Arundel Federal Savings Bank Monthly Newsletter

Volume Issue • June 2020

In This Issue:

Pan Pals

Arundel Federal teams up with Pan Pals

Arundel Federal is honored to team-up with Pan Pals, Pandemic Pen Pals, which connects children of local, essential front-line Coronavirus workers with high school teens.

The burden placed on our essential front-line workers affects the whole family, especially the kids when their parents cannot be home. Pan Pals, the vision of Severna Park High School Junior Lucy Feldman, matches volunteer teens with elementary aged school children of Coronavirus essential workers for a pen pal relationship. Children receive at least one hand-written letter per week.

Upon signing up, Arundel Federal is providing each child with a Pan Pal Backpack gift bag which includes a note pad, stamps and writing utensils. There are also hopes for an Ice-Cream Social at some point in the future as the Coronavirus restrictions are lifted.

“There are so many commendable outreach efforts of help and support being done right now because of the Coronavirus. This one was close to our hearts because it focuses on children. In such a disorienting environment, being on lock-down and unable to see their friends, the Pan Pal endeavor is just what these kids need to voice their feelings, make a new friend, and brighten up their day. It is our privilege to help” states Tom Herpel, President and CEO of Arundel Federal.

Please help make this fun for kids by providing an item for the gift bag. 100 items will be needed. Contact Jeanne Slaughter at JSlaughter@arundelfederal.com.

Sign your child up, help support the cause or learn more about Pan Pals here.

What is a Durable Power Of Attorney?

Give someone the legal authority to act on your behalf when you're incapacitated

A durable power of attorney is a powerful and important tool for estate planning. It is, however, only one of four main types of powers of attorney. Before exploring what makes the durable power of attorney unique, it's important to understand the other options.

What is a power of attorney?

A power of attorney is a legal document allowing you to appoint another person to take control of your affairs. Effectively, it gives them the authority to act on your behalf. "The person who gives the authority is called the principal, and the person who is given authority is called the agent or the attorney-in-fact," explains Edward A. Haman, author of over a dozen self-help legal books.

With only a few legal exceptions, a power of attorney can give an agent the right to do any legal act that the principal could do themselves.

Limited vs. general power of attorney

Powers of attorney fall under two broad categories: limited and general.

With a limited power of attorney, also known as a special power of attorney, you grant an agent the authority to act only in a limited situation specified in the document. The document will typically also specify when this authority ends. For example, this can be used when you are unable to be present for the signing of a contract and therefore need an agent to legally act on your behalf. You could give someone the right to sign a deed to property for you on a specific day, and that would be the limit of your agent's power.

A general power of attorney is a lot more comprehensive, giving the agent all of the same rights and powers that you have. They can manage your investments, operate your business, handle your taxes, buy or sell property and even apply for government benefits. A general power of attorney ends only when you rescind it, when you die or when you become incapacitated.

Durable power of attorney

A durable power of attorney is a subtype of power of attorney that can be either limited or general. What makes it different is that it remains in effect even after you are incapacitated. "There is language within the legal document providing that this power extends to your agent even in the event you become incapacitated and unable to make decisions for yourself," writes Michelle Kaminsky, Esq.

This gives someone the authority to act on your behalf if you become temporarily or even permanently unable to make decisions, such as after a stroke or while suffering from dementia.

There are two types of durable powers of attorney, which limit the scope of your agent's authority: financial and medical. Kaminsky explains that a financial power of attorney gives your agent the authority to manage your financial affairs, while a medical power of attorney gives them the authority to make medical decisions, both in the event that you are unable to do so yourself.

It can be useful to separate financial and medical powers of attorney because, for example, while your spouse may be well suited to making medical decisions for you, your business partner would be better suited to making the business decisions.

How do you create a durable power of attorney?

To create a durable power of attorney, you must first demonstrate that you are of sound mind. While it is best to have a durable power of attorney long before any issue of a cognitive nature arises, this is not a requirement. "A person can be suffering from dementia or Alzheimer's disease or be otherwise of limited mental capacity sometimes but so long as they have a lucid moment and know what they are doing at the moment they sign the Power of Attorney, it is valid, even if later they don't remember signing it," says Timothy L. Takacs, certified elder law attorney.

