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Fall 2007

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HOW TO PAY FOR YOUR LONG-TERM CARE

by Kathleen M. Rehl, Ph.D., CFP®, Land O'Lakes, FL

Nobody gets excited about the idea of spending his or her final years in a nursing home. Nevertheless, it's something we need to consider in a comprehensive financial plan. The fact is long-term care (LTC) — whether it's in a nursing home, assisted living facility,

or even in our own home — can be breathtakingly expensive. Without careful planning, you may exhaust your assets trying to pay the bills. According to the Metlife



Mature Market Institute, the average cost these days for one year's stay in a nursing home is \$66,153 (\$181 per day). These figures are expected to almost triple over the next 20 years (assuming a 5% rate of inflation in LTC costs).

For some, the financial solution lies in LTC insurance. LTC insurance policies charge a fixed monthly or yearly premium, based (in part) on your age when you sign up. As long as you keep paying the premiums, you're covered — regardless of changes in your health and advancing age.

But not everyone should buy LTC insurance. You'll need to decide whether to get the insurance or simply

plan to pay future long-term care costs yourself. This decision should be based on how much you already have set aside for future care and how you think that stash of cash will grow — as well as when you believe you may need LTC, and for how long. It's impossible to predict if and when you may need coverage, but by crunching the numbers you'll get a sense of just how much money you would have available in the future.

You'll also want to compare the cost of the LTC insurance coverage with the value of the insurance benefits you expect to receive in the future. Your Cambridge Advisor can help you with these calculations.

Your situation will be unique depending on your age, health, financial resources, goals, and whether or not there are family members able and willing to provide help when you need it. You might consider choosing one of the following five strategies to pay for your long-term care:

- Self-fund
- Self-fund plus buy life insurance to replace assets used for LTC
- Self-fund plus buy basic short-benefit-period LTC insurance
- Self-fund plus buy LTC insurance with long elimination period
- Buy LTC insurance to cover most or all LTC costs

■ The **self-funders** don't buy LTC insurance. These individuals have plenty of money or other assets to pay for their LTC expenses. These folks say, "*We're ready to pay for whatever it takes for our future care.*"

■ The second group includes **self-funders who buy life insurance**. These folks have assets, though not as much as the first group, and are willing to spend this money on their own LTC needs. At the same time, they also want to pass on an inheritance to the surviving spouse or children. They buy life insurance so that if

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HEALTHCARE STRATEGIES FOR EVERYDAY LIVING

HOW TO PAY FOR YOUR LONG-TERM CARE

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they spend all of their savings paying for LTC, the life insurance policy replenishes their nest egg for their survivors. This group wants to leave a legacy for heirs and/or charities. They say, *"We don't know if we'll need LTC, but we do know we're going to die."*

These first two groups don't buy LTC insurance. The next three groups purchase LTC insurance, but they choose very different strategies.

■ The third group is made up of **self-funders who buy basic LTC insurance**. They say, *"Ease into it,"* or *"Help me take that first step."* Most people want to stay in their own home as long as possible. In many cases professional assistance is not needed 24 hours of every day — at least not in the beginning. One spouse or partner who is willing and able could manage caring for a loved one for some time, perhaps with the assistance of other family members. But these caregivers eventually wear out. These individuals might be able to afford help, but they hate to start spending money for caregivers since this could be a long and expensive process.

In this situation, consider basic LTC insurance to help during this early time — not to take care of everything, nor long term. This approach makes it easier for a caregiver to decide that help is needed and to bring in some professional assistance sooner rather than later. It makes the burden of caregiving much easier both financially and emotionally.

Often these clients buy LTC insurance with a 90-day elimination period, but they add the waiver that eliminates the waiting period for home care, so home care assistance can begin right away. They choose a basic \$100-per-day benefit for a 2-year period. For a couple (both age 60) applying for coverage, the total annual premium combined may be less than \$900.

■ The fourth group says, *"We're willing to pay the early costs of LTC ourselves, but we want some help if care is needed for a long time."* These are the folks who can pay for the early costs of needing LTC

by self-funding from their assets and using family assistance. They will pay some of the long-term costs but do not want to totally self-insure.

