Retirement and Long-term Care

Amanda Dickson
Morgan County

Retired Farmer: Is There Such a Thing?

Which Farmer Are You?
A. “Here are the keys and the farm checkbook kids. We’ll call you from Florida.”
B. “We’re ready for a break from the labor….but we’re not quite ready to retire, we’d like to get to full retirement to maximize social security, but that won’t be enough.”
C. “We’d like the on-farm child to be able to continue, but what realistically can the farm financially do when we need retirement income as well?”
D. “The kids can have it when they pry my cold, dead hands off the tractor steering wheel!”

What does retirement look like for YOU?

Retirement Planning
1. What does our retirement look like?
2. How much cash income does a retiring family need?
3. What do we currently have?
4. Where will the cash income come from?

Retirement Goals & Lifestyle
- Preservation of the family farm
- Farm and/or farmland remain in the family
- Financial viability of the family farm
- Farm as a retirement package
- Travel
- Housing
- Farm work
How Much Money Do We Need?

Income Method
- Multiply your final salary by 12

Expense Method
- Multiply your retirement expenses by 25

Use a Retirement Calculator
- Bank Rate Retirement Planner
- CNN Retirement Needs Calculator

Where Are You Now?

- Determine the financial state of the business now
  - Asset inventory
  - Liability list
- Create financial statements for understanding and financial management planning
  - Farm Income Statement
  - Net Worth Statement

What Do We Currently Have?

- The most difficult expenses may be housing cost.
- Farm business and dwelling often have financial ties
  - LP gas supplies the grain dryer and the clothes dryer
  - Property tax bills and mortgage payments are for the farm, including the dwelling
  - Pickup is used for both farm and family activities

Common Sources of Retirement Income

Social Security
- Most farmers rely on SS as a major source of income
- SS is based on taxable income
- Most farmers receive minimum level of SS payments

Off Farm Assets – Investable Income
- Great source of retirement income
- IRA
- Small Business Retirement Plan (SIMPLE, SEP, 401k plans)
- Investment account
- Never too late to start

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www.ssa.gov
Common Sources of Retirement Income

Income from the farm
- Most couples don’t want to fully retire
- Receive on & off farm wages
- Continue as partner
- Rent to future heirs or others

Farm must provide enough income for younger generation to live, pay debts, and pay mom and dad.

Common Sources of Retirement Income

Sale of farm assets
- Can younger generation generate sufficient farm income to cover payments?
- Gifting and/or selling at discount are options to consider
- Owner financing may also be a possibility
- Compare buyout options with assistance of accountant to understand tax liability

Future Heir – Planning for Retirement

Option 1: Individual Retirement Arrangement (IRA)
- Traditional vs Roth
- Easy to set up and maintain
- Contributions tax deductible vs not tax deductible
- $5,500 for 2015 & 2016. Participants age 50 or over can make additional contributions up to $1,000

Option 2: SIMPLE Plan
- Also known as SIMPLE IRA
- Easy to set up and low cost to set up and operate
- Employee contribution limit $12,500
- Employer decides contribution
  - Matching contribution up to 3% OR
  - 2% non elective contribution for each eligible employee

Option 3: Simplified Employee Pension (SEP)
- Easy to set up and operate
- Low administrative costs
- Flexible annual contributions- good plan if cash flow is an issue
- Employer must contribute equally for all eligible employees
- Contribution limit lesser of:
  - 25% of the employee’s compensation OR
  - $53,000
Retirement......Future Heir
Option 4: 401(k) Plan
• Many options available
• Employer and employee contributions
• Employer contributions are tax-deductible for business
• Employer can set employee eligibility and exclusions
• Contribution limit for 2015:
  – $18,000
  – $6,000 catch up for 50+ years old

Resources

What does Long-Term Care look like for YOU?

Long-Term Care
Because of Changing Demographics and Future Lack of Government Funds the Current Generation Needs to Plan for Long-Term Care

What is Long-Term Care?
Long-term care insurance pays for services required if a person is unable to care for himself/herself due to injury, chronic illness, or disability.

It is a "RISK" insurance.

