will increase in value with time.

How does life expectancy impact a survivor's investment strategy?

When medical professionals use the words "life expectancy," they are talking about what happens to a large number of people over time, not what will happen to any individual. Also, they are talking about what has happened in the past -- not necessarily what will happen today, much less in the future. Life expectancy should be thought of as a tool to help you make appropriate plans and not as something that will definitely happen.

Your life expectancy should become one part of all the information that helps determine your investment strategy. This is your plan for distributing your assets among various investments taking into consideration your individual goals, your willingness to take risks with your investments, and the length of time in which you plan to keep your money invested.

If your health condition is serious and you expect to need all your money in the near future, then a long-term investment may not meet your financial needs. If you expect to live many years, then you may be more concerned about creating enough income to support you during the years after you stop working.

In very general terms, the following guidelines may help you think about how your life expectancy can affect your investment approach.

Short-term life expectancy:

- Your main goal should be to have cash readily available for an extended period of not working (three months or longer), to cover any health expenses that are not covered by health insurance, and to cover unexpected expenses.
- Beyond that, your investment goal should balance liquidity (to provide cash in case you need it) with growth (to meet future needs and goals).

Mid-term life expectancy:

- Your goal should be to have enough liquidity to provide cash to help you through at least three months of not working, plus an extra fund for future health expenses.
- Your strategy should balance income and growth in a way that feels most comfortable for you. The investment return should be greater than the rate of inflation.
- Keep in mind that your health condition may limit your ability to replace capital in the future. For this reason, you may want to consider taking less risk than the average person in your financial situation and age bracket.

Long-term life expectancy:

- Ideally, you may want to have some investments that can be readily turned into cash to get you through a period of at least three months of not working, and to provide cash for future health expenses.
- Beyond that, you can follow the standard guidelines for a person of your age, assets, and likely future income. The investment return should be greater than the rate of inflation.
- You may want investments with somewhat less risk than a person with no health concerns. In addition, you may want to avoid investments that cannot be changed quickly. That way, you can change strategies quickly if your health situation changes.

You do not have to figure out an investment plan on your own. Financial planners and investment professionals have many tools available to help you decide what investments are best for your situation.

What investments are considered the same as cash?

The following investments are basically the same as cash ("liquid") because they can be converted to cash at any time.

- **Certificates of deposit** - These are savings certificates that are available through banks, savings and loan associations, credit unions and brokers. They are insured by the Federal Deposit Insurance Corporation (FDIC) and risk is very low. Certificates of deposit are purchased in varying maturities, or the date when your money plus interest is available to you. Interest earned in a certificate of deposit is likely to be reduced if money is withdrawn before maturity.
- **Money market deposit accounts** - These are a type of savings account that can be set up through banks. They are safe and very liquid but typically offer a lower interest rate than most other investments. There is no risk for any funds up to \$100,000 because those funds are guaranteed by the FDIC.
- **Money market mutual funds** - These funds are sold through brokers who usually represent a variety of funds and most often work for investment companies (brokerage firms). Risk is low, but funds are not guaranteed by the FDIC. The biggest risk in this investment may be that inflation could increase faster than the rate of return on the funds, causing a loss of purchasing power of the investor's money. This type of fund may pay higher rates than money market accounts found at banks.
- **Savings accounts** - Available through banks, savings and loan associations and credit unions. Moneys in these accounts are generally risk free up to \$100,000 because they are insured by the Federal Deposit Insurance Corporation (FDIC).

- **U.S. savings bonds** - Available through employers, banks, savings and loan associations, issuing financial institutions or directly from the Federal Reserve. Some bonds are also available through some payroll-deduction programs. Risk is very low.
- **U.S. treasury bills** - Available from banks and brokerage firms, or can be purchased from the Federal Reserve. Risk is very low.

When comparing potential investments, consider:

1. Your investment goal (such as an emergency fund, down payment on a house, or saving for educational needs)
2. The amount of time it will take to meet investment goals
3. The rate of return (the annual return on an investment expressed as a percentage of the total amount invested)
4. The amount of risk you are willing to take to meet your goal in the amount of time allowed
5. Any fees or expenses that may be incurred in obtaining the investment
6. Fees or expenses charged if you cash them in before maturity (if there is a maturity)
7. Any tax on the earnings, if there is a tax

Think about how these investments fit into your overall estate planning strategy. For example, if you want the investment to pass to a beneficiary without going through your will, find out if you can register the other person as a co-owner. It may also be possible to register the investment to be payable on death to the beneficiary.

Do survivors need the help of financial professionals to make investments?

You need to decide if you want to create an investment strategy and make investment decisions on your own, or whether to do so with the help of a professional. Some important things to consider are:

- Are you considering using a rather uncomplicated investment strategy, such as a bank account, or a more complex strategy, such as a real estate investment?
- Who is sponsoring or offering the shares as the investment?
- What knowledge and experience do you have related to investment strategies, and what is your degree of comfort in making investment decisions?
- What type of strategy are you considering and what are the tools and abilities you have to manage this level of investment?

If you do seek professional assistance, be sure to learn as much as you can about the financial planner you choose:

1. Find out about the specific credentials of the planner, such as college degree and area of study, financial planning credentials and professional designations.
2. Learn about the professional reputation, affiliations, experience and track record of the financial planner, including any record of disciplinary citations to the planner or the financial planning firm.
3. Find out if there are commissions or other benefits attached to the investments that are recommended. This is only bad if an investment is recommended to benefit the planner instead of the investor.

Be sure to let the adviser know about your health history and statistical life expectancy in addition to answering the normal financial questions advisors generally ask.

Investment advisers can be found through:

- Referrals from friends
- Recommendations of your attorney or accountant
- Professional financial planning organizations and state agencies
- Listings in the business section (Yellow Pages) of your local telephone directory

What should a survivor consider when doing investment planning?

It is particularly important for a survivor to balance financial goals with health care needs. Whether you do your own investment planning or work with a financial professional, there are sure to be unique considerations that affect your plan for investing. Investment planning is a challenge for most people. Talking with a financial services professional, trusted family member or friend may help you to clearly define what you need and how best to reach your goals.

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