THE COMPLETE CARDINAL GUIDE
TO PLANNING FOR AND LIVING IN RETIREMENT

The financial complexities we face in retirement can be daunting. The landscape of Social Security, Medicare, insurance, benefits, investments, and planning for long-term care presents many choices, challenges, and opportunities. The Complete Cardinal Guide gives you the tools you need to understand how to make informed decisions that are right for you.

The purpose of this book is to guide you through the major retirement options that retirees face. It explains simple and effective strategies you can put in place now, with the help of professionals, to make your retirement financially successful.

Author and founder of Cardinal Retirement Planning Hans "John" Scheil, a Certified Financial Planner™ (CFP®) and Chartered Advisor for Senior Living (CASL®), calls upon his 40 years of experience in the business to answer the following questions in depth, and he illustrates each with real-life stories:

- At what age should I start receiving my Social Security check?
- What's the best way to supplement my Medicare coverage?
- Can I receive long-term care and stay at home? How do I afford it?
- How should I handle my IRA and/or 401k accounts?
- What's a smart investment strategy for financing my retirement years?
- How do my income taxes change after I retire?
- What if I live longer than my retirement savings last?
- What's the best way to transfer my life insurance and other assets to my children and grandchildren?
- How do I ensure my survivors are OK after I die?
- How should I approach choosing financial and legal professionals to help me plan my retirement?

Hans "John" Scheil is a Chartered Financial Consultant (ChFC®), Chartered Life Underwriter (CLU®), Certified Financial Planner™ (CFP®), and Chartered Advisor for Senior Living (CASL®) with 40 years of experience. He can be reached at 919-535-8261, or via email at Hans@PlanWithCardinal.com.
See Cardinal's website at PlanWithCardinal.com

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Scheil

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TO PLANNING FOR AND LIVING IN

RETIREMENT

Navigating Social Security,
Medicare and Supplemental Insurance,
Long Term Care, IRA,
Life Insurance,
Post-Retirement investment
and Income Taxes

Hans Scheil

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NAVIGATING SOCIAL SECURITY,
MEDICARE AND SUPPLEMENTAL INSURANCE,
LONG-TERM CARE, IRA, LIFE INSURANCE,
POST-RETIREMENT INVESTMENT AND INCOME TAXES

Cardinal, an adjective—"of the greatest importance; fundamental"
Synonyms: fundamental, basic, main, chief, primary, crucial, pivotal, prime, principal, paramount, preeminent, highest, key, essential.

- When do I start my Social Security check?
- How do I supplement Medicare?
- Should I purchase Long-Term Care Insurance?
- What should I do with my IRA or 401(k)?
- Am I investing and creating enough income in retirement?
- What about income taxes after age 65?
- How do I handle life insurance and transferring assets to children and grandchildren?
- How do I choose financial and legal professionals to help me?

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CONTENTS

CHAPTER 4 | **LONG-TERM CARE:** THERE'S AN APPROPRIATE STRATEGY FOR EVERY FAMILY

This poem, which is very poignant to me, reminds us to always respect the dignity of elders who experience frailty or dementia. And it reflects the inevitable pain we all feel when our loved ones age into challenging circumstances.

Do Not Ask Me to Remember

Do not ask me to remember
Don't try to make me understand,
Let me rest and know you're with me,
Kiss my cheek and hold my hand.
I'm confused beyond your concept,
I am sad and sick and lost.
All I know is that I need you
To be with me at all cost.
Do not lose your patience with me,
Do not scold or curse or cry.
I can't help the way I'm acting,
Can't be different though I try.
Just remember that I need you,
That the best of me is gone,
Please don't fail to stand beside me,
Love me 'til my life is done.

—Author Unknown

I already told you a bit about my Mom and her ten-year struggle with Alzheimer's. The long-term care insurance policy she owned, along with the federal Veterans Aid and Attendance program (see below), made it possible for her to be well cared for in the last four years of her life. She was able to pass on with some dignity and leave a little something to her four surviving children and seven grandchildren. I still miss her very much. Alice Watkins and Dee Dee Harris of the Alzheimer's Association of North Carolina were a big help to our family during Mom's last four years. They counseled us, cried with us, referred us to professional caregivers, and taught us how to care for our mom. None of us know if our life will end like Mary's, but we do have choices in financial planning in case it does. Long-term care planning is just as much for your family and caregivers as it is for you.