Just like car insurance – you buy it and hope you never need to make a claim.
What is Long-Term Care?
The care you need when you are no longer able to care for yourself independently.
When you need help with your activities of daily living:
- Bathing
- Toileting
- Continence
- Dressing
- Transferring
- Eating
When you need substantial supervision for a cognitive impairment, such as Alzheimer’s disease.

Where Can I Get Long-Term Care Services?
Your home
Assisted living facility
- A facility for people who can live somewhat independently, but need assistance with basic activities of daily living
Adult day care facility
Nursing home
Hospice care
- Care provided for a terminally ill patient; can be provided in the home or at a facility

What Are The Chances?
That YOU could need long-term care services?

What Are The Chances?
Home Insurance
- 1 in 1200 will use their home insurance
Car Insurance
- 1 in 240 will use their auto insurance
Medical Insurance
- We all use our medical insurance
Long-Term Care Insurance
- 1 in 3 men will use LTC insurance
- 1 in 2 women will use LTC insurance

Could it Happen to You?
• In the year 2020, some 12 million older Americans are expected to need some form of long-term care.
• Because women generally outlive men by several years, they face a greater likelihood than men of entering a nursing home after age 65. 67% of nursing home residents are women.
• The average length of stay in a nursing home for current residents is 2.4 years.\(^1\)
• With medical advances and people living longer, these numbers will only continue to grow!

Cost of Long Term Care in Indiana
• The average cost of nursing home care is more than $70,000 per year. Costs increase at about 5% a year.
• Assisted living facility care costs an average of $40,000 a year.
• In-home care can be costly too, with the annual price of five home health aide visits a week, providing care for five hours each day, costing $30,000.
Who Pays the LTC Bill?

50% of all couples and 70% of single persons are impoverished within one year of entering a nursing home.

Cost of Long Term Care

- Medicaid: 43%
- Medicare: 14%
- Out-of-Pocket: 25%
- Other: 8%
- Private/Insurance: 10%

How Would You Pay for Long Term Care?

Private/company health insurance
- Not designed to pay for long-term custodial care

Family
- Approximately 80% of long term care is provided in the home by unpaid family members and friends.
- Families and friends who provide this unpaid care often do so at the expense of their own health and financial well being.

How Would You Pay for Long Term Care?

Medicare
- Medicare-approved expenses only
- Very limited

Medicaid
- Pays for health care for the poor
- Must “spend down” assets to state-required level-Eligibility requirements vary by state
- After you die, states can go after any real or personal property or other assets from your estate or your family’s

Personal Assets
- One long term illness may jeopardize your accumulated retirement savings.

If the cost of care was $70,000 a year, how many years of long term care could you afford before you depleted YOUR liquid assets?

How Would You Pay for Long Term Care?

The alternative that will protect your assets while protecting any long-term care needs you may have.

Private Long-term Care Insurance

Long-term Care Insurance
- Avoid physical and financial dependence on family and friends
- Protect your hard-earned assets
- Maintain choice on how and where to receive care
- Assure high-quality care, at an affordable price
- Stay at home when you need care
- Maintain your independence
Let’s Go Shopping! What Do I Look For?

The Company
- The financial stability of the company
- Proven track record
- History of rate increases
- Responsive and experienced claims staff

Daily Benefit Amount
- Eight daily benefit amounts (DBAs) from $100 to $450 in $50 increments.

Benefit Period
- Two-year, three-year, or five-year.

Waiting Period
- 0-360 days: number of calendar days during which you must be eligible for benefits before they are paid.

Inflation Protection Option
- Automatic simple/compound inflation
- Future purchase

Premiums
- Just like car insurance, you pay the premiums for a lifetime, unless you choose to cancel the policy.
- Premiums are based on age – so the younger you are when you sign up for coverage the less expensive the premium could be.

Planning is Always the Best Option!

Many often put off the decision of how they will afford long-term care
- Too often, people wait until they critically need care. By then, they may not qualify for care due to health.
- Evaluate your situation.
- Discuss the emotional and financial issues with your children.
- Explore all the options.
Questions?

Based on my calculations, I can retire about 5 years after I die.