Family Wealth Management, Inc.

FINANCIALLY Speaking

PRACTICAL FINANCIAL PLANNING IDEAS & INSIGHTS

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Medical Inflation Saddling Retirees With Higher Costs

Nothing brings home the need to craft a viable retirement savings plan more forcefully than the ever-increasing cost of long-term health care. Even the global economic meltdown failed to bring any relief, as the cost of care continued to rise in 2009. According to a study by MetLife, private room nursing home rates rose 3.3% to an average of $219 per day or $79,935 per year in 2009; assisted living costs also climbed 3.3% to an average of $103 per day or $37,572 a year; hiring a home health aide jumped 5% to an average of $21 an hour; and adult day care rose 4.7% to an average of $67 a day ($24,455 per year). All of those increases surpassed the 2009 inflation rate of 2.7%, consequently, your retirement plan needs to take into account that medical inflation is likely to continue to outpace rises in overall consumer prices.

Seven out of 10 Americans who reach age 65 will need some type of long-term care, according to the U.S. Department of Health and Human Services, and Medicare normally doesn't cover the cost of that care. These strategies could help you prepare for what can be a bankrupting expense.

Start a Health Savings Account. HSAs are medical savings accounts that offer tax incentives, and they are available in most states to those who enroll in a high deductible health plan. There are annual contribution limits, but you do not have to pay federal income taxes on contributions, and unspent funds roll over and accumulate year after year. If you can avoid withdrawing funds for medical expenses during the early years, an HSA may build into a significant tax-free health care fund for your retirement years. The money in an HSA can be invested, and if it's withdrawn to pay health care expenses it isn't taxed. For 2011, individuals may contribute up to $3,050, families may contribute up to $6,150, and there is a $1,000 catch-up provision for those over age 55.

Buy Long-Term Care Insurance. LTC insurance covers help with "activities of daily living" and, depending on the policy you buy, will pay for nursing home care as well as home care and services such as adult day care. Companies that sell LTC polices offer a vast array of options for this complex insurance. The cost depends on your age, the services your policy covers, how long benefits will be paid, whether you opt for inflation protection, and other factors. You must be in good health to buy most policies.

States regulate LTC insurance, and most make it difficult for insurers to raise rates. Yet the cost of your policy may ultimately rise as companies struggle to pay benefits in the face of rising costs and a population that lives longer and longer, and some insurers could fail to make good on their promises. Carefully compare insurers and policies before making a purchase.

Increase Your Savings. Managing your pre-retirement budget, moving to a lower-cost region of the country, and reducing expenditures during retirement

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What Will The Greek Crisis Mean In Five Years?

The markets spent summer 2010 dreaming of Greece—or, more to the point, suffering nightmares about the prospect that the country would default on its $300 billion debt and perhaps take the rest of Europe down with it. For months, fear drove fair-weather traders out of every asset class even remotely connected to Greece or Europe.

Although things still look a little scary now, it's likely that within a few years, investors will barely remember even the worst-case scenario. In fact, you've probably forgotten the time five years ago when markets were also worried about the euro.

Rewind to June 2005. The financial media were full of talk about how the European Union was "faltering," the euro was plunging to multi-month lows, and the fate of U.S. exporters dangled in the balance. At the time, France was the offender. Its crime? Voting against a new European constitution.

Today, few remember that failed constitutional vote or how ominous it looked at the time. The EU didn't break up. The euro bounced back. And over the next two years, blue-chip U.S. stocks rallied 34%.

You can make a similar case for the Russian default of 1998, the Hong Kong currency flu of 1997, the Mexican crisis of 1994, or any other potentially apocalyptic market event. Well-diversified investors with a long-term view rolled with the headlines, stayed in the market, and reaped the rewards.

Ups And Downs Of Caregiver Agreements

In 2009, an estimated 66 million Americans provided more than $400 billion worth of unpaid care to elderly parents and other loved ones, according to AARP. As the economy continues to struggle and family budgets tighten, an increasing number of those caregivers are accepting pay for their efforts, most often from an aging parent.

There is a right way and a wrong way to do this, says Linda Fodrini-Johnson, a geriatric care consultant in the San Francisco Bay Area and president-elect of the National Association of Professional Geriatric Care Managers. The right way is to draw up a written caregiver agreement, a formal contract that makes it clear what a caregiver is expected to do, how much he or she will be paid, and other details of the relationship. A well-drafted agreement can help elderly parents remain in their homes while keeping family strife to a minimum, says Fodrini-Johnson. Meanwhile, the caregiver receives extra income and the parent's estate is reduced, minimizing potential estate taxes.

But not every contract will provide such benefits. "Consult an attorney to make sure this is a binding agreement that would hold up in court," suggests Fodrini-Johnson. "If it looks like you're trying to spend down assets or bypass legitimate taxes, you could be breaking the law."

Caregiver agreements cover what the caregiver is expected to do (from cooking and cleaning to helping the person dress and bathe), how much time it will take to do these tasks, the rate of pay, and how often payments will be made. If a family has multiple siblings, each of them should sign the agreement, especially if only one is providing the care. The caregiver is responsible for federal and state taxes due on the income, and the rate of pay must be in line with standard rates for similar work in the area.

