SOLUTIONS

3rd Quarter ◆ 2008

Tip: Life Insurance Reviews Ensure Sound Coverage

When was the last time you reviewed your life insurance policies? Changes in health, marital status, or income may significantly impact the amount of life insurance you need. Your insurance advisor can help you determine these and other considerations:

- **Are your policy limits still appropriate?** Do you now need more or less insurance? Weigh the investment value of excess policies vs. converting to a smaller, paid-up policy.
- **Is the projected rate of return still competitive?** Request an in-force illustration of your cash-value insurance policy based on current dividends and interest rates. Cash values typically accumulate at a faster rate after the first few years. Changing policies may require a medical exam, and/or incur tax consequences or fees
- **Is the insurance company financially sound?** Check its ratings.
- **Is the policy owned by the appropriate party?** Changes in your estate needs may require changes in the policy's ownership: also discuss an irrevocable trust or, if you own a business, ownership by the company. In deciding ownership, consider all tax and estate factors.
- **Are your beneficiaries still appropriate?** Family lifecycle changes or divorce may signal a change in beneficiaries. Periodically review and update your beneficiary designations if necessary.

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Dear Clients and Friends

Working in Retirement Requires a Balance of Financial Risks and Rewards

An increasing number of older Americans are finding that retirement doesn't mean golfing and gardening. According to the Employee Benefit Research Institute 45% of people age 55 and older, and 29% of people ages 65–69, are still in the workforce.

Senior citizens have many reasons to keep working, either by choice or by necessity. As people live longer, stay healthy, and pursue active lifestyles, some don't want to slow down. Others welcome the time to try a second career. Still more are working to add to retirement savings, keep insurance coverage, or reach full retirement age to receive full social security benefits.

Working in retirement can have many benefits, as well as these financial implications to consider:

- **You can make more money.** The Congressional Budget Office says that a person of at least age 62 reduces the need to add to savings by 5% for each year that he or she postpones retirement. Plus, accumulated assets may earn more interest, and health coverage — even if only partially employer-subsidized — can save you hundreds of dollars per month.
- **Your social security benefits may be affected.** It may be advantageous to reach full retirement age before collecting social security. If you start receiving social security too soon, your social security benefits will be reduced by $1 for every $2 of work income you earn over $13,560. A spouse may delay receiving his or her benefits to reduce the total income for tax purposes, and to provide a future income stream. Once you reach full retirement age, you can work as much as you want without reducing your social security. Find your full retirement age at *www.socialsecurity.gov/retire2/agereduction.htm*.
- **Being your own boss may have certain benefits.** If you set up your own incorporated business, you may be able to deduct everyday expenses like work-related phone usage, a new computer, office space rentals, and travel expenses. Plus, you can open up a new retirement plan and contribute to it. Simplified Employee Pensions (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs), and qualified plans such as Keoghs are designed to benefit small businesses and sole proprietorships. They have the same advantages of tax-deferred growth plans, like 401(k)s and 403(b)s, and contributions are tax-deductible. Your own business could match the contributions you, as an employee, might make.
- **Working might result in certain penalties or income reduction.** Take care that your extra income from working doesn't bump you into a higher tax bracket. You may be funding your retirement from several sources of income, such as a pension, 401(k), IRA, and social security. If you are older than age 70½, you may be taking the required minimum distribution (RMD) from your retirement plan accounts as well. Adding a paycheck may raise your total income and expose more of your social security benefits to income tax. In addition, if you are or were a state or public employee, check with your retirement board to see whether you are subject to income restrictions, or whether working will impact how much pension money you receive.

Your financial advisor can help you determine just how much you can earn in retirement, and whether the rewards of working will outweigh the risks of affecting your benefits. Call us to discuss your questions and concerns.

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How Will You Pay For Long-Term Care?

Americans are living longer than ever before – and although longer life spans bring health conditions that can limit the ability to live independently, many people are reluctant to consider the need for long-term care. Consider these facts from the Center for Retirement Research and *Financial Planning* magazine:

- Almost 70% of those who are currently age 65 will require long-term care for an average of three years before they die. Of that 70%, 20% will need care for five years or more.
- The average cost for home care service is $34,000/year; a private room in a nursing home costs $75,000/year.
- Approximately half of private-pay nursing home patients run out of funds during their stay and must then use Medicaid funding.
- By 2005, only six to seven million people had purchased long-term-care insurance.
- Almost 72% of nursing home patients are women.
- Approximately 20% of applications for long-term-care insurance from individuals aged 60 to 69 were declined in 2006, while 42% of those aged 70 to 79 were declined.

Health insurance policies typically don't pay for nursing home care. Medicare pays for only 100 days of skilled nursing home care, if admission follows a hospital stay. Medicaid pays a significant portion of all nursing home costs, but the government has enacted tougher rules to qualify for assistance. Typically, you need to deplete most of your assets before you qualify for assistance. Many elderly individuals rely on family members for help, but the personal toll can be huge.

If your assets excluding your home equal at least $2 million, you can probably fund long-term care costs, but this may deplete your assets. Those with very limited assets may be covered by Medicaid. People with assets between these extremes should consider long-term care insurance — particularly women, who tend to outlive their husbands.

Your insurance advisor can help you acquire appropriate long-term care insurance. Consider this:

- **Purchase at a relatively young age.** In 2005, long-term care policy purchasers averaged age 61. You don't want to pay premiums for decades, but premiums rise in the mid-60s, and serious health conditions may restrict your purchase.
- **Check for inflation provisions.** Simple protection increases the benefit amount by a specific percentage of the original benefit each year. Compound inflation increases the benefit on a compounded basis, so it provides substantially more protection.
- **Select an appropriate benefit period.** Lifetime coverage probably isn't necessary. Financial Planning found that only 1.5% of policyholders with five-year coverage exhausted their benefits; the average nursing home stay is three years. Some insurers continues to pay benefits if you don't reach the policy limit during the maximum benefit period.
- **Make sure the policy terms are reasonable.** Benefits should be paid for skilled care, intermediate care, custodial care, home health care, and adult day care. The waiting period should ensure a good balance between premium costs and out-of-pocket costs.
- **Understand the level of assistance needed to qualify.** Benefits are typically paid when one is unable to perform two of five daily living activities, or when a cognitive impairment, such as Alzheimer's disease, requires substantial supervision. Find out how you prove that you're entitled to benefits.
- **Determine how benefits are paid.** Some policies pay a set daily amount; other policies will pay only out-of-pocket expenses up to a daily limit or reasonable and customary costs.
- **Review new policy provisions.** Long-term care policies are relatively new, so policy riders are evolving. Make sure to check out new provisions, such as the ability to combine a life insurance and long-term care policy, an accelerated premium provision that allows you to stop making premiums after a certain number of years, or a provision that returns premiums if you die without using benefits. Also look into partnership policies, which allow you to qualify for Medicaid after exhausting the policy's benefit, while keeping more assets than normally allowed by Medicaid.
- **Consider sharing a policy with your spouse.** Some companies now offer policies that allow spouses to share policy benefits. Review the alternatives with your advisor – but be sure that one spouse doesn't use up all the benefits.
- **Check the policy's tax status.** A qualified policy allows you to deduct a certain percentage of the premium, depending on your age, as a medical expense on your tax return. Medical expenses are deductible to the extent they exceed 7.5% of your adjusted gross income.
- **Obtain insurance from a stable insurance company.** You want the insurer that covers your long-term care to be around for the long term.

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