LET'S TALK MONEY®

March/April 2014

Unsure About Meeting Long-term Care Costs?

You're not alone. A study conducted by the Insured Retirement Institute in 2012* found that most people lack confidence in their ability to cover their long-term care costs and that lack of confidence increases as retirement draws near. On the bright side, the study also found that confidence increases when people work with a financial professional.

For yourself

The Institute interviewed 503 Americans between the ages of 50 and 66 ("Boomers") and 802 Americans between the ages of 30 and 49 ("Gen-Xers"). Only 24% of Boomers and 28% of Gen-Xers said they are "extremely" or "very" confident they'll have enough money to pay for their own long-term care expenses.

Income affected confidence. Among those making less than $30,000, only 11% of Boomers and 12% of Gen-Xers agreed with the statement "you will have enough money to pay for long-term care." For those making between $30,000 and $74,999, 19% of Boomers and 20% of Gen-Xers agreed, and for those making $75,000 and over, 33% of Boomers and 38% of Gen-Xers agreed.

Men are more confident than women in their ability to meet long-term health care costs — which makes sense if you consider that women, on average, live longer than men. And married individuals displayed more confidence in their ability to meet long-term care costs than those who were single.

For your parents

People are even less confident they'll be able to help their parents meet long-term care costs if needed than they are of meeting their own long-term care needs. Only 14% of Boomers said they're extremely or very confident they'll have enough money to cover their parents' long-term care expenses.

The bright spot

Some of the study participants had a financial professional help them analyze their long-term care issues. When this element was factored in, the percentage of Boomers who indicated they are extremely or very confident increased to 30%, compared to 19% for those who hadn't obtained assistance. Similarly, among Gen-Xers, the percentage increased to 39%, as opposed to 22% for those who did not seek assistance.

* *The Long-Term Care Challenge*, Insured Retirement Institute, November, 2012

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Many Happy Returns

Thanks to computers, software programs and the Internet, filing your income-tax return is easier than it used to be. One big advantage is that using software can help reduce the number of mistakes. According to the IRS, taxpayers who file paper returns are about 20 times more likely to make a mistake than those who file electronically. Still, e-filing isn't foolproof. So no matter how you file, review your return before sending it off.

Name that taxpayer

You might think it's impossible to use the wrong name on your tax return. But it's not — for this simple reason: The IRS is looking for the name that appears on your Social Security card. Things can get complicated if you use your middle initial sometimes and your full middle name at other times. Name changes due to marriages, divorces, adoptions, etc., also create confusion.

Number no-nos

Math mistakes are unlikely if you use software to file. That's not the case if you file a paper return. So if you file the old-fashioned way, double-check your numbers. One blunder software can't prevent is a mistake in your bank's routing and account numbers. Get one of those wrong and you could end up waiting a long time for your refund.

The Forms 1099 and W-2 you receive also go to the IRS, where computers match them up with your return. Should you happen to get a 1099 that isn't yours or has incorrect information, contact the issuer as soon as you discover the error and ask that a corrected form be generated. Copies should automatically go to you and the IRS. A mismatch that goes uncorrected could cause problems.

Sign here

You can mistakenly submit an unsigned (and therefore invalid) paper return, but you can't mistakenly submit an unsigned return electronically. That's another advantage of e-filing. However, for security purposes, you'll need a personal identification number (PIN) to e-sign your e-return. As long as you have your prior year's tax return to prove you are who you say you are, there won't be a problem.

The chosen 1%

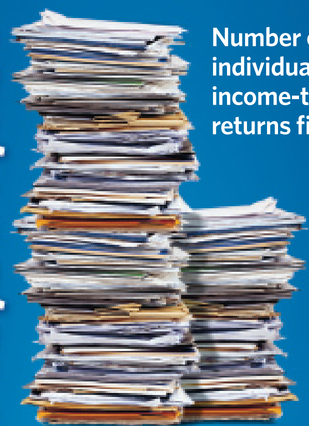
The odds of your tax return being singled out for an audit are quite low. Only about 1% of all individual 2011 returns (the latest data available) were audited. The number might be higher if the IRS had more resources and personnel — but it doesn't. Even if you are chosen for an audit, if you've provided accurate information and have the documents to back it up, you have nothing to worry about. Generally, you should keep copies of your federal and state income-tax returns and any information used to prepare them for six years.

By the numbers:

AUDIT STATS

Federal income-tax returns

143,399,737

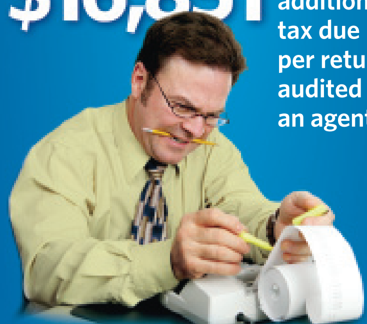


Number of individual income-tax returns filed

1,481,966

Number of individual income-tax returns audited

$16,851 Average additional tax due per return audited by an agent



Average additional tax due per return audited by mail

$8,241

Source: *Internal Revenue Service Data Book, 2012*, IRS Publication 55B (Rev. 3-2013), 2011 data

Lessons in Paying for College

If college spending is any indication, the aftershocks of the Great Recession are beginning to fade. While parents are still worried about being able to pay for college, a 2013 survey* revealed they were slightly less worried than in the three previous years. However, their willingness to spend on college hasn't rebounded. Parents' average out-of-pocket spending for the 2012-2013 school year was $5,727, down 35% from $8,752 in 2010.

