

MoneyAdviser

Protecting your financial future

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Bright ideas for a prosperous 2015

**18 ways to cut financial stress
and gain better control of your money**

Despite the fact that job growth is speeding up and interest rates remain low, economists are still divided on how the economy will fare in the year ahead. Even so, there are a number of ways you can take control of your finances to make 2015 financially rewarding. Start with these smart tools, products, services, and steps:

1 Get a credit card with a chip

Especially in light of the many recent security breaches at major retailers and banks, now is the time to replace your old magnetic-stripe credit card with a chip-enabled one. Your sensitive personal data, though not invulnerable to determined hackers, will be more secure. Also, when you travel to other countries where the embedded chip is common, you'll be able to use your credit card more widely than a card without it. If your credit-card issuer is unable to upgrade the card now, don't worry too much. By October 2015 just about all credit cards are supposed to come with the

chip because issuers that don't provide them could be liable for charges related to fraud.

2 Hire a robo-adviser

New, so-called robo-advisers provide online investment advice that makes it easier for you to manage your portfolio at a very affordable price. Traditional advisers often provide their services to those with \$500,000 or more in investable assets, but robo-advisers work with the rest of us no matter how much money we have. They also provide asset allocation advice for about 0.5 percent of your total assets—about half the cost of a traditional investment adviser. Among the better-known robo-advisers are Wealthfront, Betterment, and FutureAdvisor, but investment firms such as Vanguard have started offering the service as well.

3 Refinance your mortgage

This could be your last chance to refinance your mortgage before rates go

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FROM THE EDITOR

The gift that keeps on giving

Though I try not to stereotype people, I still have an unfortunate habit of distinguishing between those who read Consumer Reports and everyone else. Must have something to do with the way CR readers value being smart about how they spend their money and intuitively know that information is power. Many CR readers came to it at some point in adulthood. Others are like me—they grew up on it. In my family, no household decision of any import or more than minor expense was made without getting CR's perspective first. As a child, I enjoyed reading the magazine, too. When I'd amassed enough baby-sitting money to buy my first stereo, I bought a CR-approved

model, and though it would be years before I'd purchase my first car, I distinctly remember reading about the auto tests and getting a rise out of photos showing badly designed shoulder belts smacking testers square in the Adam's apple. Now, as a grown-up, I realize that those lessons were formative. Yes, the first thing I do when shopping for a new car is check the fit of the seat belts, but that's really the least of how CR has made me a smarter consumer. So although it can't help but sound like a shameless plug, if you're looking for a great gift for a young person in your life, consider a subscription to Consumer Reports or the Money Adviser, or both. I think they'll appreciate it!

Margot
Gilman
Editor



What's
on deep
discount

December

Some sales are still tied to the calendar, CR product experts say, including these:

- 1 CAMCORDERS** The right features are important, whether you're considering a standard-definition or high-def camcorder. If you want better quality and more options, consider a full-sized model. If you need a smaller, more portable model—or if you're an athlete or adventurer who likes to capture outdoor footage—then consider an action cam.
- 2 GAS GRILLS** When you're shopping for a new grill, match the size of the grill's cooking area to the number of people you usually feed. Remember, manufacturers might include racks and searing burners when tallying cooking area. Next, factor in how much space the grill will take up on your patio. Some of the grills we tested are a whopping 6 feet wide.
- 3 GPS NAVIGATORS** In today's competitive market, GPS prices have come down to the point where even budget units include features previously available only on more expensive models, such as the ability to speak street names, issue speed warnings, and provide reality view, graphically representing major intersections.
- 4 TOYS** Thrift stores, consignment shops, and yard and garage sales often have toys in excellent condition. But carefully check every toy to see that it's well-made and safe, with no parts that could break loose and no magnets, which have proved dangerous for children as old as 11. Check the government's recall website, at recalls.gov, to see whether the toys you plan to buy—or the ones already in your home—have been recalled.
- 5 TVs** Try negotiating when you shop for a new set. You might be able to talk your way to a better price, especially for higher-priced TVs. See what a TV is selling for at reputable online retailers and in local stores, and use that information in negotiating a price. Once you've chosen a set, ask for a break on installation or delivery costs, or for free HDMI or component-video cables. **\$**

Moneytips

SHOPPING

Electronics retailers rated tops

Cameras, computers, and video game consoles make great holiday gifts, so get them at a retailer that has been rated tops by our readers based on our latest electronics shopping survey. Online shoppers gave B&H (bhphotovideo.com), Crutchfield, Amazon.com, and Newegg high marks for customer service, ease of buying, price, and product selection. If you head to the store instead, Abt Electronics scored high, as did Apple, though readers felt Apple's prices were too steep. Readers liked Costco and Sam's Club but dinged them for small selection.



TECH TOOLS

Easier parking

When holiday shopping shifts into high gear, finding a parking spot can be difficult and costly. Apps and Web-based services such as ParkMe (parkme.com), BestParking.com, and Parkopedia (en.parkopedia.com) offer discounted reserved spots in advance. We haven't tested the services, so read the privacy policy and FAQs section of their websites, and the terms and conditions. Also examine user reviews.



A 'gift' to holiday-shopping procrastinators

Time's almost out, and you still have presents to buy. Here are three ways to come in under the wire, but they come at a price:

➔ **Shop online.** Google Shopping offers a same-day delivery service (free trial offered at publication date; check availability). If you order by noon, Amazon delivers to select cities by 9 p.m. The cost is \$6 for Amazon Prime members. And eBay Now offers same- or next-day valet delivery from stores in California, as well as in Chicago, New York, and Dallas. Charges vary.

➔ **Order 'fast' food** for same- or next-day delivery from AmazonFresh in Seattle and parts of California. The service is a free 30-day upgrade to Amazon Prime (\$299 annual fee thereafter). There may be a separate delivery charge and minimum-order requirement. FreshDirect, on the East Coast, offers next-day delivery for \$6 to \$8 in most places (minimum order: \$30).

➔ **Use a same-day shipper**, but you'll pay a premium. To send a 5-pound package from our Yonkers, N.Y., office to lower New York City (20 miles away), FedEx, for example, quoted us \$76 for a 2-hour delivery. To Los Angeles, FedEx promised delivery within 10 hours for \$289. (See more delivery information on page 7.)

INSURANCE

More affordable auto insurance

If you have a \$500 deductible and double it to \$1,000, you can cut your auto insurance premium by an average of 9 percent and by as much as 19 percent, according to a recent study commissioned by InsuranceQuote.com. Raise that deductible to \$2,000 and the average savings jumps to 16 percent. Call your insurer before you buy a new car to find out how the purchase will affect your premium. That could alter your buying decision. If you buy a fuel-sipping Chevrolet Volt instead of a Chevy Traverse (a large, three-row crossover), you'll find that the expected fuel savings could be offset by the premium, which jumps from \$1,188 to \$1,537, according to national estimates from Insure.com.



STRATEGIES

Discounts for the asking

When buying a service, don't simply sign up on a company's website and accept the advertised price. Instead, call a customer-service rep and ask whether any discounts or other promotions are available. The last two times one of our staffers rented a car from Hertz Rent-a-Car, phone reps offered him additional, unadvertised discounts not found on the company's website. In one case, our staffer's phone call saved him an additional 5 percent off the quoted price.

9 The average number of days it took online retailers to deliver holiday orders in 2013.

Source: Kurt Salmon, a global management consulting company.

