financial focus

Sullivan Mermel, Inc.
Fee-Only Financial Advisors

Bridget Sullivan Mermel, CFP®, CPA
3744 North Southport, Ground Unit
Chicago, Illinois 60613
Phone: 773-404-9344
Fax: 773-327-1461

b@sullivanmermel.com • www.sullivanmermel.com

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LONG-TERM CARE: IS IT IN THE CARDS?

by Michael Ryan Hendersonville, TN

We boomers act as if we will never get old and infirm. But as we approach 60 and begin to see our contemporaries fade from the effects of time, reality sets in. If we live long enough, we will have to deal with the debilitating effects of aging.

As people age, having to rely on others to help with daily tasks of living can range from a friend or family member stopping by occasionally to full-time nursing home care. The former may not be too costly; the latter is very expensive. According to the 2000 census, approximately 4.5% of the population older than 65 were living in nursing homes. Those odds do not sound too scary. But as we age, the odds change. In 2000, 1.1% of people age 65 to 74 were in nursing homes, 4.7% of those 75 to 84, and 18.2% of those 85 and up. The average length of stay in a nursing home is 2.43 years; the average age for making a long-term care claim is 78.

Most long-term care (about 71%) is provided in the home by family members, typically by a spouse, daughter, or daughter-in-law. This in-home family arrangement is certainly cheaper financially and more preferable, but caregivers often burn out. If the caregiver is an elderly spouse, he or she may hesitate to spend down assets to provide adequate care because of the fear of running out of money themselves.

Nearly everyone insures against the risk of a house fire and auto accident, but until recently, very few bought insurance for the greater risk of needing long-term care at some point (odds: 1 in 20). The annual cost of nursing home care ranges from $70,000 to over $100,000. Medicare covers almost none of this expense, and Medicaid takes over only after the family has expended virtually all of its assets. Long-term care (LTC) insurance can provide financial help for at-home care, assisted living care, as well as nursing home care. A couple in their mid-50's can expect to spend from $2,000 to $5,000 per year for a policy from a major carrier that covers both of them with a $110,000 total benefit for three years with a 90 day elimination period and inflation protection.

Do you need to fork over your hard-earned money for a LTC policy? Here are a few thoughts to get you started:

- If you are a couple in your 50's with assets of at least $200,000 (excluding your home and cars) and have a yearly retirement income of $40,000 to $50,000, you may have the financial means to apply for LTC insurance.

- Many authorities believe that if your net worth is approaching the neighborhood of $1.5 to 2 million, you should be able to self-insure. This assumes that you or a spouse caring for you is willing to spend your money on long-term care and is comfortable depleting your estate.

- If you will be living primarily on your Social Security check, you are not a candidate for LTC insurance because you simply cannot afford it.

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LONGER LIVES, LOWER EARNINGS: WOMEN AND RETIREMENT

by Claire Emory, CFP®, CFA, MBA Arlington, VA

Whether single, married, divorced, or widowed, women face a challenge in planning for retirement that can be summed up succinctly: need more, have less. Women, on average, live five years longer than men and also have less opportunity to earn and build wealth. According to the Women's Institute for a Secure Retirement, a typical college-educated woman earns almost $500,000 less during her career than a college-educated man. Women also suspend or cut back on employment to care for elderly, ill, or disabled parents, siblings, or other family members.

Social Security benefits are computed over the span of a work life assumed to be 35 years. Employed men average more than 30 years in the workforce; for women, the average is 27 years. Thus earnings counted toward Social Security, lower per year for women to begin with, are even lower in the aggregate due to fewer years of paying into the system.

When they are offered options for retirement planning, women too often neglect to take full advantage of them. Fewer than half participate in employers' retirement plans. Expecting to rely on a spouse to take care of the finances is not a dependable approach to retirement. Women are much more likely than men to be managing on their own in their later years. Almost 80% of men older than 65 are married compared to just over 40% of women.

What are some of the steps women can take to ensure the golden time they've dreamed of is free from worry and deprivation?

Saving Early, Saving More

It's crucial for women, given their average longer life spans, shorter work lives, and lower overall earnings, to start saving early. Women can then take advantage of the magic of compounding interest to help make up for lower earnings and fewer years in the workplace.

