October 2017 Newsletter

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Happy Fall!

I will first address a question I have been getting from clients who have accounts at Vanguard. Vanguard is trying to move clients from "Mutual Fund Only" accounts to "Brokerage" accounts. There are minor differences, but several factors lead me to suggest that most clients should not "upgrade" their account to a brokerage account when offered, but keep the existing "Mutual Fund Only" account. This is a minor issue, so don't be concerned if you have already converted!

The first article of this newsletter discusses what a will can do. A will is one of several estate planning documents that all adults should have.

The second and third articles discuss issues related to disability insurance and disability claims. This topic is near and dear to my heart as my father suffered a career ending disability at the age of 47.

The articles on page four discuss several issues related to Social Security and Medicare benefits.

Please let me know if you have any questions.

Eric

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What You Can Do with a Will

A will is often the cornerstone of an estate plan. Here are five things you can do with a will.

Distribute property as you wish

Wills enable you to leave your property at your death to a surviving spouse, a child, other relatives, friends, a trust, a charity, or anyone you choose. There are some limits, however, on how you can distribute property using a will. For instance, your spouse may have certain rights with respect to your property, regardless of the provisions of your will.

Transfers through your will take the form of specific bequests (e.g., an heirloom, jewelry, furniture, or cash), general bequests (e.g., a percentage of your property), or a residuary bequest of what's left after your other transfers. It is generally a good practice to name backup beneficiaries just in case they are needed.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property in which you have already named a beneficiary passes to the beneficiary (e.g., life insurance, pension plans, IRAs).

Nominate a guardian for your minor children

In many states, a will is your only means of stating who you want to act as legal guardian for your minor children if you die. You can name a personal guardian, who takes personal custody of the children, and a property guardian, who manages the children's assets. This can be the same person or different people. The probate court has final approval, but courts will usually approve your choice of guardian unless there are compelling reasons not to.

Nominate an executor

A will allows you to designate a person as your executor to act as your legal representative after your death. An executor carries out many estate settlement tasks, including locating your will, collecting your assets, paying legitimate creditor claims, paying any taxes owed by your estate, and distributing any remaining assets to your beneficiaries. As with naming a guardian, the probate court has final approval but will usually approve whomever you nominate.

Specify how to pay estate taxes and other expenses

The way in which estate taxes and other expenses are divided among your heirs is generally determined by state law unless you direct otherwise in your will. To ensure that the specific bequests you make to your beneficiaries are not reduced by taxes and other expenses, you can provide in your will that these costs be paid from your residuary estate. Or, you can specify which assets should be used or sold to pay these costs.

Create a testamentary trust or fund a living trust

You can create a trust in your will, known as a testamentary trust, that comes into being when your will is probated. Your will sets out the terms of the trust, such as who the trustee is, who the beneficiaries are, how the trust is funded, how the distributions should be made, and when the trust terminates. This can be especially important if you have a spouse or minor children who are unable to manage assets or property themselves.

A living trust is a trust that you create during your lifetime. If you have a living trust, your will can transfer any assets that were not transferred to the trust while you were alive. This is known as a pourover will because the will "pours over" your estate to your living trust.

Caveat

Generally, a will is a written document that must be executed with appropriate formalities. These may include, for example, signing the document in front of at least two witnesses. Though it is not a legal requirement, a will should generally be drafted by an attorney.

There may be costs or expenses involved with the creation of a will or trust, the probate of a will, and the operation of a trust.

Five Myths About Group Disability Insurance

You may think that the chances of becoming disabled during your working years are slight, and even if you did get hurt or had to miss time at work, you could get by because you have group disability insurance. Unfortunately, you may be in for a big surprise. Here are some myths and misunderstandings about group disability insurance.

Myth 1: It won't happen to me.

You're not really worried about your group disability insurance coverage because you're sure you won't suffer a disability. In fact, your chances of being disabled for longer than three months are much greater than you may realize. Even the healthiest and ablest can become disabled. According to the Social Security Administration, one in five Americans lives with a disability, and more than one in four 20-year-olds becomes disabled before reaching retirement age.[1] So maybe you could miss work for an extended period of time due to a disability. But you have group disability insurance to cover all your income, right?

Myth 2: I work for a good employer, so I'm sure it provides disability insurance.

Well, you better get something in writing confirming that you're covered under your employer-sponsored group disability insurance. According to the Bureau of Labor Statistics, 39% of private industry workers took part in employer-sponsored short-term disability insurance, and 33% were covered by group long-term disability insurance. Workers in service occupations, such as waiters/waitresses, hair stylists, and dental hygienists have the lowest access rates, about 20% for short-term disability insurance and only about 10% for long-term group coverage. On the other hand, 54% of workers in management, professional, and related occupations have access to short-term disability coverage, and 59% are covered by long-term group disability insurance.[2]

Myth 3: Group disability insurance will replace my income.