Bright ideas for 2015

Continued from page 1

up. Lawrence Yun, chief economist for the National Association of Realtors, forecasts a gradually rising trend, with the 30-year fixed rate averaging 5.5 percent in 2015. Recently, you could get a 30-year fixed loan at about 4.1 percent, so if you're currently paying 5 percent or more, refinancing might be a good way to save money. HSH.com, which publishes mortgage and consumer loan data, has a refinancing calculator at hsh.com/usnrcalc.html that can help you decide whether refinancing makes sense.

4 Eat healthy for less

Next year there will be even fewer excuses not to spring for organic. That's because of a recent partnership between Walmart and Wild Oats, a distributor of USDA-certified organic products, that has made organic goods more affordable. In a Consumer Reports study, Walmart's Wild Oats line was 8 to 71 percent cheaper than similar packaged products bought elsewhere. The organic industry has expanded from a blip to a \$35 billion-a-year juggernaut in two decades, with more than 80 percent of families purchasing organic food at least occasionally. With prices coming down, it's easier to be healthier.



5 Get your FICO score free

Increasingly, credit scores are being offered as a perk: Discover, Barclaycard, and other credit-card issuers are offering real FICO scores (as opposed to the educational version) from the three major credit-reporting agencies. It's useful to get it because the score gives you a good idea of your creditworthiness. Keep in mind, though, that lenders not only look at your FICO score but also might rely on other credit scores not available to you to determine whether you're eligible for a loan and to figure out the rate you'll be charged for an auto loan or a mortgage.

6 Go outlet shopping online

More retailers are making their outlet deals available online, and it's a trend that's likely to continue into 2015. That should be a relief to a lot of people. In a recent Consumer



Reports survey, 34 percent of readers said they visited stores more than 50 miles from their home; one in five went to outlets that were more than 100 miles away. You can save time and money by outlet shopping online at places such as the Banana Republic Factory Store (www.bananarepublic.com/products/banana-republic-factory-store.jsp), J.Crew Factory (factory.jcrew.com), Nordstrom Rack (nordstromrack.com), and Saks Off Fifth (saksoff5th.com).

7 Switch to a patient-centered medical home

If you want access to round-the-clock health care without the steep costs of a concierge practice, consider getting your medical care from a patient-centered medical home. The term is used to describe medical practices where care is team-based, comprehensive, and coordinated. About 14 percent of primary care practitioners now operate that way, according to the National Committee for Quality Assurance (NCQA). You can find an accredited patient-centered medical home near you by going to NCQA's website, at recognition.ncqa.org.

8 Consider using a mobile wallet

If you believe that Apple's products have an impact on our behavior, you can bet that its new Apple Pay mobile wallet app will change the way we shop in

A credit-card remote control could reduce fraud—and prevent your teen from shopping without your OK.

2015. Instead of using a credit card, we'll be able to pay at a cash register by waving an iPhone near the card reader. Similar services, such as those from Google Wallet and SoftCard, are already available though not widely used. That's because relatively few vendors have payment terminals with near field communication, technology that allows card readers to interact with many mobile wallets. But it's possible that Apple Pay, with its wide availability to iPhone users, will give vendors an incentive to upgrade their terminals.

9 Deposit checks from home

Download your bank's app to your smart phone if you haven't already. The app lets you do all of the regular tasks that online banking allows, such as checking balances and transferring funds. You can also deposit checks. It's as simple as taking a picture of the front and back of the check with your cell-phone camera, then tapping the app's "deposit" button. Most big banks clear checks deposited by phone as quickly as if you stopped by a branch yourself, but they're not required to. So find out from your bank how quickly your checks will clear.

10 Consider no-contract cellular service

There's a lot of buzz about getting cell-phone service without the usual two-year contract that makes it difficult to leave your service provider. Spend a few minutes to see whether such a plan makes sense for you. To properly compare contract and no-contract plans, add up each plan's monthly cost of service over two years plus the cost of payments for the phone over the same period. We found the biggest no-contract savings can come if you can bring your old phone to the new plan and wireless carrier.

11 Invest in ETFs

The expense ratio of exchange-traded funds is coming down and could continue





to fall into 2015. So consider investing more in ETFs than, say, in individual stocks or mutual funds. In some cases, discount brokers will even make trades of their ETFs commission-free. Fees and commissions aren't the only factor to consider when investing, but other things being equal, cheaper is always better. In many cases, ETFs may be the only way to effectively invest in certain industries and overseas markets. And there are plenty to choose from; according to Morningstar, there are more than 1,600. ETFs are also beginning to appear in some 401(k) workplace savings plans, particularly in those of smaller companies.

12 Watch for longevity annuities

In 2014 the Treasury department made it easier for consumers to invest in longevity annuities through their 401(k) and other workplace savings plans. The annuities are expected to start appearing in plans in 2015, so watch out for them. The new rule says that workers can use up to 25 percent of their savings, to a maximum of \$125,000, to purchase a longevity annuity within their plan. Those products can go a long way to ensure that you don't outlive your retirement savings. As a bonus, the amount doesn't count toward your required minimum distribution, so you won't be required to draw down as much of your retirement savings. They could also be good investments if interest rates rise, which is likely during the year ahead.

The latest tech tools to manage your money

13. Maximize your interest on cash

If investing in stocks and bonds makes you uneasy and you have a large stash of cash in the bank, you might want to try a new tool that will help you maximize the interest you earn on that money. MaxMyInterest (maxmyinterest.com) monitors interest rates that banks offer on a daily basis, then instructs your bank to move your funds (in up to five accounts you have opened) so that you're always maximizing the interest you receive. You set the limits so that you maintain minimum deposit levels and don't exceed FDIC limits.

14. Give your 401(k) a checkup

If you don't have access to a financial adviser to review your asset allocations in your retirement savings plan, consider signing up with Bloom (yes, there are three O's). The tool continually analyzes your 401(k) and allocates your money among various funds in it to maximize your returns. It will also make adjustments and rebalance your portfolio. You can override Bloom's decisions at any time. But there are a couple of drawbacks: The tool has a bias toward moving your money into index funds, but it doesn't consider fees when allocating your savings among actively managed funds. Also, if you have multiple retirement savings accounts, it doesn't currently aggregate them. The service costs \$10 per month for balances of more than \$10,000 and \$1 per month if your balance is lower. You can find the service at bloom.com.

15. Forget your passwords

Passwords are supposed to safeguard data, but keeping track of them is a headache. One tool to watch is AnchorID (anchorid.com), a mobile app that serves as a master key that replaces passwords. You can download it from the company's website or from the Apple store. You get one universal user name that serves as a unique identifier. When you go to a website that accepts AnchorID, you type in your user name but leave the password blank. AnchorID then sends you a message on your smart phone confirming that you want to access the site. Click yes and you're in. The app uses the same level of security as online banks, but it can be set to use biometrics that analyze your voice or fingerprint, for example, before

giving you access. The service is expected to be launched in the first quarter of 2015, but you can download it now and reserve an AnchorID universal name.

16. Get a grip on your financial life

Like other robo-advisers, iQuantifi, a new Web-based tool, helps you plan asset allocations to meet long-term goals, such as financing retirement and college. It can also help you plan for short-term goals, such as vacations or buying a car. Why it's different: By answering your "what if" questions, it helps you decide whether you can afford new expenses, such as a car payment. It can show how higher outlays will affect your savings goals, and, with its "Cashfinder" feature, where you might be able to cut back to squeeze in that extra expense. After a free 30-day trial, it costs \$9.95 monthly or \$89 annually.