The legal document granting durable powers of attorney typically only differs from that of a regular power of attorney in that it includes a passage stating that disability, incapacity or incompetence does not revoke it. According to Haman, many states have an officially recognized form for both financial and medical powers of attorney and will include the necessary language. However, it is important that you ensure any form you use complies with the requirements of the law in your state.

The durable power of attorney is a very effective tool you can use to help manage your estate if you expect to become incapacitated, particularly in the later stages of your life. However, remember that your death always ends a power of attorney, durable or not. To manage your estate after death, better tools exist, such as establishing a will and setting up beneficiaries.

U.S. Savings Bond Basics

Breaking down one of America's most popular investment methods

Originally started as a way to raise money for the U.S. government during the Great Depression, savings bonds have been a popular form of investment ever since. Whether you're confused about what to do with the ones your grandparents got you decades ago or want to buy a few of your own, they're thankfully pretty simple to understand if you know where to start.

How bonds work

At the simplest level, savings bonds represent a direct contract between you and the government. You pay the U.S. Treasury any amount between $25 and $10,000, and they issue you a bond. It will slowly mature over a fixed period until it is worth the amount that you paid for it, plus any interest accrued over the years.

If your bond hits its full value before 30 years from its issue date, you can continue to gain interest until it hits that 30-year mark. According to James Chen, Director of Trading and Investing for Investopedia, the way you receive that interest varies depending on the type of bond you hold. Regardless, you can't use any of that money until you cash in your bond.

Series EE savings bonds

Series EE bonds are probably the most straightforward type of savings bond. They operate on a fixed rate of interest, meaning they will steadily gain value by the same annual amount until their maturity date. Up until 2012, Series EE bonds were sold for half of their face value and would reach their full value at the maturity date, doubling your investment.

Today's EE bonds are sold at face value and are calculated to reach twice that within 20 years. If your bond doesn't hit that mark for some reason, financial author and writer for The Balance, Joshua Kennon, says that the U.S. Treasury will "make a one-time adjustment to make up the difference." You can then choose to cash it in or allow it to accrue compounded interest until it reaches 30 years old.

Series I savings bonds

The biggest difference between Series EE and Series I bonds is the way that they pay interest. As opposed to EE bonds' lifelong fixed rate, I bonds gain value in two ways: a slightly lower fixed rate and a variable rate calculated based on changes in market inflation.

Because the amount of interest your I bond earns over its life is dependent on the market, they are considered to be a slightly riskier bet than their EE counterparts. According to Kennon, if the market goes through a period of inflation, your interest rate will increase, and you'll earn money faster. Meanwhile, you run the risk of your bond's value-gain slowing down dramatically if the economy begins to deflate. As a safety net, the government guarantees that the interest rates on I bonds cannot drop below zero percent, meaning that, unlike other forms of investment, there's no way for you to lose money on the deal.

While U.S. savings bonds may not make you as much money as betting big in the stock market, they are a stress-free, safe way to grow and diversify your portfolio. To learn more about whether bonds are right for you, reach out to your trusted financial advisor.

What are Bullion and Bullion Coins?

Understanding bullion coins and their investment potential

As part of diversifying your investment portfolio and protecting it against risk, you may wish to invest in bullion or bullion coins. But before you do, you should learn more about bullion and what to look for.

Definition of bullion

According to the U.S. Federal Trade Commission, bullion is a "bulk quantity of precious metals." Gold is the most well-known of these precious metals, though both silver and platinum are also commonly traded on global commodities markets.

Investopedia's Barclay Palmer says that because "silver swings between its perceived role as a store of value and its role as an industrial metal," its value is more volatile than gold. On the other hand, platinum fetches a higher price than gold during periods of stability because of its greater rarity. Palladium is another precious metal commonly used as bullion too.