SUMMARY: LONG-TERM CARE STRATEGIZING

- **You might live a long life, and if you do, you might become frail or memory impaired and end up needing care. The financial consequences of that care can be devastating to your family.**
- **Long-term care doesn't have to mean a nursing home. It includes home health care, assisted living, and adult day care. More and more, clients are cared for at home with paid assistance coming in to help.**
- **Financial strategies include short-term care insurance, traditional long-term care insurance, hybrid long-term care insurance, and/or a financial plan for self-insurance. These solutions can be mixed and matched to come up with your personal plan.**
- **Consider a partnership long-term care policy, which allows you to go on Medicaid and protect some of your assets.**
- **($) Medicaid is a last resort to pay for your care.**
- **Get professional help from an independent insurance agent and a financial professional who specializes in eldercare and long-term care.**
- **($$$$$) If you are relatively affluent, there can be tax advantages in planning for long-term care.**

To prepare yourself financially for long-term care, I ask you to accept three facts:

1. It is possible you will live to a ripe old age.
2. If you do live to a ripe old age, you might need professional care for several months, or even several years.
3. The financial consequences of your care could be devastating to you and your family.

As a financial advisor and Certified Financial Planner™, I have a fiduciary responsibility to present these facts to every client I consult with. Most people have more difficulty accepting the possibility of incapacity than they do facing the reality of their own death. The biggest consequences of failing to plan for long-term care are suffered by the family. I deal with family members all the time who are doing last-minute planning for a client who has just checked in to a facility or is receiving care at home. I experience the confusion, fear, anxiety, pain, and disappointment that comes with these situations. Our job at Cardinal is to help people avoid or minimize these challenges.

Cardinal's Solutions for Long-Term Care

At Cardinal we offer four solutions to the problem of financial planning for long-term care. These solutions are not mutually exclusive—they can be mixed and matched depending upon your assets, income, and personal preferences. Our basic strategy is to create a $6,000 monthly income for you (in today's dollars) that you start to receive in the future when you need it. Prior to that point at which you need it, you will have other income like Social Security, a pension, and investment earnings you can use to self-insure. For clients who choose to self-insure part or all of the risk, we look carefully at all the income sources and numbers and adjust accordingly.

SELF-INSURANCE means providing the entire $6,000/month yourself from your income and assets. This requires careful planning so your family members will know what to do when and if you start to need outside care. It is much better to have a financial planner doing this work for you now than to have a nursing home administrator doing these calculations when you are being admitted.

We start with your Social Security check and any other income you receive that is reliable. We deduct ongoing monthly expenses that won't go away if you are in a facility. The net number is applied toward the $6,000 and what's left is the monthly dollar amount needed to fill the gap. Then we add up your financial assets and begin paying the gap number out of interest first, principal second. We recommend using your remaining IRA money first, because the assisted living or nursing home bill will give you a big tax deduction as a medical expense. This hit me while doing my Mom's taxes after she was confined. She had $66,000 in medical expense deductions and very little income to deduct it against. We sell annuity products from several different insurance companies that allow you to defer income taxes on current earnings until you draw the money out. (An annuity is a series of payments you receive over a period of time, often specified as for life.) Some of the companies enhance the monthly income available to you if you use it to pay for long-term care. **Self-insurance may be your only option if your health conditions eliminate the next three solutions**.

SHORT-TERM CARE INSURANCE gives your family almost a year of $6,000 monthly payments while they figure out how to make self-insurance work for you. It may not sound like much, but I can tell you that the families who are collecting on it are very grateful for the time it buys them. Short-term care insurance pays for home health care as well as facility care, and you can bank the unused money to make it last longer than a year. A 70-year-old female nonsmoker can buy a $72,000 plan for $101.01 monthly; couples receive a 10% discount. The health criteria are much easier to meet than for traditional long-term policies, which makes short-term care available to more people.