17. Get a credit-card remote control

A new mobile app, Card Control, lets you use your phone to turn access to your credit, debit, and prepaid cards on and off. It's offered through banks, so check to see whether it's available at yours. When you're about to make a purchase, use the app to turn your card on. When you're done, turn it off to prevent fraudulent use. A nice feature: You can send your teenager off with a credit card that you have set to work at, say, your local CVS but not at an Apple store.



18. Prevent financial elder abuse

All too often, senior citizens are the victims of financial fraud. One way to put the brakes on is to encourage an elderly loved one to sign up for EverSafe's new account- and credit-monitoring service for seniors (eversafeseniors.com). It checks credit-card accounts and other financial holdings for daily transactions that might signal scams or exploitation of a senior. It also scans credit reports daily. The service can be set to provide "view only" privileges to you or another family member or trusted professional. It's \$5 per month for an introductory offer. After that, monthly prices start at \$10. **\$**

tax savers

Engineer your tax savings for 2015

Act now to save more when you file

The holiday shopping season traditionally starts on Black Friday, but for tax geeks that moment marks the unveiling of new tax software in stores and the start of the tax-prep season. But even if a fresh version of H&R Block or TurboTax doesn't give you thrills, it's worth your while, among shopping trips, parties, and school recitals, to consider a few last-minute, money-saving tax moves.

Now is the time to touch base with tax experts to plan stock sales; charitable giving; and, when possible, the timing of income and tax-related payments. That's particularly true if your situation since last year has changed in a measurable way—a major income loss or gain; job change; life event such as the marriage, divorce, adoption or birth, or the death of a household member; or an out-of-state move.

“Probably 90 percent of taxpayers don't talk to their tax professional until they're ready to do their taxes in March or April,” says Bradford Hall, managing director of Hall & Co., CPAs in Irvine, Calif. “They lose the benefit of potentially saving a substantial amount in taxes had they properly planned before year-end.”

GOAL: ZERO NET CAPITAL-GAINS TAX

Investors with losses and gains can rebalance and sell both types of holdings to offset each other, as we mentioned last month (“Year-End Investment Strategies,” November 2014 CRMA, page 11). That strategy, and utilizing IRS rules allowing for deductions up to \$3,000 in net capital losses each year, might help households save on federal tax on net capital gains, which for many taxpayers will be 15 percent.

But those who are in the 0 percent net capital-gains-tax bracket—individuals with taxable income of up to \$36,900 and joint filers with taxable income of up to \$73,800—



Taxpayers who itemize and expect to earn more in 2015 should defer deductible expenses until then.

might benefit from harvesting just their winners now, if they expect their income to rise significantly in 2015. Benjamin Sullivan, a certified financial planner and enrolled agent at Palisades Hudson Financial Group in Scarsdale, N.Y., says those who will take required minimum distributions from retirement accounts for the first time are candidates. (Those turning 70½ this year have until April 1, 2015, to take those first RMDs.)

“If you want to maintain an exposure to a particular stock, you can sell it and buy it right back with higher cost basis,” Sullivan says. “That will benefit you in the future when you sell again.” The IRS wash-sale rule, which penalizes investors who sell a holding, then buy it back within 30 days, doesn't apply when the sale results in a gain, Sullivan notes.

BASE PLANS ON 2015 INCOME

Those who itemize have the most leeway in tax planning. If you expect to earn signifi-

cantly more in 2015, defer as many expenses as possible to next year. If those earnings land you in a higher tax bracket, your deductions will be worth more to you.

Owners of home businesses, for example, can wait until January to upgrade computer equipment (and, perhaps, take advantage of after-holiday sales). Landlords can delay nonurgent repairs and upgrades to investment properties until 2015.

If you know your income will drop next year—say, you or a spouse expect to reduce work hours—pay for those expenses before year-end. For instance, pay property tax that's due in January or February before Dec. 31. Remit spring-semester college tuition, or pay your January mortgage in advance. If you charge tax-deductible charitable contributions on your credit card before the end of the year, you can take the deduction for 2014, though you may not have to pay until a month or more later.

TIME-DEDUCTIBLE EXPENSES

Tax advisers recommend bunching miscellaneous deductions—mainly work-related expenses like the cost to buy new uniforms and other items not reimbursed by your employer—in one year if you can. To be eligible for the deduction, those expenses must exceed 2 percent of your adjusted gross income. You can deduct only the amount that exceeds that 2 percent threshold.

With medical expenses, the threshold to deduct is even higher: 10 percent of household adjusted gross income. (For households where one filer is 65 or older, the cutoff is 7.5 percent, though for such households subject to the alternative minimum tax, the threshold is 10 percent of AGI. But it's still possible to reach that threshold, especially if you bunch up elective purchases in a given year. (See “A Tax-Deductible Dog? The IRS Says Yes,” on the facing page, for ideas.)

CHECK WITHHOLDING, DEFERRALS

Whether you itemize or take the standard deduction, you may be able to reduce your tax liability or boost your refund by contributing more to your retirement accounts and to 529 education plans by year-end. (You have only until the end of this year to add to this.)

Also, check your withholding now to ensure that the government is not taking too much of your money. The IRS Withholding

Santa's delivery helpers

There's little doubt that Santa Claus operates the world's most efficient package delivery system—his sleigh travels at rates of up to 1,800 miles per second as he delivers toys to good little girls and boys. Unfortunately, though, he's booked solid for the holidays. So if you have

gifts destined for far-flung places, you'll have to use one of his helpers—a package delivery service—to handle the task of transporting them for you. We put FedEx, UPS, and the U.S. Postal Service to the test to see which can get your packages to their destinations most economically and quickly.

Calculator at irs.gov can estimate what you should pay. If you're not paying in enough, ask your employer to change your withholding for the last pay periods of the year. The IRS penalizes withholding too little, but only when you're paying less than 90 percent of your tax obligation for 2014, or 100 percent of what you paid in 2013, whichever is smaller.

Remember to spend down any money you've left in a flexible spending account for medical or child-care purposes before the tax deadline. Usually that's before Dec. 31, though some employers give you until March 15 of the following year. **\$**




A tax-deductible dog? The IRS says yes

A surprising variety of high-priced items and services count toward deductible medical expenses, including improvements to make a residence accessible by wheelchair; new home siding where existing mold affects the health of a resident; reading help for a dyslexic child; and the cost of buying, training, and maintaining a service dog. (See IRS Publication 502, "Medical and Dental Expenses," for details.)

Other legitimate write-offs include laser eye surgery and in vitro fertilization treatments.

Publication 502's list of allowable deductions isn't comprehensive, notes Barbara Weltman, an attorney and contributing editor to J.K. Lasser's "Your Income Tax" book series. For example, travel to visit a child in rehabilitation when that visit is considered medically necessary isn't mentioned. But it may be deductible, she says. A tax pro can help you identify deductible items you need and can purchase before the new year to get a tax deduction for 2014.



