reinventing
retirement
Your Retirement Planning Newsletter
First Quarter 2014

Living Longer, Living Better

Creating lifelong financial health also means planning for greater longevity and potential healthcare needs as you get older. Long-term care is an important component of that plan.

You've spent years contributing to your 401(k) plan, have held on to a diversified portfolio, and have followed the principles of sound personal finance. You've also stayed healthy by eating right and exercising. Still, can unexpected expenses or health setbacks surprise you in the future?

The answer, of course, is yes. Ask any financial advisor who manages money for retirees, and he or she will have many stories of the impact of healthcare costs on retirement savings. One advisor tells the story of a client who needed surgery for a heart condition just as his wife was being treated for cancer. Another retiree was surprised to discover that Medicare did not cover his dental work.

Today's older Americans enjoy longer lives and better physical health than did previous generations, although for some an increased burden in housing costs and rising obesity may compromise these gains, according to a federal study on aging.[1] Older Americans face financial challenges due to several factors:

- **Longevity.** Average life expectancy overall has increased about five years over the past two decades, but people are living longer in chronic pain and with physical and mental disabilities.[2] This means that most people need to plan for added healthcare costs.
- **Rising costs.** Climbing insurance premiums, advances in life-saving medical technologies, and increased life expectancies are all driving increases in annual healthcare costs. In 2011, older consumers averaged out-of-pocket healthcare expenses of $4,769, an increase of 46% since 2000.[3]
- **Smaller cost-of-living adjustments to Social Security.** Social Security benefits were expected to rise just 1.5% in January 2014,[4] giving millions of retired and disabled workers an average raise of $19 a month to keep up with the cost of living. This increase, which is tied to the prevailing rate of inflation, is among the smallest since automatic adjustments to benefits were adopted in 1975.
- **Gaps in Medicare.** The Employee Benefit Research Institute (EBRI) estimates that a married couple who retired at 65 would need $317,000 in 2012 to have a 75% chance of covering expenses not paid by Medicare.

Although the savings projection is lower than what the couple would have needed in 2011, individuals will need to save far more for health insurance premiums and out-of-pocket expenses. Most private and many public employers are not covering retirees as generously as they have in the past.[5] That said, workers who have access to flexible spending accounts offered by some employers will soon be allowed to carry over up to $500 from one year to the next[6]—a big help in paying out-of-pocket healthcare costs.

Unexpected financial or physical-health issues shouldn't change the way you plan for retirement expenses. It's

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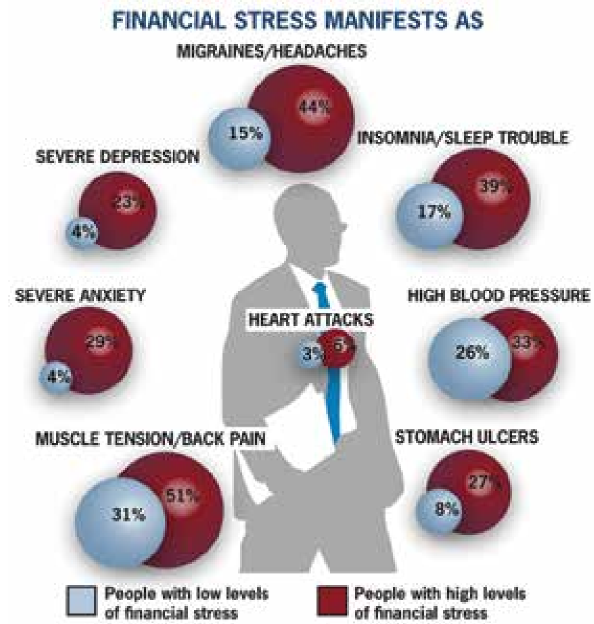
important to create a savings plan before retirement, and an income strategy during retirement. Costs such as insurance premiums, medical services, prescriptions and supplies and long-term care all need to be part of your planning each year. A financial advisor can help you create a realistic long-term care assessment that's tailored to your individual needs.

How Much Does Financial Stress Affect Your Health?

Studies show that 83% of employees lack confidence in their ability to retire, and nearly the same amount (84%) report being financially stressed.[7] Not surprisingly, financial stress is the number one cause of stress-related illnesses, according to a 2009 Partnership for Workplace Mental Health report.

A positive way to tackle the financial stress you may be feeling is to take advantage of financial education offered by your employer, or consult with a qualified financial advisor. By putting together a financial game plan, you can set realistic goals and assumptions about your saving and spending habits.



Source for graphic: AP-AOL Health Poll, Debt Stress: The Toll Owing Money Takes on the Body, April 2009

[1] National Institute on Aging (NIA), *Older Americans 2012: Key Indicators of Well-Being,* August 2012.

