

# FINANCIAL TID-BITTS

*Information to chew on...*



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Hi Everyone,

It looks like summer is lingering on for a while yet, after getting a very late start in the Spring. I hope you have had time to get out and enjoy outdoor activities, and that there is still time to do so if you haven't.

The articles I've included cover most of the stages of life, so pass them on to anyone who may be approaching the age where one applies. As always, if you or someone you care about has questions, please don't hesitate to call.

Thank you.

Steve

If you would prefer to receive this newsletter electronically, please email Theresa at [theresa@tibbittsfinancial.com](mailto:theresa@tibbittsfinancial.com).

## September 2019

Five Retirement Lessons from Today's Retirees

Five Times in Your Life When You Might Need Help with Your Finances

What health services aren't covered by Medicare?

# TIBBITTS

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## Do Millennials Need Life Insurance?



The financial challenges millennials face can be overwhelming. Many young adults have to figure out how to pay off college loans, save to buy a home or start a family, and sock away money for retirement.

Given these hurdles, it's no wonder that life insurance as a financial asset gets little to no attention. But it should. There are many reasons to have life insurance at a relatively young age, but here are some common ones.

### Leaving your debts for others to pay

As a young adult, you become more independent and self-sufficient. While you no longer depend on others for your financial well-being, your death might still create a financial hardship for those you leave behind.

You may have debts such as a mortgage or student loans that are jointly held with another person. Or you may be paying your parents for loans they took out (e.g., PLUS loans) to help pay for your education. Your untimely death would leave others responsible for some or all of these debts. You might consider purchasing enough life insurance to cover your financial obligations so others don't have to.

Funeral expenses can also be a burden for those you leave behind. Life insurance could ease the financial burden of paying for your uninsured medical bills (if any) and for costs associated with your funeral and burial.

### It's less expensive

Premiums for life insurance are based on many factors, including age and health. Certainly, the younger and presumably healthier you are, the less your coverage will cost. This is especially true if you are at a high risk for developing a medical condition later in life.

### Replacing lost income

Someone may be relying on your income for financial support. For instance, you may be providing for a family member such as a parent, grandparent, or sibling. In each of these instances, how would your income be replaced

if you died? The death benefit from life insurance can help replace your income after you're gone.

### Providing for your family

As your family grows, so do your financial responsibilities. There is likely a hefty mortgage to pay. And there are costs associated with young children. If you died without life insurance, how would the mortgage get paid? Could your surviving spouse or partner cover the costs of day care and housekeeping?

And there are events you should plan for now that won't happen until several years in the future. Maybe you'll begin saving for your kids' college education while trying to save as much as you can for your retirement. Over the next several decades, think about how much you could set aside for these expenses. If you are no longer around to make these contributions, life insurance can help fund these future accumulations.

### Work coverage may not be enough

You may have a job with an employer that sponsors group life insurance. Hopefully, you take advantage of that program, but is it enough coverage to meet your needs now and in the future? Your insurance needs may change with time, although your employer's coverage may not. Also, most employer-sponsored life insurance programs are effective only while you remain an employee. If you change jobs or are unable to work due to illness or disability, you may lose your employer's coverage. That's why it's a good idea to consider buying your own life insurance.

*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.*

## Five Retirement Lessons from Today's Retirees



*EBRI consistently finds that setting a savings goal increases the level of confidence among today's workers. Despite that fact, just 42% of survey respondents have tried to determine a total retirement savings goal, and less than one-third have tried to calculate how much they may need for medical expenses. Of those who have calculated a total savings goal, 34% have found they will need \$1 million or more to retire comfortably.*

*Source: 2019 Retirement Confidence Survey, EBRI*

Each year for its Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) surveys 1,000 workers and 1,000 retirees to assess how confident they are in their ability to afford a comfortable retirement. Once again, in 2019, retirees expressed stronger confidence than workers: 82% of retirees reported feeling "very" or "somewhat" confident, compared with 67% of workers. A closer look at some of the survey results reveals various lessons today's workers can learn from current retirees.