  	
U.S. and international deliveries	For Santa to deliver all of his packages, he has to zip around the earth a minimum of 187 times, according to Michael Trick, a senior associate dean at Carnegie Mellon University. Package shippers require more people, bigger fleets, and more advanced logistics to deliver their packages. All three services deliver to the 193 million residential addresses in the U.S. and most of the 262 countries, territories, possessions, and dependencies recognized by the U.S. FedEx score: 5.0, UPS score: 5.0, USPS score: 5.0*
Convenience	Mailing your packages early increases the chances they'll arrive on time. The three big shippers accept packages on as many as 307 days. During the holiday season, from Nov. 1 to Dec. 31, they'll take your packages on about 50 days. For deliveries, the USPS will deliver Priority Mail Express every day, including Sundays and holidays, for a surcharge. FedEx delivers on Saturdays for an extra charge; it also has same-day delivery service 365 days per year, but we did not include that in our comparison because we considered it a novelty that's overpriced for cost-conscious consumers. FedEx: 3.5, UPS: 3.5, USPS: 4.3
Reliability	Last year, the shipping services didn't arrive at every house on time because of poor weather conditions—a situation made worse by a crush of last-minute shoppers sending gifts. Still, given the steep prices for overnight and second-day service (not to mention the glum faces of children if gifts are late), on-time delivery is critical. UPS and FedEx refused to tell us about their track record, which hurt their score. The USPS says 87.5 percent of package deliveries were made on time in 2013. If FedEx and UPS did better, wouldn't they want to crow about it? FedEx: 1.0, UPS: 1.0, USPS: 3.0
Cost	We set up a crisscross pattern of deliveries between 25 pairs of cities from coast to coast and on to Honolulu and Anchorage, and researched the least costly prices for each. We did that for next-day-standard, second-day, third-day, and ground delivery, and assumed that if your package were 5 pounds or less, you'd choose next- or second-day service, and if it were 20 pounds, you'd opt for more economical three-day or ground delivery. The USPS was cheapest 92 percent of the time for next-day and second-day delivery. For third-day and ground delivery, FedEx was cheapest. In no case was UPS the least expensive. FedEx: 3.0, UPS: 1.0, USPS: 3.0
Overall	In the 1947 movie "Miracle on 34th Street," the postal service came to Kris Kringle's rescue by delivering proof that he really was Santa. When it comes to picking the best way to send your holiday gifts, we find that the USPS should be your choice. If you must be a Scrooge, though, compare FedEx with the USPS to find the best price. And kudos to the USPS for disclosing its on-time performance statistics. FedEx: 3.1, UPS: 2.6, USPS: 3.8

*Our scores are based on our assessment of 11 key criteria, grouped within the four categories shown above using a 1-to-5 scoring scale, where 5 is the best possible and 1 is the worst. Individual scores are averaged within category, then the variously weighted category scores were averaged to produce the overall score. Want more details? Go to the Money page at ConsumerReports.org for our underlying Expert Review Report, which explains our evaluation methodologies, procedures, and subscore.

Does your portfolio need alternatives?

Traditional assets have performed better for investors in recent years

Alternative investments are a little like alternative music: Ask 10 people what they are and you'll get 10 different answers. Simply put, alternative investments are anything that aren't mainstream. So they won't be stocks, bonds, or money market funds.

For hedge funds and huge endowments like those found at Harvard and Yale, alternative investments include private equity and other illiquid investments. Among mutual funds, Morningstar lists no fewer than seven alternative fund categories, with names such as Multicurrency, Long/Short Equity, and Bear Market. Most of those funds, though, are also exotic playthings for institutional investors.

None of the categories include what many financial advisers consider alternative investments for mere middle-class mortals, such as commodities, real estate investment trusts (REITs), and perhaps absolute return funds, which can use techniques such as short selling and investing in options and derivatives to generate returns.



Yet alternatives are increasingly considered essential for some investors. Three out of four financial advisers use them in the portfolios of at least some of their clients, though usually for a small fraction of the portfolio—one-fifth or less. The primary reasons for including them are perhaps familiar if you've ever picked up marketing material for those investments:

Alternatives offer greater diversification than a typical portfolio, they help manage risk, and they reduce volatility. They do all that to generate superior returns.

But is that really the case? We can't pretend to be able to cover each animal in the alternative investment menagerie, but a representative example illustrates what alternative investments can, and cannot, do for your portfolio.

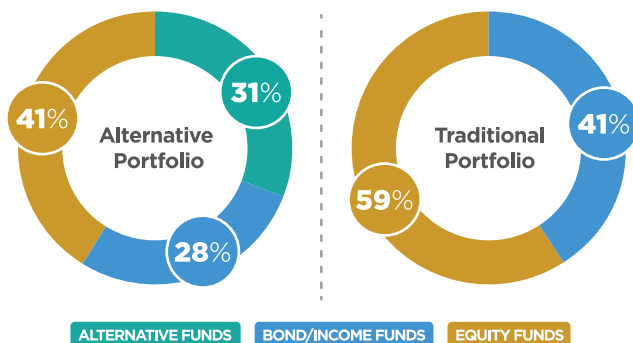
WHEN MORE ISN'T MORE

One reason for investing in alternatives is diversification, the cornerstone of modern portfolio theory that hypothesizes that a collection of diverse investment assets offers greater return while simultaneously reducing risk. More return and less risk is why diversification is often referred to as the only free lunch in investing. The idea is that as one asset zigs, another zags.

The theory even applies to a portfolio that is made up of only two asset classes, such as stocks and bonds. Many target-date funds, the all-in-one solutions found in most workplace savings plans, are

Less is still more, for now

When we compared the performance of a portfolio with alternative investments including Absolute Return and Market Neutral funds with a traditional portfolio, the alternative portfolio performed significantly worse.



	Alternative Portfolio	Traditional Portfolio
Starting value, June 2012	\$100,000	\$100,000
Ending value, Sept. 2014	\$123,855	\$131,845
Annualized return rate	10.0%	13.1%
Standard deviation	1.8%	2.3%
Best quarter	4.6% (Q4, 2013)	6.1% (Q4, 2013)
Worst quarter	-0.4% (Q3, 2014)	0.1% (Q3, 2013)

Returns based on Morningstar data. Equity fund tickers are DODGX, PRWAX, VDIGX, WAAEX, SLMCX, and TBGVX; bond fund tickers are DODIX, JSOAX, PTTAX, and PGSAX; and alternative investment tickers are ASFAX, FPACX, HSGFX, and PAUAX.

composed exclusively of those two asset classes, because the managers of the target-date fund believe that a portfolio with both has the best chance of appreciating, while also minimizing any potential interim losses.

But will adding additional asset classes to a portfolio, such as alternatives, produce even better results? It's a question worth asking when you consider that the costs of alternative investments are generally higher than their bread-and-butter stock and bond counterparts. Even exchange-traded funds, which are generally the cheapest approach to gaining exposure to alternatives, often have expense ratios of at least 0.70 percent annually, twice that of most domestic stock and bond index ETFs.

Chalk it up to bad timing, but there is a good argument that adding alternatives to your portfolio won't help much with generating higher returns—at least these days. Over the past few years, many alternative funds were unable to deliver returns that were any better than less diversified funds. In 2012, for example, though stocks and bonds generally performed well, returning 16 percent and 4 percent for the year, respectively, more than half of the absolute return funds lost money.

REDUCING VOLATILITY

Anyone who has read a fund prospectus is familiar with the phrase “Past performance is not a guarantee of future returns.” With alternatives, there's a new twist on that phrase in some marketing material: “Past correlations do not guarantee future correlations.”

