PPC Monthly Newsletter

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The Basics of Long-Term Care Insurance

As clients age, questions arise about the value of acquiring Long-Term Care insurance. In some cases, the questions are prompted by an article the client read. In others, the question arises due to a personal experience the client had with a friend or family member who needed nursing care and had to deal with the financial impact of the resulting costs.

Some clients have the financial resources to 'self-insure' potential nursing care costs from their assets. However, most would rather buy a policy that would pay for the care rather than consume a good amount of their own assets. Others may have such limited financial resources that it is very possible that longer-term care they might need would be paid for by Medicaid. In many cases, **the clients most exposed to the ravages of nursing care costs are those who don't consider themselves wealthy, yet have enough assets that they would likely not qualify for state aid.**

If nursing care protection is desired, what options exist? Following are four options for your consideration:

1. **Purchase a traditional LTC policy.** This is a sound option. In these policies, you 'buy a pool of benefits' that will vary based on the duration of coverage, starting point of coverage, amount of daily benefit, and whether or not you want inflation protection. The ratio of premium to ultimate benefits is very good. Just be aware that due to the relatively short history of LTC policies, many companies have either exited the business due to costs or raised their premiums a number of times in order to keep pace with the rising cost of claims. Likely premium increases over time should be factored in to any retirement income planning.

2. **Purchase a 'lump-sum' type of LTC product.** This platform assumes that one of three things will occur in regards to the need for LTC: (a) you die before nursing care is needed, (b) you decide you do not need the coverage, or (c) you need nursing care and begin drawing down on the pool of benefits you selected. In this approach, instead of paying an ongoing premium, you deposit a lump-sum of money into this vehicle. The lump-sum creates (a) a pool of LTC benefits equal to between 2X - 4X your deposit depending on age, (b) a death benefit normally about 110% of the initial deposit, and (c) a 100% refund of the amount deposited if you surrender the policy prior to collecting benefits. It is a sound option for those who don't want to pay ongoing premiums.

3. **Purchase a single premium annuity with a 'nursing home rider' feature.** Some annuities will have a rider that doubles the annual income payout if the owner needs nursing care. This approach will NOT provide as extensive coverage as the first two options, but is a way to have some level of protection without buying a separate LTC policy.

4. **Purchase a permanent life insurance policy that has an LTC rider.** Some policies allow the owner to draw down on the death benefit in the event he/she needs nursing care. The rider usually adds a very nominal extra cost. If the client wants some/all of their life insurance to last for their entire lifetime, then selecting one with an LTC rider can make very good sense.

These four descriptions are intended as a starting point in discussions with you about how to address any questions or concerns you may have about long-term care costs and insurance. The next time we meet or talk on the phone, let's discuss this important topic in more detail.

- Ken, Dave, Dominic, Julie, Therese and Maja

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Choosing a Retirement Community

Homes available within retirement communities can be as diverse as the communities themselves, and range from small apartments in the city to luxury homes on the ocean. No matter which type of home you choose, make sure it will meet your needs both now and in the future.

Perhaps you've seen ads for a new "over 55" luxury condominium development in your town. Or another winter of shoveling has finally convinced you that it's time to move to a warmer climate. You're looking forward to life in a retirement community, but with so many options, how do you choose the right one?

Beginning the search

The first step is to think about where you want to live, how you want to spend your retirement years, and what type of home you can realistically afford. All retirement communities are designed with the needs of older adults in mind, but they provide different living arrangements, activities, and services.

One option that's become increasingly popular is the "active adult" community. Usually centered around a fitness facility, a clubhouse, or a golf course, this type of community offers many social and recreational opportunities, such as clubs, meals, and walking trails.

Other retirement complexes are geared toward individuals who want flexible living arrangements and services. These complexes may contain a variety of housing types, including independent-living, assisted-living, and long-term care facilities. They often offer extended assistance with daily tasks such as shopping and housekeeping, and emphasize easy access to health care.

For example, increasingly popular options for those 62 or older, who meet financial and health thresholds, are continuing care retirement communities (CCRCs) and fee-for-service continuing care retirement communities (FFSCCRCs). These adult communities offer, under one contract (and usually all in one location), an independent living unit (typically an apartment or cottage), residential amenities, and access to a continuum of long-term care services as residents' health and social needs change over time. These are just some of the options--many others are available.

The cost of convenience

Homes available within retirement communities can be as diverse as the communities themselves, and range from small apartments in the city to luxury homes on the ocean. No matter which type of home you choose, make sure it will meet your needs both now and in the future. More and more homes in retirement communities are incorporating universal design features, a trend that's likely to continue. These features include one-level living, extra lighting, easy-to-open doors and cabinets, and security systems that make day-to-day living simpler and safer for people of all ages.

