



## IMPORTANT HEALTHCARE PLANNING UPDATE

by Ralph Ujano, *Division Director, Mercer Global Advisors*

In June of 2009, a pivotal study on healthcare in retirement was published by the Employee Benefit Research Institute (EBRI). The study examined the savings needed for healthcare expenses incurred in retirement to cover Medigap premiums, Medicare Part B premiums, Medicare Part D premiums, and out-of-pocket expenses for men and women as individuals and as married couples. [see TABLE 1]

TABLE 1: Savings Required for 90% Confidence Level of Healthcare Coverage<sup>†</sup>

	Age 65 in 2009	Age 65 in 2019
Men	\$378,000	\$634,000
Women	\$450,000	\$754,000
Married Couples	\$807,000	\$1,353,000

<sup>†</sup>Includes Medigap Premiums, Medicare Part B Premiums, Medicare Part D Premiums, and Out-of-Pocket Drug Expenses

Source: Employee Benefit Research Institute Study, 2009

The dollars required are astonishing and far exceed historical studies in this area. Therefore, Mercer Advisors launched into extensive analysis of the myriad academic and industry-sponsored studies on healthcare costs in retirement. Of grave concern to us was the stipulation within the EBRI study indicating, "many individuals will need more money than the amounts cited in this report because this analysis does not factor in the savings needed to cover long-term care expenses, nor does it take into account the fact that many individuals retire prior to becoming eligible for Medicare."

Now, in response to the frequently asked question, "Won't my private insurance plan or Medicare cover these expenses?", the answer is an emphatic no. Neither private insurance nor Medicare cover the indirect expenses associated with in-home health care, assisted living or nursing facility care. In fact,

private healthcare plans and Medicare combined pay a mere 3% of long-term care costs.

Following are just some of the facts we have uncovered:

- **Healthcare Costs** — these have outpaced Consumer Price Index (CPI) inflation significantly; between 2005 and 2010, medical costs rose 8.2% versus a cost-of-living increase of only 2.5%.
- **Long-Term Care Costs** — these expenses were not included in the EBRI study calculations for required savings. Given that at least 70% of people over age 65 will require some form of long-term care within their lifetime, which will last, on average, about 3½ years, this exclusion is concerning.
- **Longevity** — the general population is living longer. As life expectancy increases, so too will healthcare costs.
- **Disparate Longevity** — women typically live longer than men. 79% of all women will require long-term care, therefore additional planning must be considered to ensure their care coverage.
- **Alzheimer's/Dementia Trending** — Alzheimer's is the only Top 10 cause of death without a cure, a means to prevent it or an ability to slow its progression. By the time baby boomers reach age 85, one in two people will develop Alzheimer's.
- **Burden of Care** — factors such as declining family size, increasing childlessness, more women in the workplace and rising divorce rates are limiting the number of available family caregivers. The negative financial, physical, emotional and relational impact of care giving on the caregiver can be devastating.
- **Impact on Employers** — the current annual cost to companies for lost productivity due to caregiving responsibilities is \$17 billion a year, or \$3,142 per employee. By the year 2020, one in three workers will be providing care for a family member.

# Important Healthcare Planning Update (continued from page 1)

As a result of our in-depth research, we determined that in order to best position our clients to achieve the life-long financial security for which they have so comprehensively planned, it was absolutely imperative that we incorporate more aggressive healthcare and long-term care planning into all facets of our Economic Freedom services.

Preliminary analysis of real client financial plans revealed the challenging impact these increased healthcare and long-term care costs can impose on overall game plan success. In the face of these costs, the primary options available to increase the confidence level of success are to spend less in retirement, to save more along the way and/or to purchase Long-Term Care Insurance (LTCi). We have found the purchase of LTCi is generally the best option.

From a planning perspective, we have identified multiple benefits associated with LTCi. First, LTCi can be an important addition to existing disability income coverage, particularly for clients who have acquired the maximum disability coverage for which they are eligible. Most clients are unable to purchase adequate personal disability insurance due to an income cap or maximum issue restriction set forth by the insurance company. In addition, there are few companies from which to choose. Further, the disability benefit payouts typically stop at age 65. LTCi removes all of these limitations and is very cost competitive. We generally recommend purchasing disability

## THE BENEFITS OF LONG-TERM CARE INSURANCE ARE AS FOLLOW:

- Protects assets from long-term care expenses
- Enhances financial security
- Reduces care giving burden on family
- Increases care choice and options
- Helps maintain independence
- Ensures peace of mind and control

and LTCi from different companies, adding beneficial insurance company diversification.

Considering that 40% of LTCi claims are paid to those who would typically be working if not for a disabling life event, the use of LTCi for disability protection is invaluable. Whereas only 33% of disability policies purchased result in a claim, versus a 70% claim rate for LTCi, the probability of benefiting from the LTCi premiums paid is far greater.