The idea behind correlation is to measure whether two investments move in the same direction. A correlation of 1 indicates that the two investments are perfectly correlated, or moving in sync with each other. A correlation of minus 1 indicates that they move in opposite directions. If the correlation is zero, the two investments move independently of each other.

In the past alternatives were largely uncorrelated, sometimes outperforming stocks and bonds, giving a boost to

portfolios when stocks, for example, were down. More recently, alternatives have been more closely correlated to stocks, partly explaining why many alternative funds haven't performed as advertised. From 1990 through 2008, for example, commodities, considered by many to be the alternative investment having least in common with mainstream stock and bond investments, had zero correlation with stocks. But since 2008, the correlation increased—to 0.5—so although they're not moving in lockstep with U.S. stocks, they're still performing similarly to stocks.

Other alternative assets also have had high correlations to stocks in recent years. Real estate investment trusts (REITs) have an even higher correlation than commodities, moving more in synch with stocks. The performance of those exotic institutional investments such as Multialternative and Long/Short Equity funds—which use leverage as a tool to beat an index—perform even more closely to stocks. The only difference is price. On average, stock funds (even the more expensive actively managed funds) cost less than half of many of those alternative solutions.

Bring it all together and you'll see that adding alternative investments to a portfolio doesn't always produce greater returns or reduce volatility. To illustrate that, we took a portfolio constructed by a fund manager in 2012 that included stock funds, bond funds, and alternative investments (see chart on facing page). We then “invested” \$100,000 in the funds, in the proportions indicated in the portfolio: 41 percent was invested in six stock funds, 28 percent in four bond funds, and 31 percent in four alternative funds. We examined the performance since the portfolio was published in June 2012 and compared the returns with the same portfolio without the alternative funds.



Three out of four financial advisers allocate some percentage of their clients' portfolios to alternatives.

The result: The alternative fund portfolio grew to \$123,900—up 23.9 percent from June 2012 to September 2014. But the portfolio without the alternative funds, composed of 59 percent stocks and 41 percent bonds, appreciated more, growing to \$131,900. Moreover, it did so with similar volatility as the portfolio with alternatives.

To be fair to the portfolio, the example doesn't take into account any rebalancing, or perhaps other adjustments a port-

folio manager may have made over the 27-month period. Another point is that two years is not an especially long time to decisively conclude that alternatives fall short of their promise.

Still, the performance raises questions. Among them: Should you consider adding alternatives to your portfolio? In the future, interest rates are expected to rise, which will hurt bond returns. In such an environment, alternative funds may have a role. Another reason to consider them: The Standard & Poor's 500 Index is already up 15 percent over one year ago, and some investors are concerned that stocks are becoming overvalued, with a price earnings ratio of 16.

No one has a crystal ball and knows what may or may not happen to the market in the future. Though alternatives have made significant contributions to the returns of the investors during difficult times for equities in the past, currently alternative investments appear to be a costly accessory to the traditional portfolio of stocks and bonds. And although alternatives have not lived up to their portfolio-boosting abilities in recent years, if stocks do indeed fall, you may find yourself yearning for a share of, say, gold to buffer the impact on your portfolio. **\$**

Emerging-market stock funds

Higher risk, but over the long run, higher rewards

If you don't have a stomach for volatility, you may be pleased in the event that you didn't invest in emerging-market stocks this year. They were on a roller coaster—enough to make even the hardiest investor queasy. Consider the iShares MSCI Emerging Markets exchange-traded fund (ticker EEM). It rose by 18 percent between February and August of this year. Just six weeks later, it fell 11 percent, sending emerging-market stocks to seven-month lows.

Fueling the rise was demand for the commodities of emerging markets. Colombia, for example, benefited from rising demand for oil while Indonesia prospered as demand for its natural resources increased. But countries whose economies depend on commodities can see their stocks fall just as quickly as they rise. The price of crude

oil, for example, fell from \$100 per barrel in August to \$82 dollars per barrel two months later. That may be good for the American consumer, but the rout in prices caused the stocks of many exporting nations to suffer.

It's not just demand for commodities that can make emerging-market stocks the nervous Nellies of investing. Other emerging-market stocks, like Brazil's, fell sharply on fears over how Federal Reserve policies may affect their economies. But none of that sensitivity is unusual. Relative to

large-cap U.S. stocks, emerging-market stocks are about 50 percent more volatile, when one compares their respective volatility indexes.

With hiccups this regular, should investors even bother with emerging-market stocks? The answer depends partly on how much appetite you have for risk. Since 2000, emerging-

market stocks have outperformed U.S. large caps by about 5 percentage points annually.

COSTS FOR INVESTORS

The chasm between the costs of actively managed emerging-market stock funds (1.60 percent, on average) and those of lower-cost exchange-traded funds (0.6 percent) is greater in this asset class than any other we looked at in 2014. Actively managed fund managers may claim that the fees are higher because they invest only in the regions that they perceive offer value and opportunity, and because they avoid more overpriced or troubled areas. Some of the more successfully nimble actively managed funds are listed below.

Keep in mind that for significantly less cost, you can still gain exposure to emerging-market stocks through ETFs. They won't outperform the best performing funds, but they won't deviate much from the index they track, either. **\$**

Since 2000, emerging-market stocks outperformed large-cap U.S. stocks by 5 percentage points annually.

ACTIVELY MANAGED FUNDS

FUND	Ticker	Expense ratio (%)	Total returns (%) 1-year/3-year*/5-year*			Best 12-month return (%)	Worst 12-month return (%)	Minimum investment	Consistency (%)
Driehaus Emerging Markets Small Cap Growth	DRESX	1.85	14.8	15.0	12.7	44.7	-14.4	\$10,000	94
Parametric Emerging Markets	EAEMX	1.38	7.3	8.8	5.3	28.5	-19.5	1,000	94
Causeway Emerging Markets	CEMVX	1.56	6.5	10.8	8.0	40.0	-20.1	5,000	90
Driehaus Emerging Markets Growth	DREGX	1.66	3.5	10.2	8.1	34.1	-17.6	10,000	86
Harding Loevner Emerging Markets	HLEMX	1.46	7.0	11.7	6.8	26.8	-18.2	5,000	84
Northern Multi-Manager Emerging Markets Equity	NMMEX	1.36	4.5	8.9	5.9	31.9	-18.3	2,500	84
Diversified Emerging Markets fund index		1.60	4.8	7.9	4.3	27.7	-20.2		

EXCHANGE-TRADED FUNDS

iShares MSCI Emerging Markets	EEM	0.67	3.7	6.7	3.4	28.5	-20.8		
PowerShares DWA Emerging Markets Momentum	PIE	0.91	3.5	9.1	7.4	35.4	-14.5		
SPDR S&P Emerging Markets Small Cap	EWX	0.65	6.9	9.7	5.2	30.9	-29.2		
Vanguard FTSE Emerging Markets	VWO	0.15	6.1	7.7	4.3	30.7	-20.9		
WisdomTree Emerging Markets Equity Income	DEM	0.63	-3.1	3.9	4.5	37.6	-14.2		
WisdomTree Emerging Markets Small Cap Dividend	DGS	0.63	2.7	8.7	6.6	36.2	-20.6		

DATA: Morningstar. Returns as of Sept. 30, 2014. Best and worst month-end, one-year returns are from October 2009 through September 2014. *Annualized.

Time to raise a glass to your portfolio?