Actually, group disability insurance replaces some of your income — typically about 60% of income if you become disabled and can't work. And most coverage has a monthly income cap of roughly $5,000 to $8,000, which may be less than 60% of your income. Also, the income used to calculate your disability insurance benefit usually applies only to your base salary and doesn't include bonuses and commissions.

Myth 4: I won't be taxed on my disability insurance benefits.

You won't be taxed on your disability insurance benefits if premiums are paid from your income with after-tax dollars. However, most employers pay the premium for group policies, which means any benefits you receive are likely taxable to you as ordinary income.

Myth 5: As long as I'm with the company, I'll have coverage.

Generally, group disability insurance is a voluntary benefit offered by the employer, which is under no compulsion to maintain coverage or pay for its cost. The employer can switch plans to a policy that doesn't offer the same coverage options, or the employer can stop offering coverage altogether. Sometimes, if the company has an unusually high number of expensive disability claims, the insurer may exercise its right to significantly increase the premium or terminate the coverage.

Okay, so what are my options?

First, verify with your employer that you do, in fact, have group disability insurance coverage. Then review your plan to see how much income it actually would pay. Also, understand the group policy's definition of disability. Not every injury or illness that causes you to miss work may be covered.

Once you know how much you'd receive from the disability insurance, estimate whether it would be enough to cover your monthly expenses. If there's a shortfall, do you have other sources of income (e.g., investment income, spouse's income) to cover the difference, or would you have to access your savings? If you'll be using savings to supplement your disability income, you'll want to gauge how long your savings will last. The average duration of long-term disability is 31.2 months.[3]

You could consider purchasing supplemental disability coverage to help pay for some of your lost income not covered by your group disability policy. For instance, if your group plan pays 60% of your salary, a supplemental disability plan may increase your total benefit to 80% of your income. In any case, disability income policies contain certain exclusions, waiting periods, reductions, limitations, and terms for keeping them in force. Individual disability income insurance policies provide disability income insurance only. They do NOT provide basic hospital, basic medical, or major medical insurance.

[1] Social Security Administration, The Facts About Social Security's Disability Program, SSA Publication No. 05-10570, January 2017

[2] Beyond the Numbers: Pay and Benefits, vol. 4, no. 4 (U.S. Bureau of Labor Statistics, February 2015)

[3] Council for Disability Awareness, The Average Duration of Long-Term Disability Is 31.2 Months. Are You Prepared? January 18, 2016

Expect the Unexpected: What to Do If You Become Disabled

About 20% of Americans live with a disability, and one in four of today's 20-year-olds will become disabled before retiring.

Source: SSA, Disability Facts, 2017

The average age of SSDI recipients in 2015 was 54.

Source: Fast Facts and Figures About Social Security, 2016

In a recent survey, 46% of retirees said they retired earlier than planned, and not necessarily because they chose to do so. In fact, many said they had to leave the workforce early because of health issues or a disability.[1]

Although you may be healthy and financially stable now, an unexpected diagnosis or injury could significantly derail your life plans. Would you know what to do, financially speaking, if you suddenly became disabled? Now may be a good time to familiarize yourself with the following information, before an emergency arises.

Understand any employer-sponsored benefits you may have

Disability insurance pays a benefit that replaces a percentage of your pay for a designated period of time. Through your employer, you may have access to both short- and long-term disability insurance. If your employer offers disability insurance, be sure to fully understand how the plan works. Review your plan's Summary Plan Description carefully to determine how to apply for benefits should you need them, and what you will need to provide for proof of disability.

Short-term disability protection typically covers a period of up to six months, while long-term disability coverage generally lasts for the length of the disability or until retirement. Your plan may offer basic coverage paid by your employer and a possible "buy-up" option that allows you to purchase additional coverage.

According to the Bureau of Labor Statistics, 40% of private industry workers have access to short-term disability insurance through their employers, while 33% have access to long-term coverage. For both types of plans, the median replacement amount is about 60% of pay, with most subject to maximum limits.[2]

Consider a supplemental safety net

If you do not have access to disability insurance through your employer, it might be wise to investigate other options. It may be possible to purchase both short- and long-term group disability policies through membership in a professional organization or association. Individual policies are also available from private insurers.

You can purchase policies that cover you for life, until age 65, or for shorter periods such as two or five years. An individual policy will remain in force as long as you pay the premiums. Because many disabilities do not result in a complete inability to work, some policies offer a rider that will pay you partial benefits if you are able to work part-time.