[2] Lancet, *Global Burden of Disease Study,* 2010. Reported as of August 2013.

[3] National Center for Health Statistics, *Bureau of Labor Statistics' Consumer Expenditure Survey.*

[4] "Social Security Announces 1.5 Percent Benefit Increase for 2014," Social Security Administration press release, October 30, 2013.

[5] Paul Fronstin, Ph.D., Dallas Salisbury, and Jack VanDerhei, Ph.D., "Savings Needed for Health Expenses for People Eligible for Medicare: Some Rare Good News," EBRI, October 2012.

[6] Stephen Ohlemacher, "Rules loosened on funds left over in health care accounts," *Boston Globe,* November 1, 2013.

[7] *2011 Research in Review,* Financial Finesse, February 2012.

Planning for Long-Term Care

According to the U.S. Department of Health and Human Services, 70% of people turning 65 can expect to use some form of long-term care during their lives. But less than one-third of Americans who are 50 or older have begun saving for long-term care.

Long-term care includes a range of personal daily living services. Most long-term care isn't related to medical care, but rather assistance with daily bathing, dressing, using the toilet or eating. Other types of long-term support include help with housework, managing money, taking medication and shopping.

Many Americans mistakenly believe that Medicare pays for the bulk of long-term care. In fact, Medicare only pays for long-term care if you require skilled services or rehabilitative services, and it will only do so in a nursing home for a maximum of 100 days (the average is 22 days), or at home for a much shorter period.

Long-term care insurance can be expensive, but not having it may endanger your retirement and other savings. Here are some tips to consider before you buy:

- Don't buy more insurance than you think you may need, or too little. You may have enough income to cover the bulk of your costs and so may only need a small policy to cover the remainder. Family members also may be willing and able to provide support. It is also far more difficult to increase coverage than decrease coverage, especially if your health has deteriorated.
- It costs less to buy coverage when you are young. The average age of people buying long-term care insurance is about 60, but it's significantly less expensive if you buy it in your late 40s or early 50s.
- Research and consider different options, and talk with a financial advisor before finalizing your decision.

For more information about the basics of long-term care, its costs, and guidelines to help you make a decision, check with a financial advisor or visit www.longtermcare.gov.

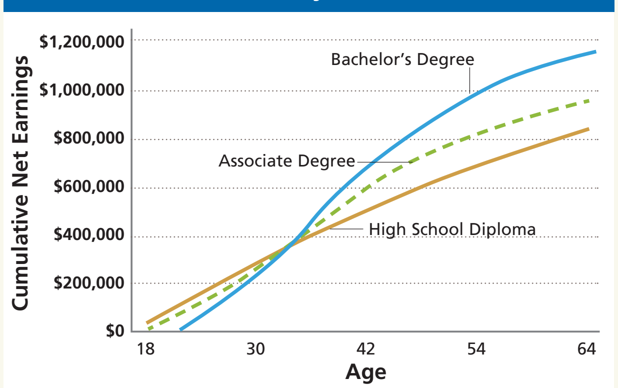
College Savings 101

The gift of a college education is within your reach if you start planning early. Here's our guide to funding a college education for your children or grandchildren.

Breathe a sigh of relief: Although the cost of college has been rising well above the rate of inflation for more than a decade, there are some signs that annual increases are moderating, according to the College Board. Its *Trends in College Pricing* report for the 2013–14 school year shows a 3.2% average increase in total year-over-year costs at public four-year in-state schools (to $18,391), and a 3.7% increase at private four-year colleges and universities (to $40,917).

Despite the significant cost of attending a two- or four-year college, the lifetime-earning premium of a bachelor's degree is significantly higher than that of a high school diploma, even after deducting the costs of loan repayments, as the chart below shows.

Estimated Cumulative Full-Time Earning (in 2011 Dollars) Net of Loan Repayment for Tuition and Fees, by Education Level



Source: Sandy Baum, Jennifer Ma and Kathleen Payea, *Education Pays 2013: The Benefits of Higher Education for Individuals and Society,* College Board.

Paying for college can seem like buying a new car every year, but the sticker shock can be lessened if you plan ahead. Here are seven tips to help you get started.

