HELPING YOU UNDERSTAND THE COMPLEXITIES OF WEALTH MANAGEMENT AND PROVIDING SOLUTIONS AS UNIQUE AS YOUR GOALS

WEALTH MANAGEMENT NEWSLETTER

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MEDICARE AND MEDICAID: WHAT'S THE DIFFERENCE?

It's easy to confuse Medicare and Medicaid, particularly since they're both government programs that pay for health care. But there are important differences between each program. Medicare is generally for older people, while Medicaid is for people with limited income and resources.

What is Medicare?

Medicare is a federal health insurance program that was enacted into law to provide reasonably priced health insurance for retired individuals, regardless of their medical condition, and for certain disabled individuals, regardless of age. It is managed by the Centers for Medicare & Medicaid Services, a division of the U.S. Department of Health and Human Services.

What is Medicaid?

Medicaid is a health insurance program that is jointly administered by state and federal governments. Medicaid serves financially needy individuals who are also elderly, disabled, blind or parents of minor children.

Who is eligible for Medicare?

Most people become eligible for Medicare upon reaching age 65. In addition, Medicare coverage may be available for disabled individuals and people with end-stage renal disease.

Who is eligible for Medicaid?

States set their own Medicaid eligibility standards within broad federal guidelines. However, federal law requires states to cover certain groups of individuals. Low-income families, qualified pregnant women and children, and individuals receiving Supplemental Security Income (SSI) are examples of mandatory eligibility groups. In addition, a financial eligibility requirement must be met. The individual must be financially needy, which is determined by income and asset limitation tests.

What does Medicare cover?

Currently, Medicare consists of four parts: Medicare Part A, generally called 'hospital insurance,' helps cover services associated with inpatient care in a hospital, skilled nursing facility, or psychiatric hospital. Medicare Part B, generally called 'medical insurance,' helps cover other medical care such as physician services, ambulance service, lab tests and physical therapy. Medicare Advantage (Part C) enables Medicare beneficiaries to receive health care through managed-care plans such as health maintenance organizations (HMOs), preferred provider organizations (PPOs) and others. Medicare Part D helps cover the costs of prescription drugs.

What does Medicaid cover?

Each state administers its own Medicaid program within broad federal guidelines. Thus, the states determine the amount, duration and types of benefits that Medicaid will provide. Typical Medicaid programs cover inpatient and outpatient hospital services, physician and surgical services, lab tests and X-rays, family planning services, and services for pregnant women. There are also numerous optional benefits that states may choose to provide for Medicaid recipients.

What about long-term care?

Most long-term care isn't medical care, but rather help with basic personal tasks of everyday life, called custodial care. Medicare does not pay for custodial care. However, Medicare may pay for skilled care (e.g., nursing, physical therapy) provided in a Medicare-certified nursing facility for up to 100 days. In addition to skilled nursing facility services, Medicare also may pay for part-time skilled nursing care, physical therapy, medical social services, and some medical supplies such as wheelchairs and hospital beds.

The states have considerable leeway in determining benefits offered and services provided by their respective Medicaid programs. Generally, if you meet your state's eligibility requirements, Medicaid will cover nursing-home services, home- and community-based services, and personal-care services.

PRETAX, ROTH OR AFTER-TAX CONTRIBUTIONS: WHICH SHOULD YOU CHOOSE?

If your employer-sponsored retirement savings plan allows pretax, after-tax and Roth contributions, which should you choose?

Pretax: Tax benefits now

With pretax contributions, the money is deducted from your paycheck before taxes, which helps reduce your taxable income and the amount of taxes you pay now. Consider the following example, which is hypothetical and has been simplified for illustrative purposes.

> *Example(s): Mark earns $2,000 every two weeks before taxes. If he contributes nothing to his retirement plan on a pretax basis, the amount of his pay that will be subject to income taxes would be the full $2,000. If he was in the 25 percent federal tax bracket, he would pay $500 in federal income taxes, reducing his take-home pay to $1,500. On the other hand, if he contributes 10 percent of his income to the plan on a pretax basis—or $200—he would reduce the amount of his taxable pay to $1,800. That would reduce the amount of taxes due to $450. After accounting for both federal taxes and his plan contribution, Mark's take-home pay would be $1,350. The bottom line? Mark would be able to invest $200 toward his future and reduce his take-home pay by just $150. That's the benefit of pretax contributions.*

In addition, any earnings made on pretax contributions grow on a tax-deferred basis. That means you don't have to pay taxes on any gains each year, as you would in a taxable investment account. However, those tax benefits won't go on forever. Any money withdrawn from a tax-deferred account is subject to ordinary income taxes, and if the withdrawal takes place prior to age 59½ (or in some cases, 55 or 50, depending on your plan's rules), you may be subject to an additional 10 percent penalty on the total amount of the distribution.