In many cases, you may receive a partial or full annual income tax deduction on the premiums paid for LTCi, depending upon your situation [see TABLE 2]. If you receive an upfront business deduction on LTCi premiums, the benefits received are tax free. Contrast this with a personal disability policy where premiums deducted through your business result in benefits received being considered as taxable income.

If you have an existing annuity or cash-value life insurance policy, in most cases, you may access funds to purchase LTCi tax free (under Section 1035), thereby avoiding taxation on 100% of your withdrawals used for LTCi.

TABLE 2: Long-Term Care Insurance Premium Deductibility<sup>1</sup>

ENTITY	DEDUCTIBILITY												
Individual	Must itemize deductions and total medical expenses must exceed 7.5% of adjusted gross income. Deduct lesser of actual premiums paid and eligible LTCi premium (see table below).												
	2011 FEDERAL TAX DEDUCTIBLE LIMITS <sup>2</sup>												
	<table border="1"> <thead> <tr> <th>Taxpayer's Age at End of Tax Year</th> <th>Deductible Limit</th> </tr> </thead> <tbody> <tr> <td>40 or less</td> <td>\$340</td> </tr> <tr> <td>&gt;40 but not &gt;50</td> <td>\$640</td> </tr> <tr> <td>&gt;50 but not &gt;60</td> <td>\$1,270</td> </tr> <tr> <td>&gt;60 but not &gt;70</td> <td>\$3,390</td> </tr> <tr> <td>&gt;70</td> <td>\$4,240</td> </tr> </tbody> </table>	Taxpayer's Age at End of Tax Year	Deductible Limit	40 or less	\$340	>40 but not >50	\$640	>50 but not >60	\$1,270	>60 but not >70	\$3,390	>70	\$4,240
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Sole Proprietor	Deduct lesser of actual premiums paid and eligible LTCi premium (see federal tax deductible limits table above). <sup>3</sup>												
C Corporation	Deduct 100% of premium expense.												
S Corporation	Premiums attributed to each greater than 2% shareholder included in their income. Deduct lesser of actual premiums paid and eligible LTCi premium (see federal tax deductible limits table above). <sup>4</sup>												
Limited Liability Company <sup>5</sup>	Deduct lesser of actual premiums paid and eligible LTCi premium (see federal tax deductible limits table above). <sup>4</sup>												

Financial stress is burdensome. Financial clarity transforms lives.

Whenever possible, LTCi should be purchased while in your 40s — the sooner the better, due to the following:

- Unknown future availability of LTCi policies
- Significantly lower premiums at an earlier age
- Extended compound benefit growth period
- Qualification for lower rates due to preferred health
- Greater likelihood of insurability

We acknowledge the profound level of sensitivity surrounding long-term care planning and firmly believe that the clarity created today is paramount to your peace of mind along the journey. The success of your life plan remains our ultimate goal at Mercer Advisors.

Please contact your advisor or reference our White Paper entitled **Healthcare and Long-Term Care Planning**, available online at [merceradvisors.com/whitepapers](http://merceradvisors.com/whitepapers) for further information on this important topic. ❖

<sup>1</sup>Current tax law generally allows deductibility of qualified long-term care insurance premiums paid for policies covering an individual, his or her spouse, and dependents.

<sup>2</sup>IRS Revenue Procedure: 2010-40. These amounts will increase annually based on the Medical Consumer Price Index. State deductibility limits vary.

<sup>3</sup>IRC Sec. 162(l)(1)(B)

<sup>4</sup>IRC Sec. 162(l)(1)(B), Rev. Rul. 91-26, 1991-15 I.R.B. 23

<sup>5</sup>This applies if LLC is taxed as Sole Proprietor. If taxed as Partnership premiums attributed to each owner/member included in their income.

REFERENCES:

2010 Milliman Medical Index, Milliman, Inc., May 2010  
 "Boomer Women's Long-Term Care Planning: Barriers and Levers", Helen W. Brown, Ph.D., MPH, AARP Knowledge Management, 2009  
 "What You Need to Know about Long-Term Care", White Paper presented by The Society of Certified Senior Advisors™, 2010



## INTRODUCING OUR ECONOMIC ADVANCEMENT GIFTING PROGRAM

by Dave Barton, *President and CEO*

At Mercer Advisors, we were truly inspired by TOMS Shoes' business model of "buy-one-give-one." The premise is both simple and innovative — a pair of shoes is donated to a global child in need each time a pair is sold. Last September, TOMS Shoes gave away its millionth pair of shoes. In just four years, one million children have received protection from foot injury and serious infection in the form of a pair of shoes — likely their first and only.

More significantly, these shoes created a life-altering, horizon-expanding opportunity for these children — the right to attend school. In many developing nations, footwear is required in order to enter a school house to receive an education. Shoes are a key to the future: first granting entry into school, then offering access to education — a significant means of escape from the cycle of poverty and finally, encouraging each child's potential within to grow, dream and succeed.