In this situation we recommend a **LTC insurance policy with a longer elimination period** of 365 days (not available in all states), a \$100-per-day benefit, 5% compound inflation protection, and a 4- or 5-year benefit period. The \$100 per day won't cover all the expenses. But with the inflation protection compounding the benefit at 5%, the amount of asset reduction is kept more reasonable. This coverage for two 60-year-olds may be below \$1,900 per year.

■ The fifth group wants their **LTC insurance to pay for as much as possible**, and these individuals are willing to pay a higher premium for the maximum benefits available. They don't want to deplete their savings and investments to pay for their LTC. They say, *"We don't want any family members to worry about where the money will come from to pay for care we might need."*

In this situation, we may recommend a 90-day elimination period and considering the waiver of that elimination period for home care, a daily benefit based on the current top-quality care costs

in one's geographic area, 5% compound inflation protection, and a lifetime benefit period.

Premiums will vary depending on the cost of the care that's being covered. For example, in New Jersey, where the current daily average cost of care is \$250, a 60-year-old couple would pay up to \$12,000 per year for

the most comprehensive total coverage policy with lifetime benefits. But in New Mexico, where the current daily average is \$150, the premium may be about \$7,200.

This article was based on information provided by Low Load Insurance Services of Tampa, FL. www.llis.com. ■ ■ ■

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FINANCIAL INDEPENDENCE

by Stewart Farnell, Ph.D., CFP®; Boulder, CO

The more I work with clients, the more I appreciate the importance of financial independence. In the Cambridge System™ financial independence is a stage in our financial lives where we have investment assets worth between seven and ten times our annual living expenses. When we reach financial independence — if we are willing to maintain, rather than increase, our existing standard of living — we have the resources to begin to lead the life that we choose. We might choose to semi-retire, change careers, start our own business, or otherwise chart our own course. The typical age when we reach financial independence is somewhere in our 50s.

Sounds good. Who wouldn't want these options? But financial independence may not be just desirable. For some, it may be essential. More and more, people reach their 50s feeling fed up with what's going on in their workplaces — downsizings, reorganizations, wrong-headed initiatives — you name it. These people want out, and they're not going to wait until an age-65 retirement. They are ready to bail out with, and in some cases without, a parachute.

The best parachute is financial independence. The financially independent person can walk away from workplace craziness and start a life of his or her



own choosing. The person who lacks financial independence needs to quickly find another job (not always easy when one is 50 or older) and get back on the treadmill of making money to pay the bills.

What can we do to promote our own financial independence? First, we can save aggressively. The standard Cambridge recommendation is that we should save at least 10% of our income. But there is nothing that says we can't save more. The more we save and invest, the sooner our investment portfolio will be worth seven to ten times our annual expenses. Saving aggressively is particularly important for people who have gotten a late start on saving and are playing catch-up. Second, we can keep our annual expenses under control. The higher our annual expenses, the larger our investment portfolio needs to be to reach seven to ten times our annual expenses. Keeping our expenses down means the size of our target investment portfolio is smaller. And, due to reduced expenses, we may well have more money to commit to savings in our efforts to reach that target.

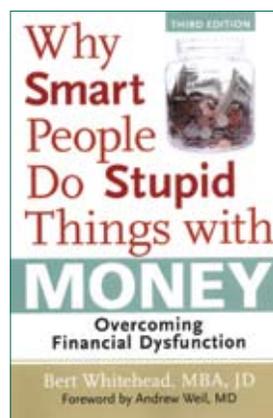
Once we reach financial independence, life offers us many possibilities. It's well worth striving for. ■ ■ ■

On Bert Whitehead's *WHY SMART PEOPLE DO STUPID THINGS WITH MONEY*

In late spring, Sterling Publishers issued the hardcover 3rd edition of Cambridge founder Bert Whitehead's *Why Smart People Do Stupid Things with Money: Overcoming Financial Dysfunction*. Many Cambridge Advisors describe the book as a must-read for anyone seeking financial freedom but whose money decisions don't seem to bring the desired results.

Liz Pulliam Weston, personal finance writer for MSN Money Central, says she has added Bert's book to the list that she thinks everyone should own. She writes,

Whitehead's 30 years as a financial planner, and his championship of fee-only advice, shine through in every page of a truly superior book on money management. From the title, I was afraid this might be another touchy-feely guide to "our money personalities." In fact, Whitehead uses research into financial behavior and his own considerable experience to show us how often our instincts about money get us into trouble, and what we can do to get back on track.