Women must understand that planning well for their own retirement serves the needs of their families better in the long run. They need to resist the impulse to neglect tax-deferred savings accounts in favor of spending on pricier-than-necessary education, weddings, and other big-ticket items for children or other family members.

Given that women often have a lot of catching up to do and are limited in the amount they are allowed to save in qualified accounts by their generally lower wages, saving additional funds for retirement in an after-tax account may be a smart move. Earning women who don't belong to an employer-sponsored retirement plan and nonearning women married to earning spouses should consider contributing to their own IRA.

Investing Appropriately

A solid retirement for anyone depends on a diversified asset allocation that provides both security and growth and protects against inflation and deflation. During the prime earning years, between 50% and 60% of an individual's investment portfolio should be optimally allocated to equities. Research shows that this level of investment in stocks is necessary to maintain portfolio longevity throughout an average life span. Women who seek safety by holding only cash and interest-earning investments risk either outliving their portfolio or facing a severely constricted standard of living later on.

However, women's greater conservatism can work to their advantage. They are better able to resist the temptation to trade frequently, which incurs costs and reduces returns over the long term.

Maximizing Social Security

Most Americans choose to start claiming Social Security benefits at a reduced level as soon as they're eligible. But waiting to claim Social Security at the full retirement age or at age 70 makes sense for women, given their longer life spans, greater likelihood of being alone in later years, and dependence on Social Security benefits for a larger percentage of their income in retirement.

Because women are more often the lower earning or younger partner in a marriage, they are more likely to face decisions about when to take benefits and whether to claim benefits on their own or on a spouse's earnings record. For example, a younger wife may want to begin taking spousal benefits when her husband reaches full retirement age and then file for benefits on her own employment record when she reaches age 70.

Divorce can change the equation too. Any man or woman who has been married for 10 years or more and has not remarried can collect on a former spouse's record.

Beyond the Financial

Women do have some advantages over men in facing their later years. They tend to have fewer concerns than men do about what they are going to do in retirement. Their sense of identity is less likely to be bound up in their work, and they are more apt to have a variety of support systems. Women often are less unsettled by ambiguity and uncertainty than men are, less inclined to need to feel in control.

Retirement ultimately is about the time we have at our disposal as well as the money in our accounts. Savvy planning can help women, and those they care about, make the most of both.

STUDENT LOAN REPAYMENT

by Erin Baehr, CFP® Stroudsburg, PA

What happens once you get a student loan? How will the loan be disbursed? When the time comes, what are the options for paying the loan back?

How do I get my money?

You have signed a Master Promissory Note and completed Entrance Counseling. The wheels are now in motion to issue a Stafford Loan. Your school will apply the funds to your tuition bill. The loan does not come to you but is paid directly to the school and applied in two installments, one for the fall semester and one for the spring. You may use any leftover amount for books, room and board, transportation, or off-campus housing.

While you are in school, no payments on Stafford Loans are required, although unsubsidized loans accrue interest, which is then added to the principal, or capitalized. Capitalization takes place once you are finished with school or when the grace period has ended. You may make interest payments while in school to avoid interest capitalization. Interest paid may benefit your income taxes.

I'm out of school; now what do I do with all of these loans?

You may have quite a collection of loans by the time you graduate. If keeping track of the lenders and payments becomes difficult, you may consolidate your loans. The interest rate on a consolidated loan is the weighted average of all the loans you are consolidating, but it cannot exceed 8.25%. Be aware that consolidated subsidized loans still retain their subsidized benefits.

Do I have to pay it back all at once?

Several payment plan options are available. Most student loans allow you to spread payments over 10 years. The Standard Repayment Plan requires up to 120 equal payments of at least $50 a month.

If the Standard Repayment Plan is too difficult, you may choose the Extended Repayment Plan, which can give you up to 25 years to pay, although you will incur a lot more interest. There are eligibility rules that you must meet. Another option is the Graduated Repayment Plan, which allows you to make smaller payments at first and larger payments later (but never more than three times any other payment) when your income will presumably be greater. If you don't consolidate, each loan will have its own payment plan. There are no prepayment penalties for paying off a loan early.

But I don't have a real job yet. How can I afford this?

