**SOCIAL SECURITY BENEFITS**

**What is the retirement age to collect Social Security Benefits?**

**Early Retirement-**

* **Retirement benefits can begin as early as age 62 but benefits are reduced permanently in the range of 20-30%**

**Full Retirement**

* **Age 66 for Individuals reaching 62 in 2006-2016**
* **Age 67 for those reaching age 67 after 2022**

**Delaying Social Security benefits until age 70 will increase benefits at 8% per year from full retirement age**

**In all cases, individuals must sign up at age 65 to receive Medicare benefits**

**Maximizing Social Security benefits between spouses**

**Spousal only benefits**

**-Individuals qualifying for both spousal and individual benefits AND are at full retirement age can choose which benefits to collect when filing**

**-One option is to collect spousal benefits while allowing individual benefits to receive Delayed Retirement Credits (DRCs)**

**-Individual can then later file for individual benefits at a later time up to the age of 70 and claim increased benefits**

**-CAUTION: In order to collect spousal benefits, the individual cannot have filed for individual benefits. Only one spouse may be collecting spousal benefits.**

**File and Suspend**

**Primary earner files for benefits at full retirement age making the spouse eligible for the spousal benefits and then requests the retirement benefits be suspended.**

**Primary earner will then have retirement benefit amount grow at 8% a year until time to collect up to age 70.**

**Individual can retroactively change his or her mind. Will receive a lump sum payment the individual would have received and will collect as if retired at full retirement age. Getting a lump sum can help provide additional money for those who have not saved adequately in retirement**

**Restricted Application**

**Works well when there is disparity in income between**

**the spouses**

**The lower earner files an application for benefits. Higher earner then files a “restricted application” for spousal benefits only on the spouse’s earnings record.**

**The higher earner delays retirement to age 70 to get the 8% guaranteed growth and still allows the higher earner to collect half of the spouses retirement benefits**

**Surviving Spouse**

**Widow or widower entitled to survivor benefits as well as own individual benefits.**

**Survivors can collect benefits as young as 60 while deferring individual benefits to age 70 to allow individual benefits to reach their highest level**

**Working and collecting Social Security benefits**

**If individual is collecting individual benefits but under full retirement age, the individual can make up to 15,480 in 2014**

**In the year individual reaches full retirement age, individual can earn $41,400 without losing benefits. Also only months before retirement age count toward this amount**

**How much Social Security benefits are lost?**

**If more than $41,400 is earned in 2014 before reaching full retirement age, $1 of benefits will be lost for each $3 of earnings over $41,400**

**If more than $15,480 earned in 2014 by individual under full retirement age for entire year, $1 of benefits lost for each $2 of earnings over $15,480**

**What counts as income?**

**Can receive almost any amount of investment or passive income without loss of benefits**

**-Pensions**

**-Retirement income**

**-Interest and dividends from stocks and bonds**

**Social Security Benefits and Federal Income Taxation**

**If the total amount of an individual’s income plus half of the Social Security**

**benefits are more than the *base amount*, 50% of the benefits are taxable.**

**What are base amounts?**

* **$32,000 for married couples filing jointly**
* **$0 for married couples filing separately**
* **$25,000 for all other taxpayers**

**- 85% if income plus half of Social Security benefits is more than following:**

**-$44,000 for married couples filing jointly**

**-$0 for married filing separately**

**- $34,000 for other taxpayers**

**- Voluntary withholding is allowed on benefits by submitting a W-V4**

**REVERSE MORTGAGES**

**What is a reverse mortgage?**

* **Reverse mortgage is a loan where lender pays homeowner in a lump sum or regular payment while homeowner continues to live in the home**
* **Loan becomes due with interest when homeowner moves, sells the house, reaches the end of a pre-selected loan period or dies**
* **Amounts received under a reverse mortgage are not taxable and interest is not deductible until the load is paid in full.**

**Where can a reverse mortgage be obtained?**

* **Available through private sector but most borrowers use a Home Equity Conversion Mortgage (HECM)**
* **Generally lower fees**
* **Regulated by HUD and available only through an FHA lender**

**Who should consider a reverse mortgage?**

* **Retirees who have cash flow difficulties from inadequate savings or some other financial difficulty with substantial equity in their home and who want to remain in their home**
* **Can be a good solution to a cash flow problem. A retiree, for example may be able to meet monthly expenses but may need full time home care and a reverse mortgage can supply cash flow for this need.**

**What are the characteristics of a reverse mortgage?**

* **Must be 62 years old**
* **Retiree retains title to house and lender never own home even after retiree vacates the property**
* **Retiree must continue to pay property taxes and insurance on the property. Set aside is available.**
* **Repayment due when term of loan is due or surviving spouse leaves the home.**
* **Amount of funds available depends upon age of youngest borrower, interest rate and up front costs.**
* **Loan fees can be financed to avoid out of pocket costs**
* **Loan balance increases each time funds are accessed from line of credit or monthly payment. Monthly service fee usually involved**
* **Loans are non-recourse**

**Advantages of a reverse mortgage**

* **For individuals approaching 62 with little savings other than their home. Allows them to tap into cash**
* **Helps pay for large unexpected and ongoing expenses**

**Disadvantage of a reverse mortgage**

* **Although reverse mortgage have grown, controversial because of lender fees**
* **Government created the HECM Saver option in 2013 which has a cheaper up front mortgage insurance premium although 1ess money is allowed to be borrowed under this option (10-18%)**
* **No monthly interest re-payment means interest accumulates**