This principle of empowering others to realize their full potential, through education, guidance and leadership resonated deeply within all of us at Mercer Advisors.

We work to transform all areas of our clients' lives — providing them with the tools, philosophies and strategies necessary to achieve their vision of financial clarity and abundance.

We are proud to announce an opportunity for our clients to share this access to financial clarity with a person of their choosing, at no cost to either client or recipient.

Now, for each referral from an existing client which results in the enrollment of a new client, Mercer Advisors will provide the referring client an opportunity to gift a 3-hour Economic Advancement Session with a Certified Financial Planner™. This gift can improve the situation of someone they know who struggles with financial clarity — perhaps a coworker who is strapped by debt, a relative currently weighing a tough financial decision, or possibly a neighbor who needs to plan for retirement.

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A prevailing principle at Mercer Advisors, one instilled by our founder, Kendrick Mercer, more than 25 years ago, is that our success as a company is measured as much by the contributions we make toward improving the lives of our clients, their families and the communities in which they interact as it is by our profit margin.

We look forward to providing financial clarity to the people our clients believe would benefit from it the most. We are excited to share our insight and to spread goodwill with our own version of a "buy-one-give-one" program. ❖

For more information about TOMS Shoes and their "One for One" movement, visit their web site at [www.TOMS.com](http://www.TOMS.com).

Going from good to great... the new, two-day Economic Freedom Planning program.

## THE DIFFERENCE A DAY MAKES

We recently expanded our Economic Freedom Planning program from a single day to a full two-day session. The amount of content covered remains the same. However, the additional day allows for the development of a deepened mutual accountability between clients and their Strategic Advisor.

We were thrilled to hear the following from a couple who participated in our newly expanded program:

"...We have had similar evaluations in the past, but never this thorough or explained in such detail.

Two days initially seemed too long, but we left the meeting saturated with information. The extra day gave us an opportunity to ask questions without rushing.

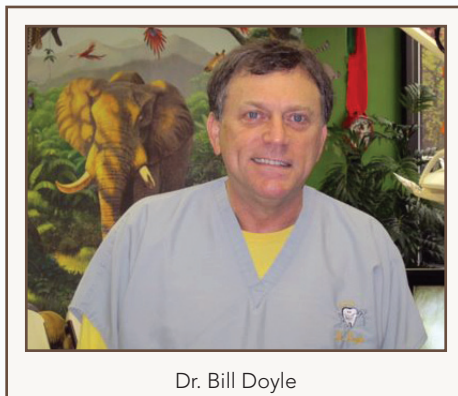
This meeting was particularly helpful in balancing financial with non-financial goals. My wife and I are now on the same financial page. If financial unity with my wife is the only outcome from this meeting, it is worth the time and expense.

I like the emphasis on balance between personal, professional and financial values. Writing our goals and values was helpful to visualize where we are and where we want to be.

We are excited to begin our journey to achieve our goals, guided by our values."

– Bill and Nancy Doyle  
Overland Park, Kansas

The additional day provides the gift of time for reflection. The evening between sessions allows clients to absorb and process fully the financial material from the first day while remaining removed from the busy routines of their lives.



The evening's homework assignment shifts the planning focus from the tangible to the intangible, tasking the participants to describe the hopes, goals and dreams they have for their life journey. The process of clearly identifying that which brings purpose to one's life can be enlightening and empowering.

It is the joining of these priorities and aspirations with established monetary goals and expectations on Day 2 that provides ultimate clarity for clients. Working toward Economic Freedom in this manner is so much more than simply a retirement or investment strategy.

The clarity made possible through Economic Freedom Planning incorporates each client's values into the holistic plan for their life from that moment forward — enabling them to live today, tomorrow and through retirement with meaning, purpose and substance.

The two-day time investment made by both client and Strategic Advisor helps to forge a lasting relationship — one built on mutual respect and comprehensive understanding.

"What differentiates the Mercer Advisors Financial Planning process from that of my previous employer is this — clients who embark upon the Economic Freedom Planning journey come to me on one path and after our two days of discovery and education, they often leave on an entirely different path. Their new plan for Economic Freedom has been crafted to align with their unique vision of success — allowing them to remain fully committed to staying on their custom path for the long-term."

– Jeff Kacal, CFP®  
Strategic Advisor for the Doyles

Our two-day Economic Freedom Planning service is now available as a stand-alone service. This newly available option is an ideal solution for anyone who seeks to gain financial clarity. ❖

From all of us at Mercer Advisors:

We have just returned from a relaxing and celebratory **2011 Annual Client Convention** in Cabo San Lucas, Mexico.

We cherish these moments when we are able to come together, develop stronger relationships and celebrate our clients and their successes. We sincerely thank all of you who were able to attend... 532 strong!

Until next time, enjoy your journey!