But the convenience of retirement living usually comes at a price. That price includes not only rental or mortgage payments, utilities, and insurance, but also any up-front or ongoing fees you'll owe. For example, a retirement community may charge a hefty fee for "buying in" to the community. One ongoing fee you may need to factor in is a homeowners or community association fee that may add hundreds, or even thousands, of dollars to your monthly housing costs. In general, the higher this fee, the more services or amenities are included, but make sure you understand what you're getting for your money. And don't forget about taxes. Even states with no state income tax may have high property taxes, sales and restaurant taxes, or "hidden" taxes on luxury goods or investments. A financial professional or tax advisor can help you determine the impact taxes will have on your finances.

And so that there are no unpleasant surprises, you should also consider the potential for costs to rise. Living in a community where costs for housing and services are constantly on the upswing is at best annoying, and at worst, financially devastating.

Try before you buy

Popular communities often have waiting lists, so it's a good idea to do your homework in advance. Start with a visit. If you're traveling out of town, find out if the community you're visiting offers a special travel package for potential residents--many do. If you're searching locally, visit each prospective community at least two or three times.

A checklist of questions to ask can come in handy when researching retirement communities. Here are a few items to include:

- Is the property well maintained?
- Is the atmosphere casual or formal?
- What social, recreational, and educational activities are available?
- Is public transportation nearby, or is van service available?
- Are pets allowed?
- Are guests restricted?
- Is medical care provided?
- Which services are included, and which are available at additional cost?
- Has the facility been accredited?

Most importantly, talk to residents and staff about their experiences--you'll get a much more realistic picture of life in a retirement community than you can glean from a brochure.

Coordinating Social Security Benefits with Other Retirement Assets

Special rules for government pensions

If your pension is from a job where you did not pay Social Security taxes (such as certain government jobs), two special provisions may apply. If you're entitled to receive a government pension as well as Social Security spousal retirement or survivor's benefits based on your spouse's (or former spouse's) earnings, the government pension offset (GPO) may apply. Under this provision, your spousal or survivor's benefit may be reduced by two-thirds of your government pension (some exceptions apply).

The windfall elimination provision (WEP) affects how your Social Security retirement or disability benefit is figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit is modified, resulting in a lower Social Security benefit.

Social Security provides retirement income you can't outlive. And, in addition to your own benefit, your spouse may be eligible to receive benefits based on your earnings record in the form of spousal benefits and survivor's benefits. So, it's easy to see why, with all of these potential benefit options, Social Security is an important source of retirement income. But, according to the Social Security Administration, only about 40% of an average worker's preretirement income is replaced by Social Security (Source: SSA Publication No. 05-10035, July 2012). When trying to figure out how you'll meet your retirement income needs, you'll probably have to coordinate your Social Security benefits with other retirement income sources such as pensions, qualified retirement accounts (e.g., 401(k), IRA), and other personal savings.

Factors to consider

How you incorporate Social Security benefits into your total retirement income plan may depend on a number of factors, including whether you're married, your health and life expectancy, whether you (or your spouse) will work during retirement, the amount of your Social Security benefit (and that of your spouse, if applicable), other sources of retirement income (e.g., pension), how much retirement savings you have, and, of course, your retirement income needs of you and your spouse, including the income need of your spouse after your death.

A factor to consider is that Social Security has a "built-in" protection against longevity risk. Benefits increase each year you delay starting benefits through age 69 (benefits do not increase past age 70), so the later you start receiving benefits, the greater the benefit amount. In addition, Social Security benefits are inflation-protected, and may increase with annual cost-of-living adjustments based on increases in the Consumer Price Index.

How much you may pay in income tax may also factor into your retirement income plan. For example, distributions from tax-qualified accounts (e.g., 401(k)s, IRAs, but not including Roth IRAs) are generally taxed as ordinary income. Up to 85% of your Social Security benefits may also be taxed, depending on your modified adjusted gross income and tax filing status. Tax issues are complex, so you should talk to a tax advisor to understand your options and the tax consequences.

Pensions

If you're lucky enough to have a traditional employer pension available, that's another reliable source of income. You'll want to be sure that you effectively coordinate your Social Security benefit with pension income. Your pension may increase in value based on your age and years of employment, but it may not include cost-of-living adjustments (COLAs). As mentioned earlier, Social Security not only increases the longer you delay taking benefits, but it may increase with COLAs.