But no agreement, however carefully drafted, will succeed if the parties to it aren't comfortable with the caregiving arrangement, says Fodrini-Johnson, who points to several potential problems.

- Someone who provides care out of guilt or an inability to say no will most likely fail to provide adequate care.
- Similarly, a reluctant caregiver doing it only for the money probably won't be successful. "You have to really like people and love elders," she says. "Emotional abuse can happen if you're not happy to be there."
- A caregiver may begin to feel guilty about accepting money from a family member.
- Making this a paid relationship may change the tenor of the connection between parent and child.

We can help your family avoid these pitfalls by setting up a caregiver agreement that takes into account all of the complex financial and emotional aspects of your situation. And if you're in your 50s or 60s, purchasing long-term care insurance now could go a long way in helping to avoid this situation. Please give us a call if you'd like to discuss the possibilities. ●

Retiree Relocation: Tax-Friendly States

Are you thinking about pulling up stakes when you retire? You may want to move to a state with warm temperatures and lots of sunshine, but there's also another kind of climate to consider—the tax climate. State taxes as well as federal levies can take a big bite out of retirement income, and some states devour decidedly more than others do. Here are several factors to take into account.

State income taxes. Seven states—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—have no state income tax, and New Hampshire and Tennessee tax only investment dividend income that exceeds specified limits. However, many other states and the District of Columbia provide tax breaks for retirees, so you shouldn't automatically assume a no-tax state will be the best choice.

Retirement income. Most states that normally tax income provide partial exemptions for pensions. Even better, 10 states fully exempt income received from federal, state, or military pensions. And in Pennsylvania and Mississippi, all retirement income, including distributions from 401(k)s and IRAs, is state tax-free. Some other states impose high income tax rates on retirement income, however, with California leading the way at 9.55% on income of less than $1 million.

Social Security benefits. Up to 85% of the Social Security benefits you receive may be subject to federal income tax. However, the seven no-tax states, 27 others, and Washington, D.C. don't tax Social Security, though other special rules may apply. For instance, in Colorado, New Mexico, and Utah, you must add back a portion of Social Security benefits not taxed on a federal level when determining your eligibility for certain state income tax breaks.

Understanding The Realities Of Charity

For charities, the economic downturn has posed extraordinary challenges. Social services organizations, in particular, have faced mushrooming demand as unemployment, family problems, homelessness, and other human symptoms of the downturn all have increased sharply. At the same time, corporations, foundations, and individual donors, feeling the economic pinch, have cut back on their support.

According to the Giving USA Foundation, donations fell 3.6% in 2009 to $303.75 billion, down from $315 billion in 2008. This is the steepest decline in current dollar terms since Giving USA began its annual reports in 1956.

You may have been compelled to limit your own philanthropic contributions, and even if you've found a way to continue giving, it's more important than ever to make sure your dollars are having maximum impact. You need to know about the organizations you support—how they're using your money, how efficiently they're run, and whether they're living up to their missions.

In order to get a tax deduction for your gifts, you also need to have a proper acknowledgement from the charity and adhere to the IRS's recently toughened requirements. These are the new realities of charitable giving.

The internet has greatly simplified the process of finding a charity, learning about its mission, and doing due diligence before you contribute. Guidestar.org, for example, maintains a directory with information about almost two million charities recognized by the IRS. You can search the database for a particular organization or use keywords, location, and other criteria to look for groups with a specific mission. Type in "homeless" and click Arizona, for instance, and you'll get a list of 210 organizations.

Guidestar and other sites provide comprehensive information about a charity's activities. Charity Navigator (charitynavigator.org) evaluates the financial health of more than 5,400 of America's largest charities, while the Better Business Bureau (bbb.org/us/charity) offers a wealth of resources for both charities and consumers. Its "Wise Giving Guide" summarizes the results of recent evaluations of charitable organizations and provides tips on gift-giving and charitable accountability issues. The American Institute of Philanthropy operates a website (charitywatch.org) that grades more than 500 public charities and focuses on special issues such as compensation for charity executives, top-ranked groups, and "hot topics."

With all of this information literally at your fingertips, it's easy to dig deeper. Find out how much of a group's budget goes to its programs and how much is earmarked for fundraising, other administrative costs, and overhead. (Most organizations should allocate at least three-quarters of their spending to programs.) Look at a charity's annual reports to evaluate its finances and its commitment to its mission. Be wary of those that have consistently operated at a loss.

You can read more financial details in the Form 990 every charitable organization must file with the IRS. Look for a copy on the group's website or call to request one.

Most major charities have adopted a "Donor Bill of Rights" that several philanthropic associations jointly created. Available at Charity Navigator and other internet sites, the document lists 10 things you should expect from any reputable group. This includes information about the group's board, whether it uses paid solicitors to ask for donations, and a promise to treat donors with respect. These guidelines give you one more tool for taking stock of an organization you're considering.