You can typically find bullion cast as bars or ingots, with its quantity assessed by weight. They are sold by major financial institutions and specialized precious metal dealers.

Definition of bullion coins

Bullion coins are minted from precious metals like gold and silver. Their value depends on their purity. For example, American Gold Eagle coins, produced by the U.S. Mint since 1986, are 22 parts pure gold and two parts silver or copper (the other metals help strengthen the coin, as gold is soft and easily damaged). "Prices fluctuate daily, depending on the price of gold and silver in the world markets," the FTC says. American Gold Eagle coins are among the best-known bullion coins. Others include the Canadian Maple Leaf, Australian Gold Nugget and South African Krugerrand.

These coins are sold by major financial institutions, brokerage firms, coin dealers and precious metal dealers. The U.S. Mint produces two different kinds of these coins: proof bullion coins and uncirculated bullion coins. The former are specially minted for collectors and often sold in protective display cases. Uncirculated bullion coins, on the other hand, are minted for investment purposes and sold to authorized buyers based on the current spot price for the bullion.

Investment pros and cons

Precious metals can be appealing from an investment perspective because they offer unique protection against inflation. "They have intrinsic value, they carry no credit risk, and they cannot be inflated," Palmer says. "That means you can't print more of them. They also offer genuine 'upheaval insurance' against financial or political/military upheavals."

While investing in bullion can hedge your investment portfolio against inflation, it does come with downsides. Prices tend to drop during periods of stability, and selling can be a challenge during periods of economic volatility, precisely when prices go up. Moreover, while silver and platinum benefit from having more industry uses than gold, this can potentially lead to over-mining as well.

Obtaining and holding on to bullion can come with its own set of problems. It can be challenging to verify old or rare gold coins, and bullion coins minted outside of the U.S. may not meet the same standards of purity. Additionally, it can be both impractical and expensive to store and insure gold ingot or bullion coins.

Ultimately, investing in bullion and bullion coins has its uses, but it should not be something you dive into head first. Before you invest, talk to other investors and consult with a reputable financial advisor that you trust and who specializes in the bullion market.

Health Coverage in Retirement

Tips for staying insured during your golden years

If you're like many Americans, you probably receive your health insurance through your job. However, when it comes time to retire, you'll be faced with a difficult — and potentially costly — problem. Here are some tips for navigating the complicated world of health coverage in your golden years.

Check with your current provider

Explore how your current health coverage will change when you enter retirement. Some plans allow you to extend your coverage if you've been with your employer for a certain amount of time or reached a certain age. To find out, read up on the healthcare coverage literature that your employer provides, consult with your company's human resources department or call the insurance provider with your questions.

Extend your coverage with COBRA

Even if your employer-provided healthcare coverage doesn't have a retiree benefits package, you may still be able to receive insurance through COBRA provisions. COBRA allows you to continue receiving coverage for a set period after employment ends. However, it's still a good idea to check with your employer about the cost and duration of coverage through COBRA. You could get a good deal — CMS.gov explains that some employers subsidize COBRA coverage.

Age matters

When it comes to finding healthcare coverage after retirement, your age matters. If you're under 65, you cannot be denied coverage due to any pre-existing conditions, thanks to the Affordable Care Act. However, you may be charged a hefty premium — over $1,000 per month, in some cases. While COBRA coverage can provide a short-term solution, Forbes contributor Erik Carter recommends looking into Marketplace plans, group retiree coverage or a health savings account.

Read up on Medicare

For retirees over 65, Medicare is a primary option. You'll have to choose between an original Medicare plan and a Medicare Advantage Plan. Each comes with a distinct set of advantages and drawbacks. An original Medicare plan is widely accepted by primary care providers and specialists alike, but you'll have to pay extra for prescription drug coverage and the plan has no out-of pocket maximum. A Medicare Advantage Plan comes with vision, dental and prescription coverage along with a capped out-of-pocket spending limit, fewer doctors who will accept your coverage. Since the Medicare system is notoriously complex, consider consulting an expert to help you choose the best option for your lifestyle.