Roth: Tax benefits down the road

On the other hand, contributing to an employer-sponsored Roth account offers different benefits. Roth contributions are considered 'after-tax,' so you won't reduce the amount of current income subject to taxes. But qualified distributions down the road will be tax-free.

A qualified Roth distribution is one that occurs:

- After a five-year holding period and
- Upon death, disability or reaching age 59½

Nonqualified distributions are subject to regular income taxes and a possible 10 percent penalty tax. However, because Roth contributions are made with after-tax dollars, a distinction is made between the portion of the distribution that represents contributions versus earnings on those contributions. If at some point you need to take a nonqualified withdrawal from a Roth 401(k)—due to an unexpected emergency, for example—only the proportion of the total amount representing earnings will be taxable.

> *Example(s): In order to meet an unexpected financial need of $8,000, Tina decides to take a nonqualified hardship distribution from her Roth 401(k) account. Of the $20,000 total value of the account, $18,400 represents after-tax Roth contributions and $1,600 is attributed to investment earnings. Because earnings represent 8 percent of the total account value ($1,600 ÷ $20,000 = 0.08), this same proportion of Tina's $8,000 distribution—or $640 ($8,000 x .08)—will be considered earnings subject to both income taxes and a 10 percent penalty tax.*

However, keep in mind that tapping your account before retirement defeats its purpose. If you need money in a pinch, try to exhaust all other possibilities before taking a distribution. Always bear in mind that the most important benefit of a Roth account is the opportunity to build a nest egg of tax-free income for retirement.

When choosing between pretax and Roth contributions, the general rule is to consider whether you think you will benefit more from the tax break today than you would from a tax break in retirement. Specifically, if you think you'll be in a higher tax bracket in retirement, Roth contributions may be more beneficial in the long run.

After-tax: For those who are able to exceed the limits

Some plans allow participants to make additional after-tax contributions. This plan feature helps those who want to make contributions exceeding the annual total limit on pretax and Roth accounts (in 2016, the limit is $18,000; $24,000 for those age 50 or older). As with a traditional pretax account, earnings on after-tax contributions grow on a tax-deferred basis.

If this option is offered (check your plan documents), keep in mind that total employee and employer contributions cannot exceed $53,000, or $59,000 for those 50 and older (2016 limits).

Another benefit of making after-tax contributions is that when you leave your job or retire, they can be rolled over tax-free to a Roth individual retirement account (IRA), which also allows for potential tax-free growth from that point forward. Some higher-income individuals may welcome this potential benefit if their income affects their ability to directly fund a Roth IRA.[1]

For more information specific to your situation, consult a qualified tax professional. (Working with a tax or financial professional cannot guarantee financial success.)

Generally, non-Roth after-tax contributions should be considered after reaching the maximum contribution amount for pretax and Roth options.

Keep in mind that distributions of earnings on non-Roth after-tax contributions will be subject to regular income taxes and possibly penalty taxes if not rolled over to a traditional IRA. IRS Notice 2014-54 clarifies the rules regarding rollovers of non-Roth after-tax plan contributions to a Roth IRA.

DON'T FORGET TO INCLUDE MEMORY LOSS WHEN PLANNING FOR RETIREMENT

When planning for retirement, an important factor that is often overlooked is the potential for declining cognitive skills associated with aging. Cognitive impairment (CI), often attributable to dementia or Alzheimer's disease, can have profound implications for your overall health and well-being, particularly during retirement. The cost of care can absorb income and significantly deplete retirement savings. It can also deprive you of the ability to effectively manage your financial affairs.

Cognitive impairment—a growing concern

The possibility of suffering from some form of cognitive impairment later in life is real. Dementia affects approximately 2.4 million to 5.5 million Americans. Its prevalence increases with age: 5 percent for persons ages 71–79, 24 percent for those ages 80–89, and 37 percent for those 90 and older.[2] One in eight adults age 60 and older (12.7 percent) experiences confusion or memory loss that is happening more often or getting worse. Unfortunately, among these individuals, only 19.3 percent discusses these changes with a health-care provider. Additionally, 34.5 percent of those affected by CI live alone.[3]

Financial impact of the cost of care

Dementia, including Alzheimer's, is the most costly disease in the United States and is set to increase like no other. In 2016, Alzheimer's and other forms of dementia will cost the United States an estimated $236 billion. By 2050, this number is expected to grow to more than $1.2 trillion. Among all nursing home residents, more than 64 percent have been diagnosed with Alzheimer's or another dementia. Alzheimer's is the sixth highest cause of death in the United States.[4]

