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Dear Clients and Friends,

Welcome to the June edition of our "Partnering With You" newsletter.

We would like to welcome Kristin Lindsay as our summer intern from Virginia Tech. She is from the Glenvar area of Roanoke County and an upcoming senior with a major in Accounting and Finance.

If you owe estimated tax payments for the April and May period, the payment is due by June 15th.

Jim, Pam, Ruth, Nikie, Todd, Cheryl, Sandy, Chris, Stephen and Rich

Partnering With You - June 2017

Alternatives to Long-Term Care Insurance

The costs of long-term care can be overwhelming, potentially exhausting retirement income and savings. You may be thinking about buying long-term care insurance (LTCI) to help cover some of the potential costs of long-term care, but LTCI can be expensive, and if you do buy the coverage, you probably hope you never have to use it. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

The prospect of paying costly premiums for LTCI that you may never use might not appeal to you. But there are alternatives worth considering.

Self-insure

You could use your personal savings and retirement income to pay for long-term care expenses (self-insurance). While this option may be appealing, there may be some drawbacks. Depending on the type of long-term care, where that care is provided, and for how long, it's possible that you could run out of savings while still needing care. Also, using your own savings and income for long-term care costs may affect the financial well-being of a spouse or other dependents. And you may not have anything left to pass on to your heirs when you die.

Life insurance to pay for long-term care

One of the risks of buying LTCI is that you may spend thousands of dollars in premiums and never use the insurance. As an alternative, you may be able to use life insurance to help pay for long-term care expenses. For instance, some insurers offer policies that combine long-term care insurance with permanent life insurance. While these "combination" policies may differ, they generally offer a pool of money that can be used to pay monthly expenses associated with long-term care. If you don't use the policy for long-term care, then it will pay a death benefit to your designated beneficiaries if the policy is in force at your death.

Alternatively, you might be able to add an acceleration rider to your life insurance policy that will allow you to tap into (accelerate) your death benefit for long-term care expenses. Again, if you don't use the death benefit for long-term care costs, the policy will pay the death benefit to the beneficiaries you name in the policy. In any case, before buying a policy, you should have a need for life insurance and you should evaluate the policy on its merits as life insurance. Optional benefit riders are available for an additional fee and are subject to contractual terms, conditions, and limitations as outlined in the policy and may not benefit all investors. Any payments used for covered long-term care expenses would reduce (and are limited to) the death benefit and can be much less than those of a typical long-term care policy. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Medicaid

Medicaid is a joint federal and state government program that helps people with low income and assets pay for some or all of their health-care bills, including some costs associated with long-term care. Qualifying for Medicaid and covered services is based on federal requirements and eligibility rules, which vary from state to state. Generally, to be eligible for Medicaid, you must meet certain preconditions, which include income and asset levels that meet your state's eligibility requirements. You may need to exhaust your savings to qualify for Medicaid. Once the state determines that you're eligible for Medicaid, the state will make an additional determination of whether you qualify for long-term care services, based on whether you need assistance with personal care and other service needs, such as eating, bathing, dressing, toileting, and transferring (to or from a bed or chair).

Student Loan Debt: It Isn't Just for Millennials

The intersection of student loan debt and Social Security benefits

Since 2001, the federal government has collected about $1.1 billion from Social Security recipients to cover unpaid federal student loans, including $171 million in 2015 alone. During that time, the number of Americans age 50 and older who have had their Social Security benefits reduced to pay defaulted federal student loans has risen 440%.

Source: The Wall Street Journal, Social Security Checks Are Being Reduced for Unpaid Student Debt, December 20, 2016

It's no secret that today's college graduates face record amounts of debt. Approximately 68% of the graduating class of 2015 had student loan debt, with an average debt of $30,100 per borrower — a 4% increase from 2014 graduates.[1]

A student loan debt clock at finaid.org estimates current outstanding student loan debt — including both federal and private student loans — at over $1.4 trillion. But it's not just millennials who are racking up this debt. According to the Consumer Financial Protection Bureau (CFPB), although most student loan borrowers are young adults between the ages of 18 and 39, consumers age 60 and older are the fastest-growing segment of the student loan market.[2]

Rise of student debt among older Americans

Between 2005 and 2015, the number of individuals age 60 and older with student loan debt quadrupled from about 700,000 to 2.8 million. The average amount of student loan debt owed by these older borrowers also increased from $12,100 to $23,500 over this period.[3]

