Raymond James & Associates, Inc.
Craigen S. Schoen, CFP®
Managing Director
112 Haywood Road
Greenville, SC 29607
864-289-2164
craigen.schoen@raymondjames.com

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OnWealth
Financial Advice from Wealth Management Services

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).

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Withdrawal Options for Your Thrift Savings Plan (TSP)

You should consider carefully the consequences of an in-service distribution. Distributions from your pre-tax TSP account are subject to federal income tax, and an additional 10% penalty tax will generally apply to distributions made prior to age 59½. The taxation of in-service withdrawals from a Roth TSP account depends on whether the distribution is a qualified or nonqualified withdrawal. Consideration should also be given to the overall depletion of your retirement savings. In addition, if you're married, your spouse must be notified of any request for an in-service distribution, and in most cases must consent.

The information in this article is not intended as investment advice and is not a recommendation for retirement savings.

The Federal Thrift Savings Plan (TSP) is a tax-deferred retirement savings and investment plan set up to help federal civilian employees and military personnel save for retirement. The TSP is a defined contribution plan. Employees and servicemembers are eligible to make pre-tax contributions of at least part of their salaries annually to the plan, while the government may match some or all of those contributions. Since 2012, participants are allowed to designate all or part of their deferrals as Roth contributions, which are funded on an after-tax basis. Several withdrawal options are available through which participants can access their TSP funds, either while still working for the government or upon retirement.

In-service withdrawals

As a TSP participant, you may be eligible to take a one-time, age-based withdrawal from your TSP upon reaching age 59½. All or a portion of your vested account balance may be withdrawn at that time. If you elect to take a partial withdrawal, you can't take another partial withdrawal upon separating from service.

The rules are a little different if you make an in-service withdrawal in cases of financial hardship. Specific requirements and limits apply, and each time you take a hardship distribution, you are barred from making another hardship distribution for a period of six months. And you can't make contributions to your TSP for a six-month period.* While in-service withdrawals may be available, it's more likely that you'll take withdrawals from your TSP when you retire or leave federal government employment.

Leave funds in the TSP

You may find that you don't need to access money from your TSP account immediately upon retirement. In that case, you can defer taking withdrawals from your TSP and allow it to remain in place. However, you'll have to start taking withdrawals by April 1 of the year following either the year you turn age 70½ if you're no longer a federal employee, or the year you separate from federal service, whichever is later.

Partial withdrawal after leaving employment

You can make a one-time partial withdrawal and leave the rest of your money in your TSP. To be eligible for a partial withdrawal, you must not have made a prior partial withdrawal or an age-based in-service withdrawal, and your withdrawal request must be for at least $1,000.

Lump-sum withdrawal

When you are ready to withdraw your money from your TSP account, you can do it all at once (commonly referred to as a lump-sum payment) or over a period of time. Or you can purchase an annuity that will make payments to you for life. You also can choose any combination of these full withdrawal options. Keep in mind that withdrawals from a TSP, other than from a Roth TSP, are generally fully taxable as ordinary income.

Series of monthly payments

You can request a specific dollar amount that you'll receive each month until your entire TSP has been paid to you. Or you can receive monthly payments according to IRS Life Expectancy Tables based on your age and your account balance. The TSP will recalculate your monthly payment every year you take withdrawals of this type.

Life annuity

Three types of annuities are available: (1) an annuity that is paid to you during your lifetime (single life annuity); (2) an annuity that is paid to you while you and your spouse are alive, then paid to the surviving spouse for the rest of his or her life after one of you dies (joint life with spouse annuity); or (3) an annuity that is paid to you while you and a person chosen by you (with an insurable interest in you) are alive, then paid to the survivor (beneficiary) for his or her life after you die. However, if you are a married Federal Employee Retirement System (FERS) participant, you must elect a joint life with spouse annuity with a 50% survivor benefit, level payments, and no cash refund feature, unless your spouse consents to another annuity option. There are no fees or commissions associated with these options.

Factors that determine how much your monthly annuity payments will be include how large your account balance is, the interest rate at the time the TSP purchases your annuity, the performance of your investment fund, your age (and your joint annuitant's age, if applicable), and the annuity option you elect. The TSP website (tsp.gov) has a calculator you can use to project your future account balance.

Your TSP offers several options for withdrawing money from your account. Your specific goals will determine when to take money out and how you wish to receive it. When making this decision, you should consider your income needs and the lifestyle you would like to have in retirement.

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Setting Up a SIMPLE IRA Plan: It's Simple!

You can also set up a 401(k) plan as a SIMPLE plan. However, there's little advantage in doing so, because you'll have the same lower contribution limits as a SIMPLE IRA plan while giving up the ease of administration that makes SIMPLE plans attractive in the first place.

**** The 3% of pay match may be reduced to as little as 1% in any two of five years.***

Looking for a retirement plan for your employees that's easy and inexpensive to administer? Well, there may be a simple answer: the Savings Incentive Match Plan for Employees of Small Employers, better known as the SIMPLE IRA plan. A SIMPLE IRA plan lets your employees defer up to $12,500 in 2017 ($15,500 if age 50 or older). You promise to match employee contributions dollar for dollar up to 3% of pay,* or to make a "nonelective" contribution for all eligible employees, whether or not they contribute, equal to 2% of pay. (No more than $270,000 of pay can be taken into account in 2017.)