1. **Get your retirement in order first –** Your kids will have access to more sources of college money than you will once you stop working, so make sure you're on the right path for your own retirement before you set aside money for college.
2. **Start early –** Even small contributions can add up if you give them time to grow. Investing just $100 a month for 18 years can yield $48,000, assuming an 8% average annual return.[8]
3. **Consider a 529 savings plan for big tax advantages –** Qualified withdrawals are free of federal taxes (and some state tax benefits, too), and the amounts you can put in are substantial (more than $300,000 per beneficiary in many plans). Plus, you can open a 529 no matter how much you make or the age of the beneficiary, which makes it a particularly attractive vehicle for grandparents who want to lower the value of their taxable estate.
4. **Custodial accounts give the child more control over the money –** Gifting assets through the Uniform Gifts to Minors Act (UGMA) accounts or transferring assets through the Uniform Transfers to Minors Act (UTMA) accounts can be a practical way to expand the universe of available investment options, but they come with a caveat. UGMA and UTMA accounts weigh more heavily on financial aid decisions because they are considered an asset of the child, not the parent. Plus, their tax benefits are limited when compared to a 529. The biggest consideration, however, is that the money saved becomes the child's at a certain age (18 or 21, depending on the state), regardless of whether he or she goes to college.
5. **Set up a Coverdell Education Savings Account for simpler needs –** The Coverdell ESA offers tax advantages that are similar to those of the 529 plan but limits contributions to $2,000 per year. If you're contributing less than $2,000 a year, it can be simple to set up and manage. Plus, you can select from a broad range of investment options, including mutual funds.
6. **Take advantage of federal tax breaks –** Depending on your modified adjusted gross income, you may be able to take the "American Opportunity Tax Credit and Lifetime Learning Credit" in the years you pay tuition.
7. **Look for flexible repayment plans –** There are still ways to cut costs after your student graduates and begins repaying student loans. For instance, there is often a one-quarter percentage point interest-rate decrease if you set up automatic debit, in which monthly payments are automatically taken from your account. Federal student loan programs generally have more lenient provisions than private education loans.

Need more information on college affordability? Contact a financial advisor, or visit www.advocacy.collegeboard.org/college-affordability-financial-aid.

[8] Hypothetical example is intended to illustrate the benefit of long-term investing. It is not intended to predict the return of any investment, which will fluctuate with market conditions. All investing involves risk, including loss of principal.

retirement in motion Tips and resources that everyone can use

Boomers on the Brink

Back on the dating market

Although the overall divorce rate in the country is essentially flat, the "gray" divorce rate among those 50 and older has doubled since 1990. According to a study published by Bowling Green State University, the United States saw a dramatic increase in the divorce rate, from five people/1,000 in 1990 to 10/1,000 in 2009.[9] The researchers warn that the rising divorce rate can contribute to economic strain and poor health, placing a greater burden on children and institutional support from government and other sources.

Q&A

How much does Medicare cover?

Established in 1965, Medicare is the federal healthcare insurance program for the elderly and disabled. It is designed only to cover partial healthcare expenses for beneficiaries age 65 and older. According to new analysis by the nonpartisan Employee Benefit Research Institute, in 2010 Medicare covered 62% of healthcare services for beneficiaries, while out-of-pocket spending comprised 12% and private insurance covered 13%.[10]

Quarterly Reminder

Align your portfolio with your age

If you haven't adjusted your retirement portfolio in five years or more and are in your 50s or 60s, you may need to make an adjustment to your investment allocation. Most financial advisors recommend reducing exposure to stocks as you grow older, with the conventional thinking being to subtract your age from 100 to determine your stock-holding percentage. So, if you're 55 you'd invest 45% of your retirement assets in stocks. That approach isn't right for everyone, of course. If you have sufficient savings, you might be more interested in preserving assets than squeezing out higher returns.

Tools & Techniques

Boost your contribution rate

Investing can become tricky as you enter the retirement home stretch. Market downturns can really erode the value of your nest egg—and your ability to take reasonable withdrawals. That's why saving as much as you can is more important than counting on huge investment gains. The IRS allows you to make additional "catch-up" contributions to your retirement plan if you're 50 and older, if your plan allows. Increasing the amount you save in a balanced portfolio could have a much bigger impact than investing aggressively.[11]

Corner on the Market

Basic financial terms to know

Buy and hold

"Buy and hold" is a passive investment strategy whereby an investor buys a stock or bond investment and holds it for a long time, regardless of market fluctuations. It is an alternative to active investing, in which an investor seeks to achieve superior returns by buying and selling an investment based on price movements or other indicators. Both approaches have valid arguments.

9 Susan L. Brown and I-Fen Lin, "Divorce in Middle and Later Life: New Estimates from the 2009 American Community Survey," Center for Family and Demographic Research (Bowling Green State University), 2012.

10 EBRI, *Fast Facts #251,* October 17, 2013.

11 There is no assurance that regular investing will achieve any objective. All investing involves risk of loss.

Kmotion, Inc., P.O. Box 1456, Tualatin, OR 97062; www.kmotion.com

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