To profit from wine, there's more than one way to indulge

Whether it's baseball cards or Beanie Babies, most collections don't result in financial gain for the collector. The dividends tend to be paid out in enjoyment instead of dollars, and only the rarest of specimens will ever appreciate in value. Investing in more grown-up items, such as wine, won't necessarily inoculate you from loss, either. Wine investing is often more for pleasure than price appreciation. Sipping wine may be great while sitting by the fireplace, but no one's making a killing from a cellar stocked with pedestrian wine—or even better wines, in some cases.

At the higher end of the spectrum, the equation can change. Some vintages, costing thousands of dollars per case, have dramatically increased in price, rising more than 300 percent since 2004. Stocks, as measured

by the Standard & Poor's 500 Index, haven't even doubled over the same period.

AN ALTERNATIVE INVESTMENT

So is now the right time to jump into the tub of grapes with both feet? Not necessarily, at least judging by the performance of the Liv-ex 100 Fine Wine Index. Akin to a Dow Jones industrial average of wines, the Liv-ex comprises “100 of the most sought after vintages”—mostly Bordeaux. Prices increased more than 60 percent from 2009 to 2011 but have since fallen back to 2009 levels (see chart).

Even if you were inclined to consider an investment, wine-based mutual funds remain in short supply. In the U.S., you won't find any such funds by using an online broker. But for \$50,000, the Bottled Asset Fund, a portfolio focusing on Italian wine, will consider taking you on as an investor.

We did find one mutual fund devoted to wine, headquartered in Bermuda. That's just as well. With hedge-fund-like expenses (an annual fee of 1.5 percent, a performance fee of 20 percent of returns, and a subscription fee of 5 percent), most of us would likely be better off investing in two-buck Chuck.

If investing in wine funds seems daunt-

ing, a more direct approach, wine futures, may be more palatable. Wine futures, or pre-arrivals, are vintages with limited availability purchased well in advance of production. Securing wine from a reputable wine merchant gets you in on the ground floor—the closest to an IPO some of us may ever get.

How do you know whether the wine purchased will appreciate in value? Well, that's where the speculation comes in, and there's no guarantee. Since the 2002 vintage, purchasing wine futures would have resulted in gains only 50 percent of the time.

If you don't have a wine cellar in your home, wine merchants can store your wine for you. Like safe deposit boxes at banks, wine storage lockers come at a cost. The website WineFolly.com quotes prices ranging anywhere from \$20 to \$200 per month, depending on size.

BEWARE OF WINE FRAUD

Wine investing has attracted much attention from investors in recent years, and it has also become a target of fraudsters. Most of the stuff they sell is old wine in new bottles, and their marketing techniques have the hallmarks of many other scams: cold calling, “guaranteed” returns, and high-pressure sales tactics. (Most wine merchants we know are more demure.)

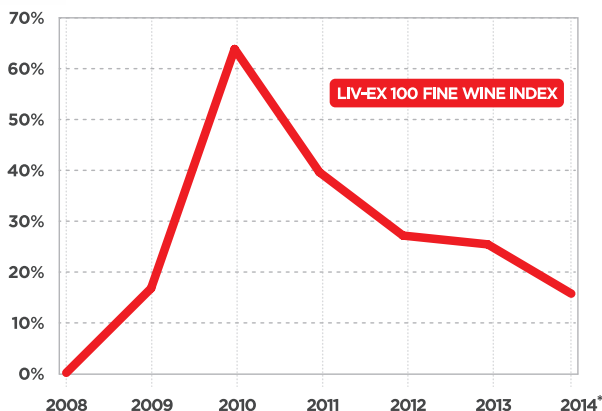
Overseas, there have been reports of fraudsters using websites with names similar to legitimate outfits, looking to bilk unsuspecting buyers. In the U.S., the Federal Trade Commission has, on occasion, reined in wine-investment outfits that overpromised and underdelivered.

All of this is to say that although investing in wine could enhance your portfolio, it could also diminish it. If you decide to try wine futures, consider the merchant's reputation as well as the price of your investment. Given the pitiful performance of wine in recent years, invest for reasons other than price appreciation—perhaps to cultivate your expertise in sniffing, swirling, and slurping. In that case, if the value of your wine investments falls, at least you can always open up a bottle and drink it. **\$**

A benefit to investing in wine: If the value falls, at least you can drink it.

Sour grapes

The Liv-ex 100 Fine Wine Index shows that the price of wine has fallen in recent years.



*Through September. DATA: Liv-ex 100 Fine Wine Index.



Make your charitable donations count

How to discover nonprofits that use your money effectively

This is the season for charitable giving, but some nonprofits with great-sounding names don't put enough money where their mission is. So to be sure your generosity counts, you should do some homework before you make a donation.

Start by looking for a report at the three major charity watchdogs: the BBB Wise Giving Alliance (give.org), Charity Navigator

(charitynavigator.org), and CharityWatch (charitywatch.org). Then do some research. Look for reviews from donors and charity professionals. Check a charity's website for information about the group's mission and achievements. Read the donor privacy policy.

Below is a list of two high- and two low-rated charities in various categories. We looked for agreement—good and bad—among the three major watchdogs. Because

not every group is evaluated by all three watchdogs, we relied in some cases on agreement by just two.

In some categories, we could not find two good or bad charities that the watchdogs agreed upon, or we had to include local groups. We also left out highly rated charities, such as Save the Children, that CharityWatch says obtain a considerable amount of income from the government. **\$**

Cause	High-rated	Low-rated
Animal welfare	PetSmart Charities, Phoenix, Ariz. RedRover, Sacramento, Calif.	SPCA International, New York Tiger Missing Link Foundation, Tyler, Texas
Blind and visually impaired	Guide Dog Foundation for the Blind, Smithtown, NY. Foundation Fighting Blindness, Columbia, Md.	Heritage for the Blind, Brooklyn, N.Y.
Cancer	Cancer Research Institute, New York The Multiple Myeloma Research Foundation, Norwalk, Conn.	American Breast Cancer Foundation, Baltimore Cancer Survivors' Fund, Missouri City, Texas
Child protection	Children's Defense Fund, Washington Prevent Child Abuse America, Chicago	The Committee for Missing Children, Lawrenceville, Ga. Find the Children, Santa Monica, Calif.
Environment	Earthworks, Washington, D.C. Environmental Defense Fund, New York	None
Health	Michael J. Fox Foundation for Parkinson's Research, New York Crohn's & Colitis Foundation of America, New York	Defeat Diabetes Foundation, Madeira Beach, Fla. Childhood Leukemia Foundation, Brick, N.J.
Human services	American Red Cross, Washington Catholic Charities USA, Alexandria, Va.	Shiloh International Ministries, La Verne, Calif. Children's Charity Fund, Sarasota, Fla.
International relief and development	Grameen Foundation USA, Washington Lutheran World Relief, Baltimore	The Aidmatrix Foundation, Irving, Texas Children's Lifeline, Clay City, Ky.
Mental health and disabilities	Alzheimer's Foundation of America, New York American Foundation for Suicide Prevention, New York	Autism Spectrum Disorder Foundation, Schererville, Ind. National Caregiving Foundation, Alexandria, Va.
Police and firefighters support	New York City Police Foundation, New York FDNY Foundation, Brooklyn, N.Y.	Disabled Police Officers Counseling Center, Niceville, Fla. Firefighters Charitable Foundation, Farmingdale, N.Y.
Veterans	Homes for Our Troops, Taunton, Mass. Operation Homefront, San Antonio, Texas	National Veterans Services Fund, Darien, Conn. National Vietnam Veterans Foundation, Fort Lauderdale, Fla.