TRADITIONAL LONG-TERM CARE INSURANCE is just what is sounds like: Thinking ahead, you purchase a policy that would pay $6,000 monthly once you need long-term care and lasts for several years up to the policy maximum. Caveat: Such a policy must be purchased well in advance of the foreseeable need. Most companies now offer a maximum of ten years of benefits; we typically sell our clients two to five years, which keeps the premium affordable. The policy pays a benefit for either home health care or facility care and allows you to bank the unused portion, which makes the benefits last longer. I also recommend inflation protection. A 70-year-old female nonsmoker can purchase $6,000/month of benefits for four years with a built-in 3% inflation factor for $730.89 monthly (or $8,120.96 for the discounted annual premium). A plan for a married couple the same age will cost substantially less per person, because male rates are lower than female rates and there is a couples discount.

There are some disadvantages to a traditional long-term care plan. If you pay in to the policy for several years and never use it, all your money has gone to pay other policyholders who needed benefits. The company can raise the premium—with the approval of insurance regulators—perhaps when you are vulnerable and can't afford it. Also, health qualifications for traditional long-term care insurance have become tougher over the years. Underwriting will request records from your doctor and possibly any specialists you have seen, will run a report of your prescriptions, and will do a little memory test that will seem silly over the phone. Some companies even send a nurse to your house to examine you.

HYBRID LONG-TERM CARE is the fastest-growing segment of the long-term care business. Sharing some features of life insurance, hybrid long-term care is more consumer friendly and addresses several of the big problems of traditional long-term care insurance. First, if you don't use it during your lifetime, there is a death benefit that enables your beneficiaries to receive the unused portion when you die. Most of these policies also have a return-of-premium feature that allows you to get all your premiums back (without interest) if you ever want to cancel your insurance. Second, the company can never raise the premium. Third, the money can be used for a variety of care settings, including in-home and rehabilitation care. The trade-off is that you pay for a hybrid policy all up front. The cost is generally $50,000 to $100,000, and one of the companies Cardinal works with lets you use IRA money to fund it. You do have to meet health qualifications, but they are more lenient since you are paying up front.

Several life insurance policies with annual premiums allow you to access the death benefit for long-term care. You need to purchase $300,000 or more of permanent life insurance to receive a benefit sufficient to pay your long-term care bill. Surprisingly, it is easier for people with diabetes or heart conditions to qualify for permanent life insurance policies than for long-term care insurance.

A nifty cost-of-care survey is available on the Genworth website (www.genworth.com/corporate/about-genworth/industry-expertise/cost-of-care.html). You can plug in your city and state and it will show you average costs in your area—it even includes an inflation factor and projects costs into the future. For example, in Raleigh, North Carolina, in 2015, a private room in a skilled nursing home averages $76,650 annually and a semi-private room averages $73,000. Assisted living costs $50,400 and adult day care costs $13,780. A home health aide caring for you in your home 44 hours per week costs about $47,000 a year. These numbers knock a pretty good hole in even the best-thought-out financial plans. **One way or another, Cardinal can figure out an effective financial strategy for protecting you against the cost of long-term care**.

Medicaid and Veterans Aid and Attendance

$ **Medicaid**, which is government assistance, will pay for your long-term care after you have spent down almost all of your money. (If you qualify for Medicaid, it will only pay for long-term care if your assets amount to around $2,000 or less.) If you have to use Medicaid, it is best to enter a facility as a private payer and transition to Medicaid after you have used your own money. Most states have Long-Term Care Partnership (LTCP) programs that allow you to purchase a limited long-term care policy that works in partnership with the state Medicaid program. They allow you to keep some of your assets and still go on Medicaid after your policy has run out of benefits. Partnership programs work best for people with $100,000 to $300,000 in assets (excluding their home). **Veterans Aid and Attendance** provides long-term care benefits for any veteran who served even one day in the military while our country was at war. If you intend to use Medicaid or Veterans Aid and Attendance to pay for your long-term care, you need to do some planning and it is important to be referred to the right professional to help you. Cardinal provides these services, or we can refer you to professionals in your area.

