

10 things you may not know about your finances

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By Stephanie Armour, Anna Bahney, Sandra Block, Kathy Chu, Christine Dugas and John Waggoner, USA TODAY

1: Medicare doesn't cover nursing home care.

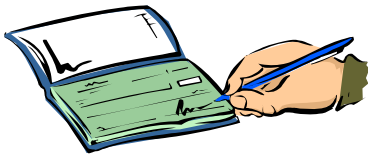
Nearly 60% of Americans think Medicare pays for nursing care, and 52% assume that it covers assisted living, according to a 2006 survey by AARP.

Not so. Medicare's coverage of long-term care is extremely limited. It'll cover part of the cost of a skilled nursing facility while you recover from an injury or illness. But this coverage lasts just 100 days.



Medicare doesn't cover custodial care, such as help with bathing and dressing. Need to enter a nursing home because you're no longer able to take care of yourself? Medicare won't cover any of your costs. Medicaid, by contrast, will cover nursing home costs — but only for people with little or no assets.

2: The way banks process checks and debit-card transactions can cost you big.



Banks tend to process transactions from the largest to the smallest dollar amount, rather than in the order they're received. This policy is another way for banks to boost profits, says Ellen Cannon, managing editor of Bankrate.com. That's because processing first high, then low, dollar amounts makes it easier for banks to hit consumers with multiple overdraft fees.

Say you have \$100 in your account, and you have four transactions processed one day, for, in order, \$20, \$45, \$30 and \$90. The bank will process the \$90 transaction first, so it can charge you a fee — of up to \$39 — for each of the three transactions that will then bounce. If the transactions had been processed in the order in which they'd been received, you'd face only one fee. Most banks charge more than \$30 each time you overdraw. Some also charge a fee of \$5 or more for each day that your account remains overdrawn.

3: Once you turn 50, you can put away more pretax money for retirement than younger workers can.

Many older workers fail to exploit the 401(k) "catch-up" rule, which lets people 50 and older contribute an additional \$5,000 a year to their 401(k) accounts.

At some companies, higher-paid workers aren't allowed to contribute this year's full \$15,500 maximum to a 401(k) if not enough lower-paid workers at their company invest in the plan. But the catch-up rule lets all older workers — even the higher-paid ones — boost their annual contribution by \$5,000. This is especially beneficial if only one member of a couple has access to a 401(k) plan, and the couple would like to boost their family retirement savings. It's also helpful to women who return to work after an extended absence.



4: If you didn't get a tax rebate this year, you might be able to claim it when you file your 2008 tax return.



Millions of taxpayers have received rebates, or will by mid-July. But many others will get only a reduced amount, or none at all, because their 2007 income was too high. Congress phased out the rebates for single taxpayers with adjusted gross incomes of more than \$75,000, and married taxpayers with AGIs of more than \$150,000.

Here's what many taxpayers don't realize: Some of them will get a second chance to claim the rebate. The rebate is actually an advance credit on 2008 taxes. But since the Bush administration wanted to get money into consumers' wallets as fast as possible, the rebates were calculated using 2007 tax returns.

So if your income has dropped this year, you can claim the rebate when you file your 2008 return. This second-chance provision will also benefit those whose rebates were shrunk or eliminated because their 2007 income was too low.

5: Real estate isn't a very lucrative investment over the long run.

The real estate party over the past decade or so — even when you factor in the recent price drops — has left many people assuming that real estate is the surest long-term investment out there. Not so. Over the long haul, on average nationwide, returns from real estate fall far short compared with other investment categories.



Housing has returned a 4.7% average annually over the past 25 years, according to an analysis for USA TODAY by Mark Zandi, chief economist of Moody's Economy.com. Over the same period, the S&P 500-stock index produced an average return of 13.3%. Other investment options also outperformed real estate. The three-month Treasury bill produced a 5.4% annual return and the 10-year T-bond 7.1%.

6: You can't just give away your money and then immediately ask Medicaid to pay for nursing home care.



If you want Medicaid to pay for your nursing care, without touching your assets, you'll have to give that money away at least five years before you apply for care. An elder-law attorney can suggest asset-protection strategies.

But if you use Medicaid to cover your long-term care, you'll face a more limited choice of nursing homes. And Medicaid doesn't normally cover at-home care. You might be better off using your money to buy long-term care insurance. Or save enough to cover at least a year in a facility. By law, a nursing home that accepts private-pay and Medicaid patients can't force you to move to another nursing home once you run out of money.

7: Your best investment? Time

Thanks to the extraordinary magic of compounded returns, saving early is the easy way to a rich retirement.

Let's assume your goal is to amass \$1 million by the time you retire at 65. If you start saving at 22, and your investments return, on average, 6% a year, you'll need to invest \$413 a month to reach your goal. But if you wait till age 35 to start saving? You'll need to invest far more each month to reach the same goal: \$996 a month. And if you start at 50, you'd better have a high-paying job: You'll need to save \$3,439 a month to reach \$1 million by age 65.



8: Grace periods on credit cards apply only to people who don't carry a balance.



If you pay the full amount you owe on your card each month, you're basically enjoying an interest-free loan from the bank. But card users often don't realize that if you're carrying any balance at the end of the month, the card issuer will charge you interest starting from the day you borrowed the money, says Megan Bramlette, managing associate at Auriemma Consulting Group, which consults with banks.

9: You can find fascinating things in your mutual fund's prospectus.

Buried in a fund's official literature are such nuggets as how much money the fund's manager has personally invested in the fund. It's nice to know if his or her money is at stake along with yours.

Or you can find out how much you're paying a fund company to invest your money. If you invest \$10,000 in Fidelity Contrafund, for instance, and it returns an average of 5% a year, you'll fork over \$1,096 to Fidelity over 10 years. Dodge & Cox Stock will charge you less — \$653. The Vanguard 500 Index fund will charge just \$192.



10: Mortgage lenders will question a cash gift used for a down payment.



A cash gift from a parent can help a young adult buy a home. But it may come as a surprise that many lenders will raise questions when such gifts are to be used as part of down payments. Some see a big recent infusion of cash into a buyer's account as a red flag that a cash-poor buyer may lack steady income. Many banks will want to see the origin of a cash gift.

In any case, parents should try to make any cash transfer at least a month — and preferably up to six months, some suggest — before a buyer begins applying for mortgages.