WINER WEALTH MANAGEMENT, INC.

THE WINER WEALTH ADVISOR

Information to Help You Build and Preserve Wealth

COMMENTARY: JULY 2010

THE 2 BIGGEST RETIREMENT MISCONCEPTIONS

While the idea of retirement has changed, certain financial assumptions have not.

We've all heard about the "new retirement"—that mix of work and play that many of us assume we will be our retirement. Most of us no longer expect "retirement" to be all leisure. While this is becoming a cultural assumption among baby boomers, it's interesting to see that certain financial assumptions have not changed with the times.

In particular, there are two financial misconceptions that could prove harmful to your financial future.

1) Assuming retirement will last 10-15 years.

Historically, the typical retirement has lasted about 10-15 years. The key word here is "historically". When Social Security was created in 1933, the average American could anticipate living to age 61. By 2005, life expectancy for the average American had increased to 78.

Today, thanks to improvements in science, healthcare and disease control, actuaries believe that many of us will live much longer and spend as many as 20 to 30 years in the "new retirement." So assuming that you will only need 10 or 15 years worth of retirement money could be a big mistake.

In 2010, the American Academy of Actuaries believes that the average 65-year-old American male can expect to live to 84½, with a 30% chance of living past 90. The average 65-year-old American female has an average life expectancy of 87, with a 40% chance of living past 90. Most people don't realize how much money they will need in retirement and underestimate the critical relationship between Misconceptions 1 and 2.

2) Assuming too little risk.

It's understandable that as we get older, our appetite for risk declines. However, due to the affect of taxes, healthcare costs and inflation on your quality of life and/or income, there may be a danger in becoming too risk-averse

If you're assuming that the minimal inflation we've seen at the start of the 2010s will continue for years to come, don't. Over the last few decades, we have had moderate inflation and sometimes worse. Over time, even a modest 3-4% rate of inflation gradually saps your purchasing power, which means that your dollar buys less and less. If your income doesn't keep up inflation, essentially, you end up having to meet today's higher living expenses on yesterday's income. Imagine trying to meet your 2010 living expenses on what you earned in 1999. Could you manage that?

Taxes will also likely be higher in the coming decade. So strategies that can reduce or eliminate taxes have taken on even more importance whether you are 20, 40 or 60. Health care costs are also climbing – we need to be prepared financially for the cost of acute, chronic and long-term care.

As you retire, you may assume that an extremely conservative approach to investing is mandatory. But given how long you may live - and how long your retirement may last – you (and most of us) must also recognize the importance of investing for growth.

No one wants the "Rip Van Winkle" experience in retirement. No one should "wake up" 20 years from today only to find that the comfort of yesterday is gone. Retirees who fear and avoid investing for growth may risk having that experience.

How are you envisioning retirement right now? Has your vision of retirement changed? Is retiring becoming more and more of a priority? Are you retired and looking to improve your finances? Regardless of where you're at, it is vital to avoid these common, critical misconceptions and proceed with clarity.

HOW LTC INSURANCE CAN HELP PROTECT YOUR ASSETS

How will you pay for long term care (LTC)? The sad fact is that most people don't know the answer to that question. Fortunately, a number of solutions are available.

As baby boomers leave their careers behind, long term care insurance will become an important part of their financial planning. The reasons for obtaining long term care overage after age 50 are compelling.

First of all, your premium payments buy you access to a large pool of money that can be used to pay for the costs of long term care. By paying for LTC from that pool of money, you can preserve your retirement savings and income.

The cost of assisted living or nursing home care alone could motivate you to pay the premiums. According to Genworth Financial, 2010 cost of long term care report found that

- In 2010, the median annual cost of a private room in a nursing home is $75,190 or $206 per day – $14,965 more than it was in 2005.
- A private one-bedroom unit in an assisted living facility has a median cost of $3,185 a month – which is 12% higher than it was in 2009.
- The median payment to a non-Medicare certified, state-licensed home health aide is $19 in 2010, up 2.7% from 2009.

Can you imagine spending an extra $30-80,000 from your retirement savings in a year? Suppose you had to do it for <u>more</u> than one year? According to AARP, approximately 60% of people over age 65 will require some kind of long term care during their lifetimes.

Why procrastinate? The earlier you opt for LTC coverage, the cheaper the premiums. That's why many people purchase it <u>before</u> they retire. Those in poor health or over the age of 80 are frequently ineligible for coverage.

What it pays for. Some people think LTC coverage just pays for nursing home care, but that's inaccurate. It can pay for a wide variety of nursing, social, and rehabilitative services at home and away from home, for people with a chronic illness or disability or people who just need assistance bathing, eating or dressing.

Choosing a DBA. That stands for Daily Benefit Amount - the maximum amount that your LTC plan will pay per day for care in a nursing home facility. You can choose a Daily Benefit Amount and you can also choose the length of time that you may receive the full DBA on a daily basis. The DBA typically ranges from a few dozen dollars to hundreds of dollars. Good plans offer "inflation protection," which allows your benefits and pool of money to compound and keep pace with inflation.

The Medicare misconception. Many people believe that Medicare will pick up the cost of long term care. <u>Medicare is not long term care insurance.</u> Medicare will only pay for the first 100 days of nursing home care, and only if 1) you are getting skilled care and 2) you go into the nursing home right after a hospital stay of at least 3 days. Medicare also covers limited home visits for skilled care, and some hospice services for the terminally ill. That's all.

<u>Medicaid</u>, on the other hand, will pay for long term care, but only if you are destitute. Most people don't want to rely on having to become broke in order to pay for their long term care? And when Medicaid does pay for long term care, they are the ones who decide when and where you can receive it.

New, innovative long term care insurance options. You can now obtain long term care insurance coverage at a much lower cost as a rider on new, innovative life insurance and annuity policies. Once the policy is funded, the life insurance policy provides a tax-free death benefit <u>and</u> long term care insurance coverage. It also pays an annual dividend that can be used to purchase inflation protection for your long term care coverage. With these new alternatives to the traditional "use it or lose it" LTC policy you have greater flexibility and benefits at a lower cost. I will have more information for you on these new, innovative options for LTC coverage in future newsletters.

Why not look into this? If you would like help assessing your long term care insurance risks and evaluating your options for funding the costs of long term care, please call us at (818) 673-1695. Our long term care insurance specialists would be glad to help you.

DON'T FORGET…

Winer Wealth Management, Inc. offers:

- Comprehensive Wealth Management
- Discretionary Asset Management
- Tax-Free Investment Strategies
- Tax-Free and Guaranteed Income Strategies
- Retirement Planning
- Tax Minimization Planning
- Fixed and Variable Annuities
- Life Insurance
- Health Insurance
- Disability Insurance
- Long Term Care Insurance
- Life Settlements

PLEASE DON'T KEEP US A SECRET!

In these tough economic times…

You may know people who are concerned about their investments and financial future and could benefit from our "Advance and Protect" investment strategies.

You may know people who are concerned about their taxes going up and would be interested in learning about our strategy for generating tax-free investment growth and income.

You may know people who are skittish about investing in the stock market but still need investment growth to meet their retirement income needs. Those individuals might be interested in some of the innovative financial products we offer that provide the full upside potential of the stock market and a guaranteed annual lifetime income benefit.

You may also know people who are retiring or changing jobs who could benefit from our expertise in IRA rollovers, Roth IRA conversions and specialized rollover strategies.

Please feel free to pass our name along to anyone you believe could benefit from our wealth management and financial planning services and expertise. Your referrals are how we grow our business and they are always greatly appreciated!