Your employees are eligible if they've earned at least $5,000 during any two preceding years (whether consecutive or not) and are expected to earn at least $5,000 in the current year. Eligibility does not depend on the employee's age or how many hours the employee works for you.

You can adopt a SIMPLE IRA plan for 2017 only if you had 100 or fewer employees in 2016 (excluding employees who earned less than $5,000) and you don't contribute to any other retirement plan. If your business qualifies, follow these three simple steps to set up your SIMPLE IRA plan. (You have until October 1 to set up a new SIMPLE IRA plan for 2017.)

Step 1: Adopt a written plan document

You can set up a SIMPLE IRA plan by completing either a pre-approved document provided by a financial institution (for example, a mutual fund company, insurance company, or bank) or an IRS model document (either Form 5305-SIMPLE or Form 5304-SIMPLE).

Form 5305-SIMPLE lets you specify the "designated financial institution" that will both act as your plan's trustee/custodian and initially receive all plan contributions. Form 5304-SIMPLE, on the other hand, lets each eligible employee select the financial institution that will serve as trustee/custodian and receive all plan contributions.

Step 2: Provide information

You must provide your eligible employees with the following information before the beginning of each election period:

- An explanation of the employees' ability to make or change salary reduction elections
- Whether you'll make matching contributions or nonelective contributions for the coming year
- A summary description of the plan
- A notice that employees can transfer their account balances to an IRA provider of their choice without cost or penalty, if you use a designated financial institution

The election period is generally the 60-day period prior to the start of each calendar year (November 2 to December 31). However, the election period will be different if you set up a SIMPLE plan mid-year, or if an employee first becomes eligible after the 60-day period ends. Forms 5304 and 5305 contain most of the forms you'll need to comply with these notice requirements.

Step 3: Set up employee accounts

A SIMPLE IRA account must be set up by or for each eligible employee, and all contributions to the plan must go into these accounts. Employees must make important decisions about investing their SIMPLE IRA retirement dollars based on the investment options available at the financial institution that holds their funds.

Key differences between a SIMPLE IRA plan and a traditional 401(k) plan

	SIMPLE IRA	401(k) Plan
Employee deferral limits	$12,500, $15,500 if 50 or older	$18,000, $24,000 if 50 or older
Roth contributions?	No	Yes
Complex ERISA/tax compliance?	No	Generally yes
Employer contributions required?	Yes	Generally no
Additional employer contributions allowed?	No	Yes, total contribution (including deferrals) up to $54,000 or more possible
Loans?	No	Yes
Creditor protection?	Yes in bankruptcy; unclear outside bankruptcy	Generally yes, inside and outside bankruptcy
Withdrawals	Unrestricted	Generally restricted
Early withdrawal penalty	25% first two years of participation, then 10%	10%

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Raymond James & Associates, Inc.
Craigen S. Schoen, CFP®
Managing Director
112 Haywood Road
Greenville, SC 29607
864-289-2164
craigen.schoen@raymondjames.com

What is a funeral trust?

A funeral trust is an arrangement entered into with a provider of funeral or burial services. Prepaying funeral expenses may allow you to "lock in" costs for future funeral or burial services at an agreed-upon price. The funeral home sometimes serves as trustee (manager of trust assets), and you usually fund the trust with cash, bonds, or life insurance. A revocable funeral trust can be changed and revoked by you at any time. An irrevocable trust can't be changed or revoked, and you generally can't get your money out except to pay for funeral services.

Irrevocable funeral trusts may also help you qualify for long-term care benefits through Medicaid. For example, these trusts may be funded with assets that would otherwise be countable resources for Medicaid (i.e., included in determining Medicaid eligibility). They are often sold through insurance companies, in which case they are typically funded with life insurance. And you can fund the funeral trust right before entering the nursing home — there's no "look-back" period for these transfers, unlike the case with certain other transfers that can cause a delay in the start of Medicaid benefits.

Another advantage of funding your trust with life insurance is that the trust will have no taxable income to report, because life insurance cash values grow tax deferred. Otherwise, income from trust assets may be taxed to you as the grantor of the trust, unless the trustee elects to treat the trust as a qualified funeral trust by filing Form 1041-QFT with the IRS, in which case trust income is taxed to the trust.

But what happens if you want to change funeral homes, or the facility you selected goes out of business? Does your irrevocable trust allow you to change beneficiaries (e.g., funeral homes)? Are trust funds protected from creditors of the funeral home? State laws regulating prepaid funeral trusts often require funeral homes to keep trust assets separate from their own business assets, keeping them safe from funeral home creditors. And most irrevocable trusts are transferable to another funeral home should the initial business fail or you change funeral homes.

There are expenses associated with the creation of a trust and the purchase of life insurance, and benefits are not guaranteed.

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.

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