The reason for this trend is twofold: Borrowers are carrying their own student loan debt later in life (27% of cases), and they are taking out loans to finance their children's and grandchildren's college education (73% of cases), either directly or by co-signing a loan with the student as the primary borrower.[4] Under the federal government's Direct Stafford Loan program, the maximum amount that undergraduate students can borrow over four years is $27,000 — an amount that is often inadequate to meet the full cost of college. This limit causes many parents to turn to private student loans, which generally require a co-signer or co-borrower, who is then held responsible for repaying the loan along with the student, who is the primary borrower. The CFPB estimates that 57% of all individuals who are co-signers are age 55 and older.[5]

What's at stake

The increasing student loan debt burden of older Americans has serious implications for their financial security. In 2015, 37% of federal student loan borrowers age 65 and older were in default on their loans.[6] Unfortunately for these individuals, federal student loans generally cannot be discharged in bankruptcy, and Uncle Sam can and will get its money — the government is authorized to withhold a portion of a borrower's tax refund or Social Security benefits to collect on the debt. (By contrast, private student loan lenders cannot intercept tax refunds or Social Security benefits to collect any amounts owed to them.)

The CFPB also found that older Americans with student loans (federal or private) have saved less for retirement and often forgo necessary medical care at a higher rate than individuals without student loans.[7] It all adds up to a tough situation for older Americans, whose income stream is typically ramping down, not up, unlike their younger counterparts.

Think before you borrow

Since the majority of older Americans are incurring student loan debt to finance a child's or grandchild's college education, how much is too much to borrow? It's different for every family, but one general guideline is that a student's overall debt shouldn't be more than his or her projected annual starting salary, which in turn often depends on the student's major and job prospects. But this is just a guideline. Many variables can impact a borrower's ability to pay back loans, and many families have been burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

A recent survey found that 57% of millennials regret how much they borrowed for college.[8] This doesn't mean they regretted going to college or borrowing at all, but it suggests that it would be wise to carefully consider the amount of any loans you or your child take out for college. Establish a conservative borrowing amount, and then try to borrow even less.

If the numbers don't add up, students can reduce the cost of college by choosing a less expensive school, living at home or becoming a resident assistant (RA) to save on room costs, or graduating in three years instead of four.

[1] The Institute for College Access & Success, Student Debt and the Class of 2015, October 2016

[2-7] Consumer Financial Protection Bureau, Snapshot of Older Consumers and Student Loan Debt, January 2017

[8] *Journal of Financial Planning,* September 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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Partners in Financial Planning, LLC is a fee-only financial planning and investment management firm located in Salem, Virginia. Our mission is to provide comprehensive, caring financial guidance that allows our clients to spend less time worrying about their finances and more time enjoying their lives.

The information provided herein is intended for general educational and informational purposes. Please consult with your financial advisor for tailored advice related to your specific situation.

How can I protect myself and my home from wind damage?

Depending on where you live, your home may be vulnerable to damage from tornadoes, hurricanes, and other windstorms. These weather events can cause devastating and costly losses, so it's important to know how you can protect yourself and your home before a storm strikes.

The first thing you should do is review your homeowners insurance policy. In most cases, windstorms are one of the basic perils covered by standard homeowners insurance. But there can be exceptions. For instance, sometimes windstorm damage is excluded from homeowners coverage in areas where windstorm damage is common. Find out for sure by checking your insurance policy or by speaking with your insurance company or agent.

If you discover that protection from windstorms is not available on your current policy, don't worry. You may be able to purchase optional coverage from your insurer, or another insurer at an additional cost. Your options depend on such factors as whether you live in a high-risk area and how much additional coverage you can afford.

Even with windstorm coverage, you may not be fully compensated in the event of damage to your home or your belongings by wind-related weather events. Keep in mind that you'll be covered only for named perils and only up to the coverage limits for your policy. Any losses that exceed those limits will have to be paid out of your own funds. Remember that you will need to pay out-of-pocket for any deductible that applies before your insurance begins to cover your losses.

Besides making sure you have windstorm coverage, you can take additional steps to help protect yourself and your home in the event of a windstorm. Creating an emergency kit, securing your property, heeding evacuation warnings, and establishing a safety plan with your family can also help you weather windstorms.

Cartoon: Father and Daughter Bonding Experience