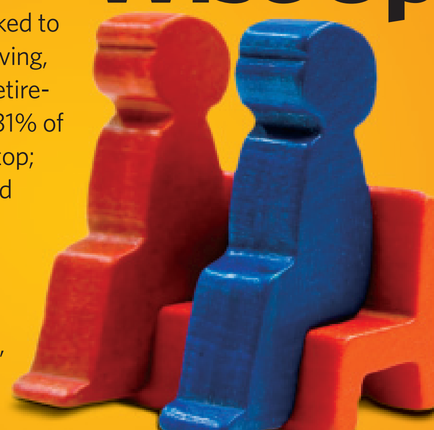
The survey also showed that:

- The average amount paid for college rose slightly to $21,178 (up from $20,902 in 2011-2012).
- Grants and scholarships paid 30% of the cost, providing an average amount of $6,355 per family.
- For their part, students took out an average of $8,815 in federal loans.

* *How America Pays for College 2013*, Sallie Mae's National Study of College Students and Parents

Time To Wise Up

As a generation, Baby Boomers have been making headlines since the 1960s. These days, the headlines are about whether they're ready for retirement. But what about the other two generations in the work force? What are Generation X and Generation Y doing about retirement?



Not ready?

According to a study,* the younger generations don't seem all that serious about saving for retirement. Asked to give their top ten reasons for saving, only 46% of Gen Xers ranked retirement as most important. Only 31% of Gen Yers put retirement at the top; 41% said saving for vacation and travel was most important.

Get ready!

If you're a member of Gen X or Gen Y (or your children are), don't wait any longer to make saving for retirement a priority. Look for ways to reduce unnecessary spending. Invest more for retirement. Assess your current job and career goals. The more you do now, the better your chances of being ready when the time comes to retire.

* *Sowing the Seeds for Retirement: Gen X and Gen Y Markets* (2013), LIMRA

Spring Cleaning with a Twist

Drop that mop! You can get more bang for your buck from spring cleaning your finances than spring cleaning your house. Here are some tips.

Tidy up your financial accounts. If you have several different financial accounts, it's a good idea to consolidate. It's simpler to keep track of one or two accounts. And having all your money with one institution may earn you better perks, such as a higher interest rate and/or lower fees.

Refresh your life insurance policy. You should check your life insurance coverage regularly — and *any time* there's been a life change, such as a new baby, a change in marital status, a death, etc. For the sake of your loved ones, sit down with your financial professional and review your needs.

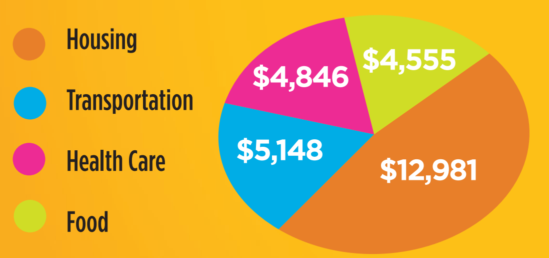
Stop money leaks. Missing credit card payments and overdrawing your financial account are expensive mistakes. Setting up a system to keep track of your finances will help you avoid costly and unnecessary fees.

LET'S TALK RETIREMENT

Q. We're looking to retire in a year and are working out a budget. What can we expect our biggest expenses to be?

A. According to the Social Security Administration, for people age 65 and older, the top four expenses are housing (35% of total expenditures), transportation (14%), out-of-pocket health care (13%) and food (12%).* The table shows the average annual amounts paid.

These are only averages. Your financial professional can help you project what *your* retirement expenses may be.



Total of all expenditures: **$36,739**

* *Expenditures of the Aged Chartbook, 2010*, Social Security Administration, released March 2013

Q. The long-term care policy I'm considering is a tax-qualified policy. Can you tell me what that means?

A. Basically, it means income-tax advantages for you. Within limits, premiums paid for qualified long-term care insurance policies are deductible as an itemized medical expense. The IRS annual premium limits for 2013 are:

Age 40 or under	Age 41–50	Age 51–60	Age 61–70	Over age 70
$360	$680	$1,360	$3,640	$4,550

Qualified long-term care insurance policy payments generally aren't included in the covered person's taxable income.

To be qualified, a long-term care insurance policy must cover only "qualified long-term care services" as defined in the tax law, must not pay or reimburse expenses reimbursable under Medicare and must be guaranteed renewable. (Other requirements apply.)

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