Once you've selected a charity and made a donation, you need to make sure that you have the documentation needed to claim an income tax deduction. The Pension Protection Act of 2006 tightened the rules for substantiating monetary gifts, and you now must have a written record of any contribution. If the IRS asks, you need to be able to show a bank statement or a written communication from the charity verifying your gift. This should show the organization's name, the date of the contribution, and its amount. This requirement now applies to all monetary contributions, even small gifts given in cash.

Charities need your help now more than ever. If you understand the realities of charitable giving, you can deliver your money to deserving groups that will put your generosity to good use. ●

Sales tax. These levies are often overlooked when retirees contemplate a move. On the plus side, five states—Alaska, Delaware, Montana, New Hampshire, and Oregon—currently have no sales tax, and other states may exempt food, medicine, and other necessities. But California has an 8.25% rate, and many cities and counties pile on additional sales tax charges. In Chicago and Los Angeles, you'll pay a combined rate of 9.75%—the nation's highest. And things could get worse. In 2009, 649 U.S. cities imposed new sales taxes or increased existing rates, while only 192 reduced sales tax rates (Source: Vertex Inc.).

Property taxes. The property tax burden varies widely throughout the country and even within states. The five states with the lowest median property taxes are Louisiana, Alabama, West Virginia, Mississippi, and Arkansas, while New Jersey, New Hampshire, Connecticut, New York, and Rhode Island have the highest.

Of course, tax rates aren't likely to be your only reason for choosing a particular retirement location. But it can't hurt to factor in these very real costs when planning your move. ●

Take Out Umbrella Insurance For A Rainy Day

Into each life some rain must fall. That's why it makes sense to acquire "umbrella" insurance.

Homeowner's insurance covers a multitude of ills involving your principal residence. Similarly, auto insurance will pay to fix a damaged bumper—and the dent in the car you ran into—after you've kicked in a deductible. But each of these policies is usually limited to no more than $500,000 in coverage for losses that you suffer or cause.

An umbrella insurance policy, also known as excess liability coverage, extends your personal liability coverage beyond normal policy limits. It's really protection against worst-case scenarios, unlikely but possible events that could wipe you out financially. Here are answers to common questions about this insurance.

Who needs excess liability coverage? An umbrella policy is a good idea for most affluent individuals, especially those who own a home, frequently drive a vehicle or have teenage children who are driving; operate a home-based business or serve on boards of nonprofit organizations; employ domestic staff; or maintain a high public profile.

How much coverage do you need? Though this depends on your personal circumstances, an umbrella policy of at least $1 million is probably a good idea. Consider the following when determining how much coverage you need: 1) physical assets 2) investable assets 3) future earnings 4) potential inheritance 5) the legal environment 6) risk profile and 7) potential for loss.

Most top property and casualty (P&C) insurers will provide coverage of up to $5 million, and if you're particularly worried about personal liability claims, you can get higher policy limits (up to $100 million) from a handful of firms.

What does it cost? Umbrella insurance is relatively inexpensive. Typically, you'll pay between $250 and $500 a year for coverage of $1 million. Every extra million may run you about $150. That means, at the high end, you can probably figure on spending around $1,100 a year to maintain a $5 million policy.

What's covered? This differs from policy to policy, but umbrella insurance usually can fill in the cracks around other insurance. For example, your auto policy might not cover you for an accident overseas, but an umbrella insurance policy probably will. The policy might also provide protection against sexual harassment claims and personal injury "torts" such as discrimination, libel, and slander. And if your car skids into a Rockefeller and you're hit with a $5 million judgment? Having this insurance could save your house, your savings, and your financial future.

Why isn't it more prevalent? Unlike homeowner's or auto insurance, umbrella insurance traditionally has been viewed as a luxury, and it's not mandated by law. But it is fast becoming essential in this litigious society. For an annual personal liability review, please call our office. ●

Retirees With Higher Costs

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all could help you build a bigger nest egg that may be able to cover the rising cost of long-term care. Or you could work a few years longer than planned, thus adding to your savings and reducing the length of your retirement. Even then, however, a nursing home stay soon after you leave work could be devastating, draining your savings when income from your job has ended.

Live a Healthy Lifestyle. Exercise, eat right, avoid alcohol and tobacco, and keep stress at bay if you want to increase the odds of remaining healthy during your retirement years. Paying attention to your health can pay big dividends during retirement, helping you spend less money on health care in the early years. The funds you save will earn interest for several years and will grow to help defray the eventual costs of long-term care. And if you're fortunate enough never to need extended nursing care, you'll have more to pass along to your heirs.

The ever-increasing cost of long-term health care is one of the biggest threats to your financial security during your retirement years. Not having LTC insurance or sufficient funds set aside to pay for care can force you and your family into making no-win financial choices, which could include officially impoverishing yourself in order to qualify for Medicaid, the joint federal-state health program for the poor that pays for most long-term care. Facing all of these issues can be daunting and complex. We can help you consider your options as part of creating a sound, effective retirement plan. ●