Veterans Aid and Attendance is a program that pays a qualifying veteran $1,788 monthly and a qualifying veteran's spouse or widow $1,149 monthly. To be eligible, a veteran has to have served one day of active duty while the U.S. was at war, be in need of long-term care when applying, and meet income and asset maximums. The VA currently allows an applicant to make financial adjustments the month before applying to bring him or her within the financial guidelines. (This rule might have changed since this book was published.) Regardless, Cardinal can help a vet do financial planning to meet the guidelines. My mom collected the $1,788 monthly for 3 ½ years and we are very thankful she had it.

Our client Michael just received his approval from the VA for $1,788 monthly (see the appendix). Michael had been retired and living in Florida for several years. He was mostly out of touch with his four children since they were young. His second wife divorced him in 2005 and has since passed away. Alcohol abuse played a role in his life. In early 2013, his daughter Christina received a call from someone in Florida saying that her father needed someone in the family to take care of him. She managed to get him moved up to North Carolina and into a facility that could help him.

Michael had not filed his taxes in ten years. His financial accounts were frozen because his mail was returned. Christina was distraught. She couldn't get the financial institutions to speak with her even though she had power of attorney; the accounts were frozen. The answer was to bring Michael into our office. I called the financial institutions, we turned on the speakerphone, and Christina held up flashcards in front of Michael to give them his identifying information. Michael is a veteran and wanted to qualify for Veterans Aid and Attendance. We needed to move the frozen assets into a trust so he could meet the asset minimums. People with dementia who live alone generally leave one heck of a financial mess for their kids to deal with once they take over. Cardinal has become pretty good at helping families dig out of this kind of financial mess.

If you or your spouse is a vet, a qualified advisor can help you look into Veterans Aid and Attendance. A sample letter of approval is in appendix C.

Personal Long-Term Care Stories of Cardinal Clients

Jason and Megan are age 80+ clients you first met in chapter 3. We helped them lower their Medicare Supplement premiums, manage premiums on an old life insurance policy that has an outstanding loan, and refinance some debt they incurred repairing their home. Jason had a heart attack, then a stroke, and is still in recovery. Megan called me in a panic, hurting and very sad, right after Jason went into the hospital. I asked her to tend to Jason's immediate needs and her needs at the moment, and told her we would figure out a plan in a few weeks. My associate phoned Medicaid in their county, and in conjunction with the social worker at the nursing home they are fast-tracking Jason to Medicaid and VA benefits. If Jason and Megan had money in the bank or any investments, Medicaid would require them to spend assets first before putting Jason on Medicaid. Most likely, his Social Security check will go toward paying the nursing home. Megan will now need to live off of her Social Security benefits. We will be in contact with the veterans' advocate in their area to try and qualify Jason for Veterans Aid and Attendance.

Marshall and Elizabeth were clients in their late 70s and both were in excellent health when we met them. They still carried the same Medicare Supplement policies they bought at age 65 and had never looked into changing, because they "paid all our bills." Cardinal was able to cut their Medicare Supplement premium in half pretty easily. Marshall asked us to look at the long-term care insurance he carried with the same company. It started with a premium of $375 a month fourteen years earlier but had grown to cost $1,400 per month. Marshall and Elizabeth also had about $500,000 in IRA accounts and took minimum distributions each year. I showed Marshall a life insurance-annuity combination policy using IRA money that is so unique the company has a patent on it. Marshall and Elizabeth would transfer $180,000 of their IRA money into a survivorship life insurance policy that will pay $250,000 to their children when the second of them dies (providing the kids had not already been advanced that money to pay for their parents' long-term care). Next they would pay $50,000 in a single premium to purchase a lifetime $66,000-per-year long-term care extension rider that includes inflation protection and a guarantee of no premium increases for life, and would pay their three sons $250,000 upon the second death (if they had not already used that money to pay for long-term care). Marshall and Elizabeth bought this policy and canceled their $1,400/month long-term care policy.

