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Paying for Long-Term Care During Retirement

You may have spent a good part of your working years planning for a financially secure retirement. But many issues can arise during retirement that can impact your financial health as well as your quality of life. For instance, the cost of medical expenses due to a prolonged illness or injury can quickly deplete your retirement savings and affect your quality of life and your spouse's. As we get older, the prospect of long-term care becomes a real possibility. If you're retired, how will you pay for long-term care if faced with those expenses?

RETIREMENT SAVINGS AND INCOME

An obvious source for paying long-term care expenses is current income you receive from a retirement pension or Social Security retirement income. However, using current income may prove insufficient, or impractical, given other household expenses.

You could use qualified retirement accounts such as a 401(k) or IRA, or investments you set aside as a retirement nest egg. But you may be spending savings otherwise needed for the current or future financial support of your spouse or other family members. And withdrawals from qualified retirement accounts are generally taxed as ordinary income, meaning the more you take out, the more you may have to pay in taxes.

If you have equity in your home, you may be able to tap into that to pay for long-term care. However, since your home is probably one of your most valuable assets, there are many issues to consider before using it to pay for long-term care. Should you sell your house or take out a home loan? If you decide to take out a loan, what type of loan

will work best for you? Some loan options include a conventional home equity loan, a first mortgage, and a reverse mortgage.

PRIVATE INSURANCE

Aside from paying for your long-term care out of your own pocket, you might share the cost through various insurance products. The most common of these is long-term care insurance, which typically pays for the cost of long-term care up to a specified dollar amount per day, such as \$150, for a fixed period of time, such as three years. Most policies will pay for care provided in your home, in an assisted-living facility, and in a nursing home. But the premium for this type of insurance can be expensive and the policy usually doesn't cover the entire cost of care, meaning you'll probably still have to pay for a portion of your long-term care expenses out-of-pocket.

Other types of insurance may also be used to pay for long-term care. Cash value accumulations in life insurance or annuities can be accessed, either by cashing the policy in or by borrowing against the cash value. However, policy loans and cash value withdrawals may reduce the policy's death benefit or cause the policy to lapse. Also, some life insurance and annuities have built-in features or riders that allow access to amounts in excess of the cash accumulation value if it's used to pay for long-term care.

MEDICAID AND VETERANS BENEFITS

According to the National Clearinghouse for Long-Term Care Information, Medicaid pays for about 49% of aggregate long-term care expenses. Medicaid is a federally funded program administered through the states that provides long-term care benefits for those who meet state-specific financial eligibility requirements, as well as certain health or functional criteria. However, retirees are often unable to qualify for Medicaid because their income or asset values exceed financial eligibility requirements. Aside from Medicaid, the Department of Veterans Affairs may provide long-term care for service-related disabilities for veterans who meet eligibility requirements.

Fixed Annuities vs. CDs: Is One Better Than the Other?

While some features are similar, fixed annuities and bank certificates of deposit (CDs) also have characteristics that differ. Fixed annuities are not FDIC insured, are not issued by a bank or government agency, and are not a deposit. For most people, the answer to this question is it depends. While some features are similar, fixed annuities and bank certificates of deposit (CDs) also have characteristics that differ. What works for you may depend on which features best fit your financial situation and investment objectives.

Are you looking for safety?

Both CDs and fixed deferred annuities are generally considered "low-risk" investments compared to other investment options. CDs are sold by banks; fixed annuities are issued by insurance companies. In most instances, CDs are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 per account. Fixed annuities are not insured by the federal government, but are backed by the financial strength of the insurance company that issues the annuity. Of course, annuity guarantees are subject to the claims-paying ability of the issuing company, so when considering a fixed annuity, make sure the issuing company is financially sound. You can get an idea of the financial strength of a company by referring to an independent rating company such as Moody's, A.M. Best, or Standard & Poor's, which evaluate the financial strength of insurance companies and publish ratings based on their assessments.

How long is your investment horizon?

CDs are often used for short-term accumulation. CDs are issued in a variety of maturity periods, from as short as one month to three years or longer. On the other hand, fixed annuities are better suited for long-term accumulation. Most fixed annuities have maturity periods of five years or longer, although some fixed annuities have maturity periods as short as two years. In any case, most CDs and fixed annuities assess a penalty for taking money out of your account prior to the maturity date. Some CDs allow you to withdraw interest as it's earned. However, if you want to withdraw principal, you'll likely be assessed an early withdrawal penalty. Likewise, many fixed annuities allow you to receive earned interest, and some annuities even allow a limited penalty-free withdrawal of up to 10% of the account value annually. But annuity withdrawals exceeding any penalty-free amount will also be subject to a withdrawal or surrender charge.

What type of return do you want?

Both CDs and fixed annuities credit interest to your account. The rate of interest is often based, at least in part, on the maturity period of the vehicle: the longer the investment period, the higher the interest rate likely to be offered. CDs generally pay a fixed interest rate for the entire term. The interest rate paid by a fixed annuity may change annually, subject to a minimum interest rate that lasts for the entire term. There are some fixed annuities that pay a fixed rate of interest for a fixed period of time, usually to maturity. While the interest rates of CDs and fixed annuities with similar maturity periods are often similar, since most fixed annuities have longer maturity periods than CDs, the interest rate offered may be a little higher than a CD with a shorter maturity term. It's also worth noting that fixed annuity companies guarantee a minimum interest rate for the term of the annuity, and sometimes, may guarantee a higher interest rate for a certain period of time.

Are taxes an issue?

If income taxes are a concern, be aware that the interest you earn on your CD (presuming it's not held within an IRA) is taxable in the year it's earned, even if you don't take the money. Conversely, the interest earned in a fixed annuity is not subject to income tax until you actually take the money out. With a fixed annuity, you have a little more control over when you'll pay taxes on your interest earnings. Also, interest earnings from CDs must be included as income when calculating whether a portion of your Social Security benefits will be subject to income tax. However, interest earned within a fixed deferred annuity (so long as it's not withdrawn) is not included in this calculation.

Withdrawing money at maturity

When your CD matures, you're able to take the principal and any interest earnings out in a lump sum, or you can usually renew the CD for the same or a different term, and often at a different interest rate. You can do the same thing with money from a deferred annuity. You'll be taxed on the interest earnings at that time, and, if you're not at least age 59½, you may also face a 10% tax penalty on earnings as well, unless an exception applies. However, a deferred annuity provides you with the option to convert your account to a stream of payments that can last for your entire life. Known as annuitization, this gives you the option to receive periodic payments (e.g., monthly, quarterly, or annually) from your annuity for a fixed period of time, such as ten years, or for the rest of your life.

Ingram Financial's team of experts can help you grow, protect and disperse your assets - all in one place and at exceptionally reduced costs. Please feel welcome to call or stop by your local branch today. As always, thank you for your business.

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