Most insurance policies have a waiting period (known as the "elimination period") before you can begin receiving benefits. For private insurance policies, this period can be anywhere from 30 to 365 days. Group policies (particularly through your employer) typically have shorter waiting periods than private policies. Disability insurance premiums paid with after-tax dollars will generally result in tax-free disability benefits. On the other hand, if your premiums are paid with pre-tax dollars, typically through your employer, your benefit payments may be taxable.

Review the Social Security disability process

The Social Security Administration (SSA) pays disability benefits through two programs: the Social Security Disability Insurance (SSDI) program and the Supplemental Security Income (SSI) program. SSDI pays benefits to people who cannot work due to a disability that is expected to last at least one year or result in death, and it's only intended to help such individuals make ends meet. Consider that the average monthly benefit in January 2017 was just $1,171.

In order to receive SSDI, you must meet strict criteria for your disability. You must also meet requirements for how recently and how long you have worked. Meeting the medical criteria is difficult; in fact, according to the National Organization of Social Security Claimants' Representatives (NOSSCR), about two-thirds of initial SSDI applications are denied on their first submission. Denials can be appealed within 60 days of receipt of the notice.[3]

The application process can take up to five months, so it is advisable to apply for SSDI as soon as you become disabled. If your application is approved, benefits begin in the month following the six-month anniversary of your date of disability (as recorded by the SSA in your approval letter). Eligible family members may also be able to collect additional payments of up to 50% of your benefit amount.

SSI is a separate program, based on income needs of the aged, blind, or disabled. You can apply to both SSI and SSDI at the same time.

For more information, visit the Social Security Disability Benefits website at ssa.gov, where you will also find a link to information on the SSI program.

[1] 2016 Retirement Confidence Survey, Employee Benefit Research Institute

[2] Bureau of Labor Statistics, National Compensation Survey, 2016

[3] NOSSCR web site, accessed March 2017

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Is the Social Security Administration still mailing Social Security Statements?

Your Social Security Statement provides important information about your Social Security record and future benefits. For several years, the Social Security Administration (SSA) mailed these statements every five years to people starting at age 25, but due to budgetary concerns, the SSA has stopped mailing Social Security Statements to individuals under age 60.

Workers age 60 and over who aren't receiving Social Security benefits will still receive paper statements in the mail, unless they opt to sign up for online statements instead. If you're age 60 or older, you should receive your statement every year, about three months before your birthday. The SSA will mail statements upon request to individuals under age 60.

However, the quickest way to get a copy of your Social Security Statement is to sign up for a *my* Social Security account at the SSA website, ssa.gov. Once you've signed up, you'll have immediate access to your statement, which you can view, download, or print. Statement information generally includes a projection of your retirement benefits at age 62, at full retirement age (66 to 67), and at age 70; projections of disability and survivor benefits; a detailed record of your earnings; and other information about the Social Security program.

The SSA has recently begun using a two-step identification method to help protect *my* Social Security accounts from unauthorized use and potential identity fraud. If you've never registered for an online account or haven't attempted to log in to yours since this change, you will be prompted to add either your cell phone or email address as a second identification method. Every time you enter your account username and password, you will then be prompted to request a unique security code via the identification method you've chosen, and you need to enter that code to complete the log-in process.

What are some tips for reviewing my Medicare coverage during Medicare Open Enrollment?

During the Medicare Open Enrollment Period that runs from October 15 through December 7, you can make changes to your Medicare coverage that will be effective on January 1, 2018. If you're satisfied with your current coverage, you don't need to make changes, but it's a good idea to review your options.

During Open Enrollment, you can:

- Change from Original Medicare to a Medicare Advantage plan, or vice versa
- Switch from one Medicare Advantage plan to another Medicare Advantage plan
- Join a Medicare prescription drug plan, switch from one Medicare prescription drug plan to another, or drop prescription drug coverage

The official government handbook, *Medicare & You,* which is available electronically or through the mail, contains detailed information about Medicare that should help you determine whether your current coverage is appropriate. Review any other information you receive from your current plan, which may include an Annual Notice of Change letter that lists changes to your plan for the upcoming year.

As you review your coverage, here are a few points to consider:

- What were your health-care costs during the past year, and what did you spend the most on?
- What services do you need and which health-care providers and pharmacies do you visit?
- How does the cost of your current coverage compare to other options? Consider premiums, deductibles, and other out-of-pocket costs such as copayments or coinsurance; are any of these costs changing?

If you have questions about Medicare, you can call 1-800-MEDICARE or visit the Medicare website at medicare.gov. You can use the site's Medicare Plan Finder to see what plans are available in your area and check each plan's overall quality rating.