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Stephen Molyneaux

Tax-Advantaged Savings Accounts For The Disabled

Finally, long overdue tax relief for individuals and families struggling with disabilities

It's no secret that living with a severe disability can result in an individual or family often incurring monumental expenses. These extra costs go far beyond just the additional medical care and services disabled people may require. Most disabled people are confronted with an array of expenses throughout their lives that others never have to contend with: assisted living costs, a variety of transportation expenses, assistive technology outlays, and a variety of incidental expenses. Health insurance, Medicaid, and Medicare do not cover most of these non-medical expenses for the disabled. This is why we feel it is about time that the federal tax code acknowledges the financial hardship these individuals and their families are facing.

ABLE Accounts Offer Families An Opportunity To Save Without Jeopardizing Eligibility For Services

What is an ABLE account… The Achieving a Better Life Experience Act of 2014 (commonly known as the ABLE Act) was created to address some of the financial hardships the disabled and their families have endured for too long. The ABLE Act allows for the creation of tax-advantaged savings accounts designed to aid the disabled. An ABLE account can be established by any person (including the account beneficiary, family or friends) using post-taxed dollars and the income earned by the account will not be taxed. Like state "529" college savings plans, ABLE savings plans are established and operated under state authority. You are free to open your account in any state you prefer and are not limited by any residency requirements – although it may be to your advantage to first consider your own state plans if they offer a state income tax deduction for contributions made to an ABLE account. Participating beneficiaries, friends, and family are permitted to contribute a total sum of $14,000 each tax year to an ABLE account. Individual states may limit or cap the total amount in the account (currently, states are capping the accounts at about $300,000). In addition, another great benefit of an ABLE savings account is that the money in the account will not affect the beneficiary's eligibility for Social Security benefits, Medicaid, and a variety of other public services. Previously, beneficiaries had to deplete their own personal savings before they could qualify for most of these public programs.

Funds In An ABLE Account Can Be Used For A Wide Array of Non-Medical Services And Care

Who is eligible for an ABLE account… The beneficiary must meet the medical definition set by the Social Security Administration for a person with "significant disabilities." In addition, the beneficiary must have had the onset of their disability before turning 26 years of age – the ABLE act was not created to tackle the issue of age-related disabilities. The central focus of the law was to offer tax relief to families and individuals facing a lifetime of expenses due to a severe disability.

What can ABLE savings account funds be used for… Beneficiaries may use the money in their ABLE account for any expenditure that is defined by the SSA as a "qualified disability expense." Roughly speaking, the definition covers a broad range of expenses that the beneficiary may experience as a result of living a life with significant disabilities.

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Laurence Burnette, CFP

THE NEVER ENDING INCREASES IN HEALTH CARE COSTS

How much will you be paying for Medicare? The answer is complicated.

Don't look now, but retirement planning just became more complicated. In addition to all the existing factors and calculations that go into proper retirement planning, retirees must now give consideration to the escalating cost of Medicare. In a nutshell, the problem rests in the fact that the cost of medical care is accelerating at a much faster pace than inflation. Social Security benefits are adjusted annually through cost-of-living-adjustments (COLAs) which are based on the rate of inflation. The cost of medical care has been, and still is, far outstripping the rate of inflation. Medicare premiums have been rising more than twice as fast as Social Security benefits, even with the annual COLAs.

Politicians are scrambling for a fix to this ever-widening gap between Social Security benefits and the need to fund Medicare. Making their job even more difficult is the fact that forward projections show the problem only worsening in the years ahead as medical costs are expected to continue to far outpace the rate of inflation.

How much will you be paying for Medicare? The answer is complicated. It will depend on your marital status, retirement status, income level, and when you begin to collect Social Security. What is true is the fact that virtually everyone (with the exception of Medicaid recipients) receiving Social Security benefits will see a lower net total in their benefits due to the increasing cost of Medicare:

√ **New Enrollees to Medicare Collecting Social Security Benefit …** For 2016, new enrollees will be paying a premium of $121.80 for Medicare Part B. This is nearly a $17.00 a month increase when compared to existing enrollees. In addition to the increased monthly premium, a series of rather small stealth surcharges have been added to the premium which will translate into new enrollees actually paying about $124.80 per month for Medicare coverage.

√ **Retirees Enrolled in Medicare but Not Receiving Social Security Benefits …** For those retirees who signed up for Medicare in 2016 but who are still working premiums will vary greatly. Your monthly premium will be dependent on your marital status and your income. For a complete table of specific rates and income tiers, see Medicare's official website at medicare.gov. Higher income retirees have been paying greater Medicare Part B premiums when compared to lower and middle income retirees for years now, but the gap is widening due to the expanded coverage mandated by Obamacare.

√ **All Retirees …** should keep in mind that on top of increased premiums, all beneficiaries of Medicare will see an increase in their cost-sharing requirements for 2016. Medicare Part B deductibles are being increased as are Medicare Part A deductibles. In addition, there are pending rule changes that may place payment limitations on services such as physical therapy and other specialized services. We strongly recommend all retirees consider the benefits of supplemental Medigap insurance coverage. Medicare generally covers about 80% of all hospital costs, the remaining 20% will be paid by the retiree unless the retiree has a Medigap policy.