Unfortunately, those suffering from advanced stages of cognitive impairment often require long-term care. The cost of care can quickly deplete your retirement savings and affect the quality of life for you and your family, leaving little or no income or savings. Average costs of long-term care include the following:[5]

- $6,235 per month, or $74,820 per year, for a semi-private room in a nursing home
- $6,965 per month, or $83,580 per year, for a private room in a nursing home
- $3,293 per month for a one-bedroom unit in an assisted living facility
- $21 per hour for a home health aide
- $19 per hour for homemaker services
- $67 per day, or roughly $2,010 per month, for services in an adult day health-care center

The cost of long-term care depends on the type and duration of care you need, the health-care provider you use, and where you live. While one-third of 65-year-olds may never need long-term care, 20 percent will need it for more than five years.[6]

1 In addition to rolling the proceeds to a Roth IRA, participants may also (1) leave the assets in the original plan, (2) transfer assets to a new employer's plan, or (3) withdraw the funds (which in some cases could trigger a taxable event).

2 U.S. Preventive Services Task Force, Cognitive Impairment in Older Adults: Screening, March 2014

3 The Healthy Brain Initiative: The Public Health Road Map for State and National Partnerships, 2013-2018: Chicago, IL: Alzheimer's Association; 2013

4 Alzheimer's Association, alz.org

5 U.S. Department of Health and Human Services (most recent government data available), longtermcare.gov

6 Ibid.

Loss of ability to manage finances

Your financial plan should consider not only the potential cost of care if you or your spouse suffers from cognitive impairment, but also determines who will make financial decisions about your care.

Even if you suffer from mild cognitive impairment (MCI), you may find it more difficult to manage investments or a household budget. If you are the primary money manager and experience declining cognitive skills, your spouse could be left financially vulnerable.

Make it part of your plan

A comprehensive financial and legal plan is important. It is helpful to prepare as early as possible. Some families use the services of an elder law attorney.

There may come a time when you can no longer make decisions for yourself, including financial and health-care decisions. This can create a hardship for a caregiver trying to conduct financial transactions and make medical decisions. Several types of legal documents can be written before they are needed to help you and family members through this difficult time. These documents include, but are not limited to, an advance medical directive, a medical power of attorney or health-care proxy, and a durable power of attorney, which allows a representative or agent to make financial decisions and transactions on your behalf, should you become unable to do so.

There are generally three ways to pay for long-term care expenses: use your own income and savings, share the cost of care through some form of private insurance, or seek the assistance of state or federal government programs, such as Medicare and Medicaid. The choices you make will likely depend on several factors, including your financial and family situation, your age and your state of residence. In any case, it's wise to consider the ramifications of cognitive impairment when planning for retirement.

A complete statement of coverage, including exclusions, exceptions and limitations, is found only in the long-term care policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

I GET SO MANY CREDIT CARD REWARD OFFERS. HOW DO I KNOW WHICH ONE TO CHOOSE?

Credit card reward programs are more popular than ever. In order to keep up with such high demand in a competitive market, credit card companies are coming up with new and more enticing offers every day. How do you know which one to choose?

Are you the type of credit card user who likes to travel and frequent a particular hotel or airline? If so, then a travel rewards credit card might be the right option for you. Typically, a travel rewards card allows you to earn points (sometimes referred to as miles, depending on the card) for every purchase you make on the card. Typically, cards offer a reward that is equal to 1 percent of your purchase, which means that for every $100 you spend, you will earn 1 point or mile. Some credit card companies offer even greater incentives, such as double points for specific types of purchases or bonus points when you open up an account. Before signing up, however, be sure to read the fine print. Many travel rewards cards have specific rules that apply to point redemption and may charge a hefty annual fee.

Don't want the hassle that sometimes goes along with redeeming points on a travel rewards card? Consider a cash back rewards card. While not as thrilling as racking up points to take a trip to some far-off, exotic destination, cash back rewards cards may be better for individuals who aren't frequent travelers and who tend to use credit cards for everyday purchases. Most cash back rewards cards offer a flat cash reward on general purchases. Others offer higher rewards for different spending categories (e.g., dining or entertainment purchases). Consider your credit card spending habits to determine which cash back rewards card would be appropriate for you.

Finally, it's important to remember that rewards cards work best when you pay off your account balance each month. Be sure to charge only what you can afford to pay off and avoid spending over your budget just to earn more rewards. Otherwise, the unpaid balance you carry forward will create finance charges that may cancel out the value of any rewards you accumulate.