The publication of the book coincides with the television broadcast of the special *Why Smart People Do Stupid Things with Money* on PBS affiliates across the country. Check your local listings to see when your local PBS station will air the show, which highlights the major concepts explained in the book.

Why Smart People Do Stupid Things with Money is available through all major booksellers. Autographed copies are available only through the author's website, www.bertwhitehead.com.

A primer for those who want to start doing smarter things with their money or want to help someone else avoid making the same mistakes, as well as a reference for those currently enjoying the benefits of working with a Cambridge Advisor or those hearing about Cambridge for the first time, this book is sure to become well worn as readers progress (and improve their finances) through every succeeding stage of their financial lives. ■ ■ ■



THE PERPLEXING WORLD OF SOCIAL SECURITY AND EARNINGS IN RETIREMENT

Launched in 1935 during the Great Depression as a principal component of the New Deal, the Social Security system became the nation's first comprehensive source of retirement income. Since then, laws affecting the program have changed many times, and the system is now so complex that many people find details of Social Security difficult to understand.

For many individual workers planning for retirement, the most baffling question is this: *When is the best time to start receiving Social Security checks?*

The answer, partly rooted in changing regulations, is not easy. Nor is it the same for all individuals. But your answer to this question affects not only when you start to receive checks and how large your checks will be (the earlier you start, the smaller your checks), but also how much you may earn from other work once you start and how much net Social Security income you will have left after income taxes.

You first have to understand the regulatory concept of your "normal retirement age." For those born in 1937 or earlier, normal retirement age was 65. It is higher for those born later, until it tops out at age 67 for those born in or after 1960. (Tables spelling out this and other relevant regulations appear on the Social Security Administration's website, www.ssa.gov.)

You may retire as early as age 62. But if you decide to start receiving Social Security before your normal retirement age, your benefits may be reduced as much as 30 percent (if your birth year is 1960 or later) or 25 percent (if you were born from 1943 to 1954). These reductions *permanently* shrink your monthly checks.

If you decide to defer getting Social Security beyond your normal retirement age, your benefits may be increased by percentages depending on when you were born. These "delayed retirement credits" increase your benefits in amounts ranging from 3 percent per year of delay (if you were born in 1917-1924) to 8 percent per year (if you were born in 1943 or later). You would receive your largest monthly benefit by retiring at 70.

So depending on when you choose to retire, your benefit could be from 70% to 132% of the amount you would receive at your normal retirement age. But there's more. If you elect to receive benefits before you reach your normal retirement age *and* decide to work

for pay during that time, your benefit may be subject to further reductions.

You would lose \$1 in benefits for each \$2 you earn above an annual limit. In 2006, that limit was \$12,480; in 2007, it's \$12,960. For example, a retiree who will not reach normal retirement age in 2007, with earned income of \$25,000 and a Social Security benefit of \$1,000 per month, would receive just \$498 each month after a reduction due to earnings.

In the year you will reach normal retirement age, the reduction is less — \$1 in benefits for each \$3 you earn above \$34,440 in 2007 — until the month you arrive at your normal retirement age. You can then earn all you like without penalty.

Now that you're done with the SSA, the Internal Revenue Service is ready for you. It may find you an especially tempting target if you have substantial income beyond

Social Security. Begin by figuring your "provisional income":

- adjusted gross income (without Social Security benefits), plus
- nontaxable interest (such as interest from tax-exempt bonds and income dividends from municipal bond mutual funds), plus
- any adjustment to income from student loan interest paid, plus
- 50 percent of your Social Security benefit.

For taxpayers filing Single, Head of Household, Qualifying Widow(er), or Married Filing Separately and living apart, if your provisional income is greater than \$25,000, you may have to pay income tax on some of your Social Security benefit. If you file a joint return, the threshold is \$32,000. Married couples filing separately but living together at any time during the year face a threshold of \$0. Depending upon your filing status and income, up to 85 percent of your benefits may be taxable.

These are complex calculations and difficult choices, and they are always subject to change. Your Cambridge Advisor can help you determine how these rules apply to you. ■ ■ ■

This column is produced by the Financial Planning Association, and is provided by Karen Folk, Ph.D., CFP®, a member of the FPA practicing in Urbana, IL.