### Current sources of retiree income

Let's start with a breakdown of the percentage of retirees who said the following resources provide at least a minor source of income:

- Social Security: 88%
- Personal savings and investments: 69%
- Defined benefit/traditional pension plan: 64%
- Individual retirement account: 61%
- Workplace retirement savings plan: 54%
- Product that guarantees monthly income: 33%
- Work for pay: 25%

### Lesson 1: Don't count on work-related earnings

Perhaps the most striking percentage is the last one, given that 74% of today's workers expect work-related earnings to be at least a minor source of income in retirement. Currently, just one in four retirees works for pay.

### Lesson 2: Have realistic expectations for retirement age

Building upon Lesson 1, it may benefit workers to proceed with caution when estimating their retirement age, as the Retirement Confidence Survey consistently finds a big gap between workers' expectations and retirees' actual retirement age.

In 2019, the gap is three years: Workers said they expect to retire at the median age of 65, whereas retirees said they retired at a median age of 62. Three years can make a big difference when it comes to figuring out how much workers need to accumulate by their first year of retirement. Moreover, 34% of workers reported that they plan to retire at age 70 or older (or not at all), while just 6% of current retirees fell into this category. In fact, almost 40% of retirees said they retired before age 60. The reality is that more than four in 10 retirees retired earlier than planned, often due to a health issue or change in their organizations.

Estimating retirement age is one area where workers may want to hope for the best but prepare for the worst.

### Lesson 3: Income is largely a result of individual savings efforts

Even though 64% of current retirees have defined benefit or pension plans, an even larger percentage say they rely on current savings and investments, and more than half rely on income from IRAs and/or workplace plans. Current workers are much less likely to have defined benefit or pension plans, so it is even more important that they focus on their own savings efforts.

Fortunately, workers appear to be recognizing this fact, as 82% said they expect their workplace retirement savings plan to be a source of income in retirement, with more than half saying they expect employer plans to play a "major" role.

### Lesson 4: Some expenses, particularly health care, may be higher than expected

While most retirees said their expenses were "about the same" or "lower than expected," approximately a third said their overall expenses were higher than anticipated. Nearly four out of 10 said health care or dental expenses were higher.

Workers may want to take heed from this data and calculate a savings goal that accounts specifically for health-care expenses. They may also want to familiarize themselves with what Medicare does and does not cover (e.g., dental and vision costs are not covered) and think strategically about a health savings account if they have the opportunity to utilize one at work.

### Lesson 5: Keep debt under control

Just 26% of retirees indicated that debt is a problem, while 60% of workers said this is the case for them. Unfortunately, debt can hinder retirement savings success: seven in 10 workers reported that their non-mortgage debt has affected their ability to save for retirement. Also consider that 32% of workers with a major debt problem were not at all confident about having enough money to live comfortably in retirement, compared with just 5% of workers who don't have a debt problem.

As part of their overall financial strategy, workers may want to develop a plan to pay down as much debt as possible prior to retirement.



*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.*

*All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.*

*Taxable distributions from retirement plans and IRAs prior to age 59½ may be subject to a 10% penalty tax unless an exception applies.*

*Disability premiums are based on your age, gender, occupation, and the amount of potential lost income you are trying to protect, as well as the specifics of the policy and what additional benefits are added.*

## Five Times in Your Life When You Might Need Help with Your Finances

As you move through different stages of life, you will face new and unique financial situations. Did you just get engaged? Perhaps you are wondering how you and your partner are going to manage your money together. Do you have children? Maybe you are looking for ways to pay for their college education.

When you navigate through these various life events, you might seek professional guidance to help you make sound financial choices.

### 1. Getting married

Getting married is an exciting time in one's life, but it also brings about many challenges. One challenge that you and your spouse will face is how to merge your finances. Careful planning and communication are important, since the financial decisions you make now can have a lasting impact on your future.

You'll want to discuss your financial goals and determine which are most important to both of you. You should also prepare a budget to make sure you are spending less than you earn. Other issues to consider as a couple include combining financial accounts, integrating insurance coverage, and increasing retirement plan contributions.

### 2. Buying a home

Buying a home can be stressful, especially for first-time homebuyers. Since most people finance their home purchases, buying a house usually means getting a mortgage. As a result, you'll need to determine how large a mortgage you can afford by taking into account your gross monthly income, housing expenses, and long-term debt.