Plan ahead

As with any expense, it's a good idea to budget for your healthcare coverage. Depending on your health and coverage plan, costs can vary widely. While some plans may boast about $0 premiums, they often come with higher coinsurance costs or pricier copays, according to U.S. News. Furthermore, Fidelity estimates that the average retired couple will probably incur about $285,000 worth of medical expenses throughout their golden years. However, this figure doesn't factor in long-term care. If you're still employed and looking to save for your medical expenses in retirement, consider a health savings account. Not only do HSAs provide tax benefits, but they also allow you to spend tax-free dollars on your medical expenses in retirement.

For guidance on choosing a plan, consider talking with a health insurance agent that specializes in finding coverage for retirees. These experts will explore your options based on the prescriptions you need and your preferred doctors. If you'd like to reach out for help, Dana Anspach of The Balance recommends contacting Allsup's team of Medicare advisors or your state's State Health Insurance Assistance Program.

The Importance of Separating Spending and Savings Accounts

Some reasons to have two different accounts for your money

Whether you're great at managing your money or bad at it, chances are that you have room for improvement. Accelerate your savings goals while staying on top of routine expenses when you establish two different accounts for your spending and savings.

Unique benefits of each type of account

Both accounts have distinct characteristics. According to Nerdwallet's Margarette Burnette, the main difference is the accessibility of your funds. Checking accounts typically earn no or little interest, so they're more conducive for withdrawing money and paying bills. Another bonus is that they tend to have no monthly fees. You also have access to the financial institution's ATM networks.

Savings accounts often have a limit on the number of withdrawals you can make during a month and yield higher interest, which gives you an incentive to keep your hands off of your funds. Though the average savings account annual percentage yield is 0.09%, Burnette confirms that some institutions offer savings account options 20 times more than that. The higher the APY, the faster you'll grow your money, so be sure to talk with a representative at your institution

Advantages of keeping separate accounts

The main benefit of keeping the two accounts separate is to avoid the temptation of dipping into your savings for non-emergency items. It's a way to "protect yourself from yourself," as The Balance's Justin Pritchard puts it.

Another key advantage is that having a designated savings account can make it easier to budget for major expenses during the year such as property tax or vacation. Pritchard recommends setting aside money each month to grow the savings account so that when these events happen, you'll have enough funds to cover the costs.

Ways to get the most out of your checking and savings accounts

While establishing two different accounts for spending and saving is a good place to start, there are other strategies you can implement to cultivate healthy finances. Certified financial planner Sophia Bera shared with Business Insider recommends keeping your savings and checking accounts at two different financial institutions. "It adds some friction between these accounts. If you don't see your savings account every time you log in to your checking, then you're much less likely to spend it."

Bera also suggests opening separate savings accounts for each of your savings goals. For instance, all her clients have travel savings and emergency savings accounts. This lets them withdraw funds from that one account instead of dipping into their emergency savings.

Whether you keep your spending and savings accounts at the same institution or different ones, you can take advantage of automatic payments. Pritchard advises setting up automatic monthly transfers from your checking to your savings account. It's a simple way to prioritize savings goals, especially if you're forgetful and busy and could use this convenient tool to keep you on track.

By implementing these strategies, you're well on your way to being more disciplined with saving so you can achieve your financial goals faster without going into debt.

Tips on Loaning Money to Friends and Family

Tips on how to safely help with money

A friend or family member asking for a loan can be an uncomfortable situation. On the one hand, saying no to a trusted loved one who has asked for help is difficult. On the other, saying yes could result in a number potential issues, including the very real possibility that your money will never be paid back. It can be difficult knowing how to proceed, and how best to handle any problems. Here are a few things to consider when loaning money to friends and family.

Keep realistic expectations

When loaning money of any kind, there is always the possibility that you will never see that money returned. Before you make the decision to loan out your hard-earned income, be certain that you've accepted this. Brian O'Connell notes in an article for Investopedia that, while this certainly doesn't mean that you won't be paid back, it's better to go into the loan with expectations lowered. This also applies to the rate at which you may be repaid. Since instituting interest or collateral is probably out of the question for a friend or family member, it could take a while for you to see your money. As long as you keep this in mind, you're more likely to avoid disappointment.