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Get the best deal on practically anything

Make the most of tools that track prices

Getting a good deal when you shop has been getting a whole lot easier.

For one thing, shoppers now have an impressive array of online tools and apps that enable them to compare prices via computer or mobile device before, during, and after they shop to get the best prices on everything from apparel to electronics. For another, more and more retail stores and online merchants are using sophisticated price-optimization software that tracks competitors' prices and devises algorithms to adjust their own prices. One aim is to offer the lowest price in order to claim the top spot in search results. In the case of the mega-retailer Amazon.com, prices are adjusted as many as 2.5 million times per day. The software also helps retailers look at your shopping habits and buying patterns to judge whether you're a casual shopper or a serious bargain hunter. The more informed, tougher customers might be treated to special prices and promotions.

The goal of that optimization is not only to capture your shopping dollars from competing retailers, of course, but also to wed you to the store brand. If you trust that a store is consistently competitive in terms of prices, you'll be "less likely to shop around for a deal," according to Planet Retail, a market-research consulting firm.

In fact, not shopping around is becoming a luxury that many can no longer afford because the result can be higher prices or lesser discounts. With the holiday shopping season now underway, this is the perfect time to sharpen your high-tech shopping skills and burnish your reputation as a tough customer for all of those computer-tracking programs. Here's how:

➔ **Preshop.** Before setting foot in any store, shop your options online to see the range of prices for the items you know you want to buy. Use comparison-shopping engines such Google.com/shopping and PriceGrabber.com, which did well in a

ShopSmart magazine evaluation earlier this year. CSEs aggregate product information in a standard format and show prices from multiple retailers, and they ultimately link you to the merchant's website if you want to close the sale. Others include Bing, Shopping.com, and the advertised search results on Amazon. The Price and Shop function on ConsumerReports.org also allows you to comparison price shop while researching. Price-shopping online is also a good way to check what the stores around town are charging because "prices on the retailer's websites often match their store prices more than they used to," says Mary Weinstein, content director at CPC Strategy, a digital marketing firm in San Diego.

Your preshopping should also include research, something you can't do so easily in a busy store. Acquaint yourself with the key product features, compare the value of items, and assess whether a favorite brand is really the best deal. Check Consumer Reports' Ratings on products of interest that we've tested independently.

➔ **Consider closing the sale online.** Because of the stalled economy and Internet-savvy shoppers, competition is intense, so you might find the lowest prices at an online merchant. If your preshopping gives you sufficient information about prices at physical stores, you might have enough information to decide to buy online and save a trip.

Don't forget online shipping costs. To properly compare online and in-store prices, add any shipping costs to the Internet price. Look for free shipping, of course. FreeShipping.org offers coupons that do what its name implies, and it sponsors Free



Prices for products on Amazon's website are adjusted up or down as many as 2.5 million times per day.

Shipping Day on Dec. 18, when hundreds of online retailers charge nothing to deliver their packages to you. Many retailers, including Best Buy, Macy's, and Walmart, also allow you to order online and pick up your purchases at a local store.

➔ **Plug into technology.** Sign up for your favorite retailers' e-mail newsletters, coupons, and

special sale alerts. Check for coupons and coupon codes for hundreds of retailers on sites such as Coupons.com, DealScience.com, and RetailMeNot.com. Ibotta, a leading mobile shopping app, will deliver cash-back offers to your cell phone when you're near specific products that analytics have determined are of interest to you in more than 175,000 store locations.

And put your smart phone to work to compare prices offered by competitors on Amazon.com, Overstock.com, Zappos.com, and your favorite CSEs while you're in a store considering a purchase. Many consumers already do this, but "the majority of shoppers are still coming in with the paper coupons that retailers like Macy's sent them in the mail," says Candace Corlett, president of WSL Strategic Retail, a retailing consulting firm.

➔ **Be vigilant after the sale.** Because prices can drop after you make a purchase, keep your receipts. If you see a price reduction on something you've bought, get evidence of the competing lower price, ask the original seller to match it and refund the difference, or return the item and buy it cheaper at the other store. And, of course, sharpen your haggling skills, and always be ready to bargain for a better deal. \$

Photo scanning: DIY or use a service?

If transferring your collection of photos to digital versions has been on your to-do list since the Clinton administration, you're hardly alone. No doubt you figure you'll fit this simple but laborious task into your schedule ... eventually. A professional photo-digitizing service can do the job, but the expense cancels out the time saving, right?

TESTER:

A CR Money Adviser reporter, on behalf of a colleague.

THE GOAL

To see how much time and money it takes to scan a stack of photos ourselves compared with using a professional.

THE PROCESS

Step 1. We sought volunteers among Consumer Reports staffers who had old photos they wanted to have scanned. Our reporter was inundated with enthusiastic replies and heartfelt pleas. The chosen employee bravely provided 250 loose photos from her big-hair days in the 1980s.

Step 2. We researched home scanners. An expert colleague in our electronics department recommended an all-in-one inkjet printer. We chose the Canon Pixma MX532, \$120, which scored Excellent for scanning in our printer Ratings.

TIME: 45 minutes, not including purchase time.

COST: \$120.

Step 3. We set up the printer, scanned photos, saved and numbered them on a laptop, and stored them on a thumb drive. We succeeded at placing four images on the scanner at once, a time-saver.

TIME: 5.25 hours (includes the 45 minutes for research), or 1.26 minutes per photo.

COST PER PHOTO: 48 cents.

Scanning more photos on our own would drop our per-photo costs. Scanning 1,800 photos—about two shoeboxes' worth—would cost 6.6 cents per photo. But we'd spend more than 30 hours.

Step 4: We searched online for local and remote "photo scanning services." Time was a concern, so we chose a local provider. It turned out to be more costly than we'd anticipated, \$162.50 to scan the 250 photos and put them on a CD.

RESEARCH AND DRIVING TIME: 1 hour and 40 minutes, or 0.40 minutes per photo.

WAITING TIME: Five days (not included in calculations).

COST PER PHOTO: 65 cents.

Step 5: We researched but did not use mail-in scanning services. You follow their instructions for sending photos. The companies return your originals and a DVD or CD with scanned images, usually within 10 business days of receipt and often with free shipping. (They do not assume liability if your photos are lost or damaged en route.) Depending on the number of prints to be scanned, the cost per image could be as little as 6 cents. The time would be the same as with the local service—1 hour and 40 minutes—including research, packing up photos, and driving to the post office.



Saving memories, saving money. Paying a mail-order service was less costly per photo.

Several services charge a bulk fee for snapshots that need no additional custom work, such as retouching. FotoBridge charges \$55, including free return shipping, to scan up to 250 photos at 300-dpi resolution. One of our resident photo experts told us that's fine if you just plan to print the photos (without enlarging them) or view them on a screen. ScanMyPhotos.com charges \$99 to scan a boxful of photos—about 1,800—into 300-dpi images, costing us no additional time.

TIME (250 photos): 0.40 minutes per photo.

COST PER PHOTO: 22 cents.

TIME (1,800 photos): 0.06 minutes per photo.

COST PER PHOTO: 6 cents.