**LONG-TERM HEALTH CARE INSURANCE**

**Americans are living longer with real prospect of outliving their savings**

**Average daily cost of nursing home care varies greatly across the country but averages $200 per day**

**Statistics show women in particular fear outliving their savings**

**Design elements of a long-term care policy**

**-Tax qualified**

* **Most are sold as “tax qualified” plans**
* **Benefits not taxable if don’t exceed $340 per day**
* **Premiums are deductible**

**-To be “tax qualified” policy have specific definition of “chronically ill”**

* **Inability to perform without substantial assistance at least two of six activities of daily living (ADLs) for an expected period of 90 days OR**
* **Need substantial supervision because of cognitive impairment**

**-When benefits begin**

**-Beneficiaries must self-insure some number of days or months (elimination period)**

**-Longer the elimination period, the lower the premium**

**-Elimination period must be satisfied only once in the insured’s lifetime**

**-Length of benefits**

**-The longer the benefit period, the greater the premium**

**- Statistics show most claims do not last longer than three years**

**-Possible for spouses to share each other’s benefits period**

**-Inflation**

**- Guaranteed purchase option**

**- Inflation rider**

**- Purchase higher daily benefits than current costs**

**-Most pay for nursing homes, assisted living facilities and hospice care**

**Disadvantages of LTC products**

* **Individual long-term care insurance is expensive**
* **Future rate increases**
* **LTC policies cannot accumulate cash value**
* **No value add feature**
* **May not be obtainable if existing health issue**

**Life insurance in combination with LTC coverage work**

* **Life insurance policy design to pay LTC benefits as acceleration of death benefits**
* **Example: Insured purchases a $300K death benefit. Policy advances percentage of benefit if LTC needed. Percentage selected at time of application**
* **If insured selects 2% payout, policy yields $6,000 per month for 60 months**
* **If not LTC needed, full $300K payout to beneficiaries. If LTC needed, payout is subtracted from death amount**
* **The 300K is paid out in both cases**

**Annuities in combination with long-term care insurance**

* **Both address issue of living too long and running out of money**
* **Combination policy creates long elimination period because individual withdraws own money first**
* **Example: Client buys $50K annuity with additional $100K of long term care benefits. If LTC needed, $50K used first followed by $100K for $150K payout**
* **If LTC not needed, policy functions as annuity providing another return on investment**

**MEDICARE**

**Part A- Hospital insurance and provides for institutional care (inpatient hospital care, skilled nursing home care and hospice care)**

**Part B- Medical Insurance and provides for physician’s services, outpatient hospital care, physical therapy and medical equipment**

**Part C- Alternative to Parts A and B and known as Medicare Advantage**

**Part D- Prescription care coverage for a monthly premium**

**Parts A and B vs. Medicare Advantage**

* **Under Parts A and B, recipient can go to almost any doctor or hospital. Recipient charged a fee and pays balance of what Medicare does not pay**
* **Medigap can be purchased separately to cover costs not paid for by Medicare**
* **Medicare Advantage use managed care (PPOs, HMOs and private fee-for-service payers) with networked providers. More inclusive benefits than Medicare and often includes prescription drugs**
* **Medigap not necessary and many plans prohibit them**

**Part A benefits**

* **Inpatient care covered for up to 90 days for each “benefit period”**
* **Deductible of $1,216 in 2014 for first 60 days and coinsurance of $304 for each day up to 30 days**
* **Nursing home stays covered for up to 100 days in each benefit period. Patient pays nothing for first 20 days and then $152 per day. A 100 day stay would cost $12,160 in 2014**
* **100 home care health visits after a stay in hospital or nursing facility**
* **Medicare does not cover AT ALL for custodial care. Care is custodial when primarily for purpose of helping patient with daily living**

**Part B**

* **Initial enrollment begins in a seven month calendar period which starts at the on the first day of the third month before the individual first becomes eligible**
* **Can enroll later in an enrollment period running from January 1 to March 31 each year**
* **Delaying enrollment will increase the premium when retiree does enroll.**
* **For most individuals, premium is $104.90 per month with yearly deductible of $147. Medicare pays 80% of approved charges**

**QUALIFIED PLANS**

**Distribution considerations**

* **Lump-sum distributions trigger potential large tax liabilities and should be avoided**
* **Do not have to take any distributions until age 70 ½. Qualified plan can continue to accumulate tax free even in retirement**
* **No limitation on maximum distributions**
* **Required minimum distributions each year determined by dividing the qualified plan balance by the appropriate number in the lifetime RMD table provided in IRS regulations**
* **Qualified plan distributions can extend over three life expectancies.**
* **If the participant is married and dies before spouse, the spouse can roll the remaining balance into the spouse’s IRA and name a younger beneficiary. At the spouse’s death, the younger beneficiary can continue the payments over the beneficiary’s life expectancy**

**Rollover considerations (IRA vs. Keeping in existing plan)**

**-IRA may offer more flexibility since retiree can shop for best plan and not dependent upon trustee decisions of qualified plan**

**-Loans may be available under the qualified plan not available in an IRA**

**-Qualified plans generally offer better asset protection against creditors and offers more protection in bankruptcy**

**-Client’s qualified plan needs to be examined closely**

**Conversion from an IRA to a Roth IRA**

* **No limit on the amount of the rollover to Roth IRA. Can be a partial or total rollover**
* **Rollover amount is included in gross income of the IRA holder for federal tax purposes and most state income tax**
* **Distributions from the Roth IRA are tax free if held for five years and are made after 59 1/2 , death or disability**
* **Clients who are required soon to take an RMD may mean traditional IRAs are less attractive because distributions are taxable**
* **No RMD required under Roth IRA and distributions are tax free and can be deferred until death**
* **The client should pay tax on rollover with non-IRA funds to get the full benefit of conversion**