The Income-Based Repayment (IBR) plan may be an option. Your income, family size, location, and amount of debt determine how much you can pay. As you earn more, the monthly payment increases. The IBR is only available for federal loans like Stafford or Perkins Loans but not for Parent PLUS Loans or private loans. The reduced payment amount might not be enough to cover your loan interest, which in most cases will increase the balance. For Subsidized Stafford Loans, the government will pick up the additional interest not covered by your reduced payment for up to three years. You must submit annual documentation to prove your continued eligibility, and if you are still in the program after 25 years, your remaining balance will be forgiven. The Income Contingent Repayment plan is a similar program, for Direct Loans only, in which your monthly payments are based on your adjusted gross income and recalculated each year.

If the financial hardship of loan repayment is too great, you may qualify for loan deferment or forbearance to postpone your payments. An unemployment deferment, for loans made since 1993, can last up to three years, for six months at a time. Interest still accrues during these deferment periods. You must prove you are actively seeking work, for example by registering with an employment agency or providing evidence of unemployment benefits. Deferments are also available for economic hardship, such as joining the Peace Corps or being on active military duty during a war or national emergency. If you don't meet the requirements for deferment, you may apply for forbearance to reduce or postpone your payments. For more information on these options, contact your loan servicer. Don't stop your payments until you are approved.

NEVER PUT LEFTOVER SQUID DOWN THE DISPOSAL

by Judy McNary, CFP®, Broomfield, CO

A few years ago I was in training to be a volunteer scuba diver at the new aquarium in Denver. I remember that harsh instruction as if it were yesterday. My training group was in the Life Sciences Kitchen learning the ins and outs of food prep for marine animals. It felt worlds away from my computer-oriented day job. Who knew there could be serious fallout from putting squid down a garbage disposal? Not me.

Volunteering there has been a part of my life for over a decade now. I feed stingrays, moray eels, and other sea creatures. I wave through the glass at children, pose for pictures, and spend hours scrubbing algae. But the thrill of being right among the sharks, turtles, and other animals is as fresh for me as the day I started. Hands down, it's the best diving in Colorado.

One of the side benefits of volunteering is that some of my expenses are tax deductible as a charitable contribution. Not quite as nice as getting paid to dive but still pretty good. I deduct the mileage for my trips to and from the aquarium and the cost of classes I'm required to take to keep my skills current, such as CPR.

If there's something you're passionate about that might not fit your budget, I encourage you to look into volunteering. The possibilities are endless.

In our goal-setting meeting, one client wanted to ski more but worried about the cost of the season pass. I suggested the National Sports Center for the Disabled in Winter Park, Colorado. He just completed his second season volunteering there. The free pass, the chance to help other people learn to do something he enjoys, and the camaraderie are all great benefits. His mileage to and from skiing is tax deductible for the days he volunteers or is in training.

A friend of another client loved the theater but not the price of the tickets. She now volunteers as an usher. She sees the productions for free, has made wonderful friends, and deducts her mileage and parking expenses for days she is volunteering.

A few guidelines must be followed to deduct expenses. First, the organization must be a nonprofit, which means it has a 501(c)(3) status. Second, keep in mind it is the actual expenses that are deductible; your time and services are not. If your role as a volunteer requires you to wear certain clothing or shoes, those typically are deductible. Materials you are required to purchase for use in the volunteer position generally are deductible as well. Third, good record keeping is paramount. You must track your mileage and expenses in order to deduct them.

Get creative! The perfect opportunity to volunteer is waiting for you. And remember; never put your leftover squid down the disposal. The squid tendrils clog up the disposal or, to quote the marine biologist, "They do a real number on it." Now you know.

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- You should determine that you will be able to pay the premiums without adversely affecting your lifestyle and be able to absorb possible future premium increases.

- If you feel you can afford to self-insure part but not all of the cost of LTC, you can choose a policy with a lower daily rate, a limited payout length, or a policy with a longer exclusion period (e.g., a year). All of these choices reduce the annual policy premiums. Remember, you will then be on the hook for the rest of the cost not paid by the insurance.

One huge advantage of LTC insurance is that it gives the owner a choice when the need for long-term care arises. Other issues to consider when purchasing LTC insurance include what triggers policy payout (i.e., how many of the activities of daily living require assistance and how are these activities defined), how often the policy pays (once a month, as the expenses accrue, etc.), the strength of the issuing insurance company, and whether or not the policy is "tax qualified." All of these are vitally important, and you must understand them thoroughly before you sign on the dotted line. For an impartial review, be sure to consult with your ACA advisor.