Don't lend more than you can afford

As previously mentioned, it's always wise to go into friends-and-family loans with lowered expectations. It might be a long time before you're paid back, if you're paid back at all. With this in mind, it's also important to make sure that you are only loaning out as much money as you can afford to potentially lose. Helping a loved one out of a difficult financial situation might feel like the right thing to do, but doing so in a way that puts you at financial risk creates new problems. Before agreeing to a certain amount, be certain that your savings, bills, and other monetary requirements won't be at risk if your loan is never repaid.

Put it in writing

When dealing with any amount of money , it's always important to make sure that there is a solid record of the numbers. As finance specialist Priyanka Prakash notes at Forbes, memories and priority can fade and change with time. Exact numbers, timelines and due dates may be forgotten or altered. Putting these things in writing helps to keep the original agreement intact and easily referenced in the future. This can also have the effect of making the entire arrangement seem more serious to the borrower. As discussed above, asking for a loan from a loved one often carries a feeling of informality, often resulting in delayed payments and other details being loosely handled. Having the loan and its associated conditions in writing makes the agreement feel more official, and therefore more likely to be upheld.

While loaning money to friends and family can feel like a minefield of potential issues, it is more than possible to approach such an agreement in a way that benefits both you and your loved one.

What You Should Know About Setting Up Beneficiaries for Your Accounts

Designating beneficiaries protects your assets after death

No matter the state of your finances, it's important to think about what will happen to your accounts if you pass away unexpectedly. After all, this could have a major impact on the well-being of your family. One of the things you can do to help secure their future is to set up beneficiaries.

What is a beneficiary?

Put simply, a beneficiary is somebody who receives your assets at your death. Generally, these are only available for certain types of accounts, such as individual retirement accounts and life insurance policies. According to certified financial planner Justin Pritchard, there are two different types of beneficiaries: primary and contingent. The primary beneficiary is your first choice, while the contingent beneficiary is a backup in case the primary beneficiary is no longer living.

However, you're not limited to just one of each. "You can have multiple primary beneficiaries in some cases," Pritchard says. "You could have three primary beneficiaries, all of which receive 33.3 percent of assets." You can even name a trust or your estate as a beneficiary, though if you want to leave money to a minor, you should consult an estate planning attorney as that's a more complicated matter.

Why is a beneficiary important?

Naming a beneficiary helps eliminate confusion after your death. By setting up a beneficiary for all of your accounts, you leave no doubt as to what should be done with your insurance proceeds and hard-earned money. This can save time and headaches over paperwork, as well as ensure the financial well-being of your loved ones in a timely manner — which is particularly important if the money in one of your accounts was meant to cover funeral expenses.

"If you pass away without naming beneficiaries…it can create legal entanglements for your heirs," writes financial expert George D. Lambert. He explains that even if you have a will, your loved ones must still go through the probate process to get what you left them. This can be expensive and take a long time if they fight over your assets. Designating beneficiaries simplifies the whole process and leaves no room for argument. "You list who will get the money and what percentage each will receive," Lambert says. "Then, after you die, your beneficiaries present a death certificate to the financial institution and fill out a form. The check arrives in a few weeks. There's no probate, no court involvement, no expense."

Life insurance and annuities

According to Julia Kagan, personal finance editor for Investopedia, life insurance proceeds are tax-free to the beneficiary. They are also not reported as gross income. Nonetheless, she adds that "any interest received or accrued is considered taxable and is reported as any other interest received." Most life insurance and annuity companies have forms that allow you to decide how beneficiaries receive the death benefit. Typically, you would choose between three payment options: lump-sum, period certain and amortization over the beneficiary's life expectancy. You may even combine payment methods; for example, you could have your beneficiary receive a portion of the death benefit as a lump sum, with the rest paid over time. Just remember that the standard form used by the financial institution might not be good enough for you, so it's advisable to work with an expert to ensure everything is the way you want it.