Volume 37 • Number 1

Financial Planning Strategies

A Financial Planning Update

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Entrepreneurship and the New Retiree

For an increasing number of people, retirement does not signal the end of a career, but the beginning of a new phase—entrepreneurship. Many Baby Boomers see retirement as an opportunity to start a new chapter in life, and plan to use their hard-earned knowledge and skills to create their own independent businesses.

With increased longevity, retirement often comprises 25%–30% of a person's life. According to the 2016 *Retirement Confidence Survey* conducted by the Employee Benefit Research Institute (EBRI), 67% of the workers surveyed planned to work in retirement. Certainly, financial reasons, such as paying bills and keeping health insurance or other benefits, are primary considerations in the decision, but retirees who work most often say they do so because they want to stay active and involved (82%) or enjoy working (80%).

Regardless of motivation, retired workers have many advantages when starting their own business ventures. By retirement, mortgages have often been paid and children have graduated from college. With fewer financial obligations—and perhaps a cushion from a lifetime of saving—retirees may have the opportunity and time to develop a strong business plan and concept. They also have the benefit of tapping into a seasoned network of business contacts and skills acquired throughout their working years to enhance product development, marketing, and sales.

Many Boomers may find the opportunity of their dreams during their golden years. For example, prior to retirement, David and Janet had thriving careers in accounting and travel services, respectively. After retiring, the couple quickly discovered that they were not content to stay at home and thought that combining their skills would serve them well in their own business endeavor. Drawing upon David's bookkeeping expertise and Janet's years in customer service, the couple opened a Bed and Breakfast, which has allowed them to use their many talents in a new and challenging way.

If you want to use your years of experience and wisdom to create your own company, here are some questions to consider:

1. **Are you personally motivated?** Building a business requires intense dedication. You will need to develop your own ideas, set your own schedule, and manage a variety of responsibilities.
2. **Are you a "people" person?** Running your own business will likely involve interaction with various professionals and personalities. If you can harness the interpersonal skills you gained from your decades spent in the working world, you will be better prepared

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Long-Term Care: Better to be Safe than Sorry

As you enter your "golden years," perhaps you imagine yourself traveling, visiting grandchildren, or pursuing a favorite hobby. Unfortunately, none of us can predict what the future may bring. But, according to the U.S. Department of Health and Human Services (HHS, 2016), more than 70% of individuals over the age of 65 will ultimately require some form of **long-term care (LTC).**

LTC refers to a wide range of medical, rehabilitation, personal care, and social services, whether in a nursing home, assisted living facility (ALF), or at home, for those who need assistance due to an illness or disability. If you should need LTC at some point, your world could change significantly, affecting not only your quality of life, but your finances, as well. For example, the national average cost of a semi-private room in a nursing home is more than $200 per day, which may be higher or lower in certain parts of the country (HHS, 2016), and will continue to rise.

Who Pays?

Many people believe that **Medicare** covers the cost of LTC. However, Medicare does *not* cover custodial or personal care, and coverage for skilled nursing home care is limited. By default, **Medicaid** funds LTC, but generally requires recipients to substantially reduce their assets by "spending down" before becoming eligible for assistance.

Unless you plan ahead, the high cost of LTC could deplete a lifetime of hard-earned savings. For couples, this is especially challenging because one spouse may live for many years after his or her partner requires LTC. Whether you are single or married, LTC planning *now* may give you the opportunity to make appropriate choices for you and your family. Here are some important considerations with regard to your future payment of LTC:

- **Medicare does not cover LTC.** Medicare covers some nursing home costs, but only for skilled care, which is medically necessary for a limited period of time after a patient is released from a three-day stay in the hospital. Depending on the medical necessity, Medicare may also pay for skilled care at home for a limited period of time.
- **Medicaid covers LTC with strict eligibility requirements.** Medicaid is the primary payer of LTC services in the U.S. (Life Care Funding). Medicaid also covers a limited amount of services offered at home, and in the community, for those who might otherwise require nursing home care. Without advance planning, you may be required to substantially reduce or nearly exhaust your financial resources before meeting Medicaid's strict financial qualifications.
- **Those ineligible for Medicaid generally use personal assets.** Unless you are covered by **LTC insurance**, you may have to rely on your personal funds before becoming eligible for Medicaid. With the rising costs of extended care, you could deplete your savings quickly with an LTC event, leaving few or no assets for your spouse and future generations.
- **LTC insurance can help pay for extended care.** Private LTC insurance can be used to help cover the cost of care. You may want to consider having a policy benefit period that is at least as long as Medicaid's "**look back" period** (a five-year time period during which the transfer of assets can result in the disqualification for Medicaid), so that you may be able to protect your assets from being used to cover the cost of LTC.