And if you haven't already done so, you'll need to save for a down payment. Traditionally, lenders have required a 20% down payment on the purchase of a home, however many lenders now offer loans with lower down payments.

### 3. Starting a family

Starting a family is an important — and expensive — commitment. As your family grows, you will likely need to reassess and make changes to your budget. Many of your living expenses will increase (e.g., grocery, health-care, and housing costs). In addition, you'll need to account for new expenses such as child care and building a college fund.

Having a family also means you should review your insurance coverage needs. Life insurance can help protect your family from financial uncertainty if you die, while disability insurance will help replace your income if you become injured or sick.

### 4. Paying for college

Paying for college is a major financial undertaking and usually involves a combination of strategies to help cover costs — savings, financial aid, income during the college years, and potentially other creative cost-cutting measures. Hopefully, you've been saving money on a regular basis to amass a healthy sum when your child is ready for college. But as college costs continue to rise each year, what you've saved may not be enough.

For this reason, many families supplement their savings at college time with federal or college financial aid. Federal aid can include student and parent loans (need-based and non-need-based), grants and work-study (both need-based), while college aid consists primarily of grants and scholarships (need-based and merit-based). In fact, college grants and scholarships can make up a significant portion of the college funding puzzle, so exploring the availability of college aid is probably the single biggest thing you can do after saving regularly to optimize your bottom line. In addition to financial aid, you might take out a private college loan or borrow against your home equity. Or you might pay college expenses using your current income or other savings or investments.

### 5. Saving for retirement

You know that saving for retirement is important. However, sometimes it's easy to delay saving while you're still young and retirement seems too far off in the future. Proper planning is important, and the sooner you get started, the easier it will be to meet your retirement income needs. Depending on your desired retirement lifestyle, experts suggest that you may need 80% to 100% of your pre-retirement income to maintain your standard of living. However, this is only a general guideline. To determine your specific needs, you'll need to estimate all your potential sources of retirement income and retirement expenses, taking taxes and inflation into account.

Once you've estimated how much money you'll need for retirement, your next goal is to save that amount. Employer-sponsored retirement plans like 401(k)s and 403(b)s are powerful savings tools because you can make pre-tax contributions (reducing your current taxable income), and any investment earnings grow tax deferred until withdrawn, when they are taxed as ordinary income. You may be able to enhance your savings even more if your employer matches contributions. IRAs also offer tax-deferred growth of earnings.

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Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC. A registered investment adviser. Fixed insurance products and services offered through CES Insurance Agency.



## What health services aren't covered by Medicare?

Original Medicare — Part A hospital insurance and Part B medical insurance — offers broad coverage, but many services are not covered.

Some may be fully or partially covered by a Part C Medicare Advantage Plan, which replaces Original Medicare, or a Medigap policy, which supplements Original Medicare. Both are offered by Medicare-approved private insurers. (You cannot have both a Medicare Advantage Plan and a Medigap policy.)

Whether you are looking forward to Medicare in the future or are already enrolled, you should consider these potential expenses.

### **Deductibles, copays, and coinsurance.**

Costs for covered services can add up, and — unlike most private insurance — there is no annual out-of-pocket maximum. Medicare Advantage and Medigap plans may pay all or a percentage of these costs and may include an out-of-pocket maximum.

**Prescription drugs.** For coverage, you need to enroll in a Part D prescription drug plan or a Medicare Advantage plan that includes drug coverage.

**Dental and vision care.** Original Medicare does not cover routine dental or vision care. Some Medicare Advantage and Medigap plans may offer coverage for either or both of these needs. You might also consider private dental and/or vision insurance.

**Hearing care and hearing aids.** Some Medicare Advantage plans may cover hearing aids and exams.

### **Medical care outside the United States.**

Original Medicare does not offer coverage outside the United States. Some Medicare Advantage and Medigap plans offer coverage for emergency care abroad. You can also purchase a private travel insurance policy.

**Long-term care.** Medicare does not cover "custodial care" in a nursing home or home health care. You may be able to purchase long-term care (LTC) insurance from private insurers.

*A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC insurance policy. It should be noted that LTC insurance carriers have the discretion to raise their rates and remove their products from the marketplace.*