Nicole is a 65-year-old who first came to us to buy a Medicare Supplement policy and Part D drug plan. She had married very young, divorced in early middle age, and has been single ever since, with one son in his early 30s. Nicole's mother left her $470,000 in a trust that was structured so Nicole receives the interest earnings and the principal is to go to her son Thomas at her death. The trust was invested in bonds (safe) but was producing very little income for Nicole. I contacted the trustee to find out if Nicole could use the trust principal in the event she needed long-term care and was told no—because that would compromise the principal ultimately owed to her son. I was able to work out an agreement with Thomas that Nicole would take $300,000 from

$$$$$ Tax advantages are offered to purchase long-term care insurance (see the appendix), plus there are tax advantages to a strategy using tax-deferred income to pay for care. Wealthy people often tell me they will just pay for long-term care themselves if they need it. This is a simple solution to a complex problem. Your family will have enough stress to deal with when placing you in care without having to worry about liquidating your investments to pay for it. I can usually engage wealthy clients in a conversation about saving on taxes more easily than I can talk with them about becoming incapacitated.

the trust and buy a single-premium life insurance policy with a death benefit for him of $540,000. If Nicole needs long-term care, she can access the $540,000 at a rate of $15,159.72 per month if she's in a facility, or $9,095.83 per month for home health care. The $300,000 cash value at the insurance company will most likely grow well beyond the guaranteed interest, creating a death benefit of $800,000 to $900,000 if Nicole lives into her 80s or 90s. Thomas immediately received a much-needed check for $149,000 (representing his portion of the settlement of the trust principal). Cardinal was able to figure out a way to provide financial security for both Nicole and her son.

Patricia's son worked for Cardinal as an intern while attending North Carolina State University. He graduated with a degree in Mechanical and Aerospace Engineering and is the only true "rocket scientist" I have ever known. Patricia has been divorced for many years and lives alone. She cared for her mother several years ago and is very concerned about her own long-term care. Patricia has financial assets totaling $65,000. She was a teacher and has both a decent pension and Social Security. She could not afford a large long-term care policy but wanted some protection. We wrote her a partnership policy with a maximum benefit of $3,500 per month at a cost of $186.38 per month (or discounted for annual premiums, $2,070). If she needs long-term care, either at home or in a facility, she can rely on the policy until it pays out the maximum of $84,000. Patricia can then apply for Medicaid, while keeping $84,000 of her financial assets protected.

Sharon, who is 68, purchased a Plan F Medicare Supplement policy from Cardinal for $115 monthly. She had been paying $184.40 monthly for the identical Plan F policy with another company. While we were helping reduce her Medicare Supplement premium, Sharon expressed interest in purchasing long-term care insurance but feared she could not afford it. We took the savings from her Medicare Supplement cost reduction ($184.40 - $115.00 = $69.40) and wrote her a short-term care policy. The policy pays $100/day or $3,000/month, has a maximum of 240 days or $24,000, has a zero day elimination period (comparable to having no deductible), and pays for either home health care or nursing home care. This certainly is not comprehensive coverage, but if you speak to families who go through nursing home admission or home health care, they would be very pleased to have this $24,000 coverage to get them in the door. This type of short-term policy buys some time.

George's stepdaughter, Sue, is the only heir he has left. Sue is doing a very loving job of looking after George since his stroke. George married Sue's mother while Sue was still young. The home he lived in before his stroke belonged to Sue's mother originally. George is a veteran, and Sue needed us to arrange George's income and assets so he could qualify for Veterans Aid and Attendance.

A long-term care solution for people who are over age 74 and already receiving care is now available. It is offered by a large A+ rated insurance company. George is 79 years old and had a major stroke. He is currently receiving care in an assisted-living facility. His stepdaughter, who legally serves as his power of attorney, recently applied

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for this policy on George's behalf. George had $292,000 in a savings account earning very little interest. The insurance company did what is called reverse underwriting and determined that for that amount of money, they can write a policy to pay him $3,020 monthly for the rest of his life. This income will pay 60% of his assisted-living rent. If George dies in the first two years, the premium will be partially refunded to his heirs. If he lives for fifteen years, the insurance company will pay out a lot more than was paid in. For the right client, this policy is a blessing.

For any client, Cardinal can devise a sound financial strategy to cover the costs of long-term care and reduce the risks to the individual and the family.