Scanning tips from our experts: Albums, negatives, and slides

Photo services may charge extra to scan photos in albums. A number can also scan slides and negatives. Several told us they wouldn't scan photos produced by professionals unless you prove you own the copyright. Terry Sullivan, a CR associate editor and photo expert, says he has had success rephotographing individual photos in an album with a smart phone. The key:

Position the album to eliminate glare.

For high-resolution, self-scanned slides and negatives, Senior Editor Tod Marks, an expert photographer, suggests the Epson Perfection V700 scanner, \$630. Susan Daino, an electronics department assistant test project leader, says the .jpg format is fine for most uses. (New all-in-one printers usually give you format options.)

Tackle tomorrow's health costs today

Concrete steps to take now to avoid financial stress later

Tobie Stanger
Senior Editor



Would you happen to have a spare \$220,000 on you? That lofty sum is what Fidelity estimates the average husband and wife, both age 65 and retiring this year, would need in current dollars to afford medical expenses for the rest of their lives. It's a figure that gets mentioned in the news a lot, underscoring the fact that those planning for retirement may want to ramp up their savings. (I'd wager that Fidelity executives hope those savings will be invested with the company.)

But which estimate of health care costs is realistic for you? And how do you ensure that you'll have enough?

START WITH A BENCHMARK

Let's look at how Fidelity arrived at its estimates for the couple above. The company used actuarial tables to assume that the husband would live until age 82 and the wife until 85. It projected what they might spend by extrapolating from a Medicare database of medical claims.

But the \$220,000 benchmark may actually be too low because it doesn't include dental costs, notes Sunit Patel, the senior vice president for Fidelity's benefits consulting group. It also doesn't take into account long-term care or Medigap. On the other hand, Fidelity doesn't figure in the cost savings that some retirees get because of employer-provided coverage. "It's just to give people a starting point," Patel explains.

GET MORE SPECIFIC

For a more personalized estimate, try AARP's free Health Care Costs Calculator, at aarp.org/work/work_tools. I found the tool to be simple and enlightening. On the first page, I had to plug in some personal information, though nothing that identified me. On a second page, I input health conditions I might have now or later in life. The third page projected how much I—and Medicare—would pay. I'm 57 and in good health, but my estimate for a 30-year re-

tirement starting at age 67 showed a scary \$218,501 total. When I gave my current age as 67 and indicated that I was retiring now, the figure was \$174,658.

AARP's calculator has limitations. For instance, it asks for your state of residence, but average health care costs can vary within a state. Still, it gave me more to hang my hat on and reminded me to ask my financial planner how he figures out health care costs.

Leonard Wright, a CPA and Personal Financial Specialist in the Las Vegas area, says he queries clients about their health,



their parents' health, and future concerns. Using software to make projections, he applies a hefty 7 percent inflation rate to current estimated costs. He also expects that discretionary spending will drop with age. "This allows for greater funding of medical expenses," he notes.

To research out-of-pocket costs for a Medicare Advantage plan, go to medicare.gov/find-a-plan. Entering some information, including your medications, will yield available plans and detailed estimates. (For Medigap, out-of-pocket costs are determined by a specific plan's design. Plan "F" requires nothing out of pocket if you don't choose the high-deductible version.)

PLAN AND SAVE

Aside from finding the right insurance and upping retirement savings, another option to help fund medical costs is a health savings account. To be eligible, employees and self-employed workers must have a high-deductible health insurance plan (currently with annual deductibles of at least \$1,300 for single people and \$2,600 per family).

You and your employer can put money into your HSA. The maximum contribution is \$3,350 in 2015 if you're paying for single insurance coverage and \$6,650 if you're maintaining family coverage. (If you were at least 55 last year and haven't yet enrolled in Medicare, that maximum is \$1,000 higher.) The money can be invested as in a 401(k). Employer contributions are tax-free; your contributions are tax-deductible even if you don't itemize. You can take the balance with you when you leave your job, and you pay no tax on withdrawals used for "qualifying" expenses (sorry, no tummy tucks).

But depending on your family's medical costs, you might not have much left in an HSA by retirement. That's because the accompanying high-deductible

health plan can charge singles up to \$6,450 per year in out-of-pocket expenses, excluding premiums; for families, it's up to \$12,900 per year.

One way to save is to delay retirement. Fidelity says that its hypothetical couple would save \$20,000 by waiting until age 67.

And, of course, healthy habits can prevent or mitigate costly, chronic conditions. According to

AARP's tool, high blood pressure, high cholesterol, and an unhealthy weight would cost me \$27,763 more during my lifetime.

Time to hit the gym! **\$**

One estimate that a couple would need \$220,000 in their retirement years might be a lowball figure.

Tobie Stanger, M.B.A., has covered personal finance for *Consumer Reports* for more than 20 years.

Ask the **adviser**

Question of the month

I have power of attorney for my mother and want to open a joint checking account to manage her finances better. Will that affect my taxes or hurt my daughters' chances for college financial aid?

—M.G., Ardsley, N.Y.

Every state has its own rules on whether an account held by two people for convenience is really "joint property." In New York, such an account won't hurt your taxes or your daughters' chances for financial aid. It might be titled in both names for convenience, but for income tax purposes it's considered your mother's if it primarily funds her needs, says David Y. Choi, a partner at Kurzman Eisenberg in White Plains, N.Y. In that case, you don't have to report it on your tax returns or financial aid applications.

Rolling over an IRA

Could you explain when moving funds from one IRA to another is considered a rollover and when it's just a transfer?

—G.N., Sun City West, Ariz.

A The difference between a rollover and a transfer has to do with distributions. IRA rollovers can be distributions from qualified retirement savings plans, such as IRAs and 401(k) accounts. Distributions can take the form of a check payable to the plan's owner, or they can be rolled over directly to another IRA or other qualified retirement plan between trustees. Starting in January, a new, one-rollover-per-year rule will go into effect. By contrast, an IRA transfer is just a movement of funds between two IRA accounts and will never result in distributions.

Social Security benefits

My wife's Social Security income is likely to be reduced because of the Windfall Elimination Provision and the Government Pension Offset provision. How will that affect her income from my benefits upon my death?

—M.M., Groveland, Mass.

A As you know, the provision is applied to people who receive pensions from jobs in which they didn't have to contribute to Social Security. If you die before her and she receives a benefit from your Social Security, that income will also probably be reduced based on the offset provision, says Lesley Brey, a financial adviser in Honolulu. But there are many exceptions. In planning for the future, Brey says that you should expect your Social Security benefit

amount (paid to your wife upon your death) to be reduced by two-thirds of her pension amount.

Investing in the market

I've got a lump sum of cash that I would like to invest in stocks, bonds, and mutual funds. Would it be better to do it all at once or should I try dollar cost averaging? —R.T., address not disclosed

A Without knowing your complete financial picture and risk tolerance, it's hard to say what would be the best strategy. We also don't give investment advice. You should consult a financial adviser. But you might be interested to know that Vanguard recently released a study that concluded that when it comes to investing a lump sum, people generate greater profits over the long run by putting their money to work immediately rather than leaving the bulk of it in cash while they rely on dollar cost averaging. On the other hand, dollar cost averaging can provide you with peace of mind. By slowly investing your cash, there's less chance that your funds will be wiped out by a sudden fall in the stock market. For those who don't have a long-term horizon, that might be a better strategy. For those approaching retirement, investing slowly might be safer and might provide an opportunity to buy shares at lower prices.

talk to us

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