



A Storm is Brewing It's Time for a Wakeup Call!

By Sharla J. Jessop, CFP®

Each day for the next 19 years 10,000 baby boomers will turn age 65. Besides their age, these boomers have much in common. They face many of the same challenges: A Social Security system that is changing, skyrocketing healthcare costs, and the reality that they may live longer than they ever planned. The result—most Americans feel they are financially unprepared to live into their 70s, 80s, and 90s. Though the picture may seem bleak, there is hope.

Healthcare—Protecting your nest egg

Retirees face a triple threat when it comes to healthcare costs in retirement: Declining health, increasing healthcare premiums, and rising healthcare inflation. The truth is that as we age our bodies continue to break down. Couple this with the fact that health insurance premiums are increasing with age.

At retirement, we will pay more, overall, for healthcare than we did during our working years. Starting Medicare at age 65 is crucial. If you miss this age-based deadline the result can leave you uninsured and paying a late penalty. This is one area where you cannot afford to “learn as you go.” Choosing a Medicare supplement is just as important. While the benefits are standardized, the premiums vary widely.

What does this mean for you? It is essential that you have a plan to deal with healthcare costs during retirement. A recent Fidelity Investments study estimates a couple

retiring at age 65 will require \$230,000 or more to cover healthcare costs throughout their lifetime. For many this represents a significant portion of their retirement nest egg. If left to chance, healthcare costs may deplete your retirement savings.

Social Security—Maximizing your benefit

How and when you claim Social Security benefits can boost your retirement income by tens of thousands of dollars over your lifetime. While Social Security options may seem straightforward, you owe it to yourself and your spouse to understand all of the options as well as strategies available before beginning benefits. Keep in mind Full Retirement Age (FRA) is no longer 65—today it is 66.

It's true that you will receive a higher Social Security benefit if you continue to work and delay benefits until age 70. But it's more complex than that. Taking Social Security before FRA will cause you to forfeit valuable options. Many naively believe the decision is as easy as, “Should I take my benefit at age 62, 66, or wait until age 70?” While the local Social Security office can explain your options, they will not recommend which option to take or discuss strategies to maximize your benefit.

Maximizing Social Security benefits depends on your personal situation. Making the right decision for you requires a thorough knowledge of the system, your options, the strategies, and your contributions into the system. You will need help beyond what the Social Security office can provide.

Longevity—Living longer than you ever thought

Life expectancy is on the rise. Couples age 65 today have a 50% likelihood that one partner will live to age 94.¹ Have you set enough aside to maintain your lifestyle for a longer period of time? Will you need to reduce your spending at the beginning of retirement to bridge a potential gap? What if you need the services of a care facility? How will that impact your nest egg and your surviving spouse?

Those who have helped provide a loved one with long-term care understand the value of a long-term care policy. An average stay in a long-term care facility is three years. Survey results recently released by Genworth² show that the median annual rate for a private nursing home room in 2012 is \$81,030. Over the past five years these rates have been increasing at an annual rate of 4.28%. This is much higher than the Consumer Price Index (CPI) would lead you to believe.

While the cost for a long-term care policy may seem high, the reduced financial risk is well worth the annual premium. Keep in mind, Medicare does not cover long-term care facilities. Other options may include self-funding, which requires a significant financial base that can absorb the increased expenses. Medicaid is another option and is the least favorable. It requires you to spend down the majority of your assets. This can leave a surviving spouse without much-needed resources to maintain a comfortable lifestyle.

Your Nest Egg—The glue that holds it all together

Now that you see the storm brewing, what will you do? While 81% of pre-retirees think a retirement income plan is important, 75% of pre-retirees have no plan.³ What does this say about your concerns for the future? Protecting your precious resources takes well-thought-out planning. The time to do something is now. Consider this your wake-up call!

Let Smedley Financial help you with your Medicare, Social Security, and long-term care decisions. We can help you tie these complex options into your lifetime income plan. Contact our Wealth Management Consultants to discuss your situation. Call us at 800-748-4788 or visit us online at www.smedleyfinancial.com. Plan to attend a future workshop.

¹Centers for Disease Control, ²Genworth Financial, Inc. Cost of Care Survey 2012, ³Fidelity Investments Retirement Mindset research October 2010

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