If your pension benefit increases past the age at which you retire, you might consider waiting to take your pension (either single or joint and survivor with your spouse) in order to maximize your pension benefit amount. Depending on your income needs, you could start Social Security benefits earlier to provide income. Or, if you've already reached your maximum pension benefit, you could start your pension first, and defer Social Security in order to receive an increased monthly benefit later. Your decision depends on your individual situation, including your pension benefit amount and whether it increases in value after you retire, and the pension options that are available to you (e.g., single life, qualified joint and survivor). You can get an explanation of your pension options prior to retirement from your pension plan, including the relative values of any optional forms of benefit available to you.

Personal savings

Prior to retirement, when it came to personal savings, your focus was probably on accumulation--building as large a nest egg as possible. As you transition into retirement, that focus changes. Rather than concentrating on accumulation, you're going to need to look at your personal savings in terms of distribution and income potential. Your savings potentially can provide a source of income to help you bridge any gap between the time you begin retirement (if you've stopped working) and the time you wait to begin taking Social Security benefits.

One option you might consider, depending on the amount of retirement savings you have and your income needs, is taking some of your savings and purchasing an immediate annuity, which will provide a guaranteed (based on the claims-paying ability of the annuity issuer) income stream. In this way, your remaining savings may have a chance to increase in value, while delaying Social Security benefits increases your annual benefit as well.

Incorporating Social Security into your retirement income plan involves several other important factors. Talk to your financial professional for help in developing the best plan for you.

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I just bought a vacation home. Do I need to purchase a specific type of insurance?

Insuring a vacation home is different from insuring a primary residence. As a result, you'll want to purchase insurance that is specifically geared to provide coverage for this type of property.

When insuring a vacation home, the type and cost of coverage will vary, depending upon the insurance company and the state in which your vacation home is located.

Most insurers offer at least some type of insurance that is specifically designed for second/vacation homes. Coverage under these types of policies can range from standard coverage that protects against certain named perils, to more comprehensive coverage that protects against all perils unless specifically excluded in a policy.

Keep in mind that, depending on what is covered under the policy, you may need to obtain additional protection (e.g., property or liability coverage) through either an endorsement or separate policy. In addition, if your vacation home is located in an area that is susceptible to flood damage--which is not covered under a standard vacation home policy--you'll want to look into obtaining separate coverage for that peril as well.

Due to some of the unique circumstances surrounding vacation homes (e.g., high-risk location, not being occupied for long periods of time), vacation home insurance premiums are usually much higher than those for a primary residence. However, you may be able to save money by insuring your vacation home with the same company that provides coverage for your primary residence (some insurers may require this). In addition, you may be eligible for other discounts, such as those offered for newly built homes, nonsmokers, and homes that have a security system installed. Policy discounts will vary by state and insurer.

Because of the vast array of vacation home insurance products on the market, you'll want to be sure to shop around for the best coverage and rates. You may also want to contact the state department of insurance where your vacation home is located for additional information on the coverage and rate options that may be available.

What are the new Section 179 expensing and bonus depreciation rules for 2013?

As a business owner, you may have faced the prospect of losing two important tax-saving provisions as part of the fiscal cliff: the temporarily expanded Section 179 expensing limits and the 50 percent first-year bonus depreciation rule. The increased deduction limits were originally enacted several years ago--and subsequently extended and modified a few times since--to help businesses weather the prolonged economic slump. The premise was that the tax perks would encourage businesses to make purchases, giving a boost to the overall economy.

As part of the American Taxpayer Relief Act of 2012, these provisions were once again extended, and the Section 179 deduction was enhanced for both 2012 (retroactively) and 2013.

Section 179 rules now state that for both 2012 and 2013, businesses can expense purchases of up to $500,000 for new and used equipment, up to a maximum investment of $2 million for the year. Any purchases over that $2 million limit reduce the allowable deduction amount on a dollar-for-dollar basis. The idea here is that the provision is designed primarily to benefit small and medium-sized businesses.

But businesses that make purchases over the $2 million limit have a reason to invest, too. The bonus depreciation deduction means business owners can speed up their depreciation tax benefits by taking a first-year deduction of 50% of the cost of new equipment only (i.e., purchases of used equipment are ineligible). To take advantage of both the Section 179 deduction and the bonus depreciation, a business would typically max out its Section 179 expense first and then apply the 50% bonus depreciation to remaining purchases. Companies that experience net operating losses may also take the 50% bonus depreciation deduction, carrying the loss forward if needed.

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