Covering All the Bases

By planning today, you may help ensure that you have the financial resources for quality LTC in the event you need it, while easing the caregiving burden on your family and loved ones. Be sure to consult with a qualified insurance professional who has experience in LTC planning. $

Living Value: The Other Side of Life Insurance

Many of us think of **life insurance** as a means of providing funds to cover financial obligations, such as a mortgage, or to replace income in the event of the death of a family breadwinner. In general, the **death benefit** under a life insurance policy is often the most well-understood feature.

However, not all policies are the same. A **permanent life insurance** policy contains a cash value feature that allows cash to accumulate, which may be used to help supplement important financial goals, such as funding a child's college education. So, permanent life insurance has a "living value" in addition to the traditional death benefit feature. Let's take a closer look.

Cash Value

The cash value in this type of life insurance policy accumulates on a tax-deferred basis in the same way that money does in an Individual Retirement Account (IRA). Because of this tax-deferred accumulation, there may be some income taxes due upon withdrawal. But, you are usually only taxed on amounts that exceed the *total* amount of premium payments you have made over the course of the policy.

One of the key benefits of permanent life insurance is that you can access the accumulated cash values through policy loans. Typically, the loan interest rate is stated in the policy and is comparable to traditional lending rates. Keep in mind that borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance that the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Another key feature of a permanent life insurance policy is that, unlike a traditional IRA or another qualified plan, you may make premium payments after age 70½, and there are no rules that stipulate required withdrawals of cash values by age 70½. This feature may provide an opportunity to continue making premium payments while receiving the benefits of tax-deferred accumulation.

With a life insurance policy, there are few rules that limit the amount of premium payments. Therefore, the higher the death benefit, the higher the premium will be. Some forms of permanent life insurance allow you to make premium payments in addition to what is specified under the terms of the policy. This may increase the cash value, but could lead to adverse tax consequences. Normally, policies are written to help avoid this possibility.

Dual Purpose Protection

Life insurance can serve many purposes. Through its death benefit, life insurance helps to protect and secure your family's future in the event of your death. At the same time, life insurance with a cash value may provide you with the opportunity to use the benefits of your policy during your lifetime.

Be sure to review your options with the help of a qualified insurance professional to see how permanent life insurance can help meet your overall financial objectives. $

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to handle difficult clients or professionals.

3. **Do you have the ability to think quickly?** Owning your own company may mean that you will have to provide answers and make decisions quickly, and sometimes under pressure.
4. **Do you have passion and stamina?** It is often said that you must love what you do. Realize at the start of the enterprise that a good deal of time and effort will be required.
5. **Are you organized?** Organizational and planning skills can lead to continued business success. Finances, invoices, and schedules are just a few of the tasks at which you must be or become proficient.
6. **Is your energy level high?** A business requires a lot of work, and it can be physically and emotionally stressful. Those who are energetic often do well because they are propelled by their desire to succeed and have the energy to follow through.
7. **Will your family be supportive?** A new business can consume a lot of your time, mental energy, and sometimes, capital. Make sure to tell your family what they can realistically expect from your business venture, and gain their support and trust.

There are many advantages to entrepreneurship, and many retirees are embracing the challenge. The chance to be your own boss and reap the rewards of your own hard work can make business ownership an exciting and educational adventure. Because a lack of experience can often account for many small business failures, decades of your work experience may put you ahead of the game—before it even begins. $

The "Value" of Increased Buying Power

"Hard money" and "plastic money" carry different connotations. Hard money (i.e., actual dollars in your wallet or checking account) tends to be perceived as *finite*—if you run out of cash, you've exhausted your buying power until you obtain more of it. On the other hand, plastic money, such as credit cards, can expand your buying power up to the account's credit limit. When buying something with a credit card, people can be less quality conscious, may not negotiate as skillfully, and may *pay more* for the item than they would have if they had purchased it with cash.

Buying on credit can not only be a great convenience, but it can also make sense when you are temporarily short of cash. However, when using a credit card becomes your standard way of doing business, it can have some highly undesirable consequences. One way to guard against credit card abuse is to ask yourself two questions when making a credit card purchase: First, would you still purchase the item if you were paying cash? Second, would you pay the same price if paying by cash?

By keeping the focus on *value*, you can better distinguish between items you would *like to buy* and items you *absolutely must have*. Making this distinction between wants and needs can help you avoid the major pitfalls of buying on credit—overpaying on individual items and spending beyond your means.$