Above and beyond these recent premium hikes and any future premium hikes, retirees need to remember that according to the latest government statistics, ***the average Medicare recipient spends almost $5,000.00 annually on health care costs not covered by Medicare.***

Higher premiums, higher deductibles, and higher out-of-pocket expenses will all result in retirees having less money to spend on non-health-related expenses in retirement. Proper retirement planning dictates that these ever growing increases in the cost of medical care are factored into any successful retirement plan. The onus is on seniors approaching retirement to save more, stay up-to-date on changes in the Medicare program and seek professional advice from a retirement planner.

Successful retirement planning in the 21st century demands all retirees approaching retirement develop a strategy for dealing with the ever increasing cost of medical care.

This column is provided by Laurence C. Burnette, CFP, a member of the Financial Planning Association.

Frank Johnson

Reverse Mortgages

New Rules and Regulations Make Them More Attractive

Reverse mortgages, technically known as *Home Equity Conversion Mortgages* (HECMs) have improved their status as tools for financial planning. Most people think of HECMs as a lending device designed to target desperate seniors who are too strapped for cash to meet their monthly obligations and must now turn to the lender of last resort. Sometimes a reverse mortgage is used by a senior as a last-ditch effort to hang on to their home in the face of a dwindling or depleted life savings. But a shrewd investor may discover HECMs can be utilized for a variety of purposes, many of which can prove to be financially beneficial. Today's HECMs are much more consumer friendly than those of just a few years ago thanks to new regulations and fierce competition among various lenders. While the basic purpose remains the same (to allow seniors access to their home equity) the newer HECMs offer more flexibility, more transparency, and better lending terms than their predecessors.

The Basic ABCs of HECMs… HECMs are designed to allow a homeowner to borrow against the value of their home *but do not require repayment while you are still living in the home.* Typically, the borrower is permitted to borrow about 50% to 70% of the home's equity. The more equity you have and the older you are the more you can qualify to borrow. The minimum age to qualify for an HECM is 62. You can estimate your loan limit with the help of a calculator available at reversemortgage.org. Federal regulations allow you to take the money you borrow in a lump sum, a monthly payment, or simply establish a line of credit with the lender. A line of credit is the option most financial and retirement planners recommend as it offers the greatest flexibility for retirees. *New regulations protect your spouse.* In the past, if only one spouse was listed as a borrower and that spouse died or moved to a nursing home, the HECM had to be repaid at that time or the surviving non-borrower spouse had to move out of the residence. The new regulations now allow the non-borrowing spouse to stay in the residence so long as it is his or her primary residence. Borrowers need to budget throughout the life of the loan for both property taxes and homeowners insurance – if you fail to pay either, the loan will go into default and you will lose your home.

Why an HECM? An HECM can offer retirees an additional safety net. The cost of opening a line of credit with an HECM are higher than a standard Home Equity Line of Credit (HELOC) but the interest rates are about the same (both offer floating rates about 3.80% at this time). The important advantage an HECM credit line offers is it has no set time limit. In addition, your lender cannot reduce your credit line – in fact, if unused, your credit line

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A Reminder to all Hanover Advisor Clients

We want to encourage all clients to contact our office to schedule a portfolio review. We would be happy to coordinate either a conference call, or an online meeting at your convenience. Please call our office at (864) 235-6760 to schedule an appointment with Anna Flasch.

ABLE Savings Accounts *(Continued from page 1)*

Allowable expenses include: the cost of employment training programs and/or general education, special housing and transportation needs, health care expenses, professional and administrative services, and a wide swath of amenities which are intended to improve the quality of life and independence of the beneficiary.

How does an ABLE Account compare to a Special Needs Trust (SNT)… Establishing an ABLE account costs considerably less than setting up a SNT. ABLE accounts will typically offer more choices, flexibility and options than a SNT. As more and more states begin to offer ABLE accounts, the choices and benefits available to consumers should become even more magnified as the competition ramps-up among various states vying for investors.

What to look for in a particular state ABLE account… More states are beginning to offer ABLE savings accounts. Much like state 529 college plans, most states will be offering accounts with multiple options covering a wide array of investment strategies. Speak to a professional financial advisor to help assist you in finding the best plan that matches your personal goals, time horizon, and risk tolerance, while at the same time keeping the cost of the plan to a bare minimum. An ABLE savings account may offer families struggling with a severely disabled family member the best financial relief available yet.

Second Hanover Advisors Office Now Open In South Carolina

A reminder to all Hanover clients. To better serve you, Hanover Advisors has opened a second office located in Greenville, South Carolina. Please feel free to contact us at either our Atlanta phone number **(770) 392-3998** or at our new Greenville number **(864) 235-6760.** Our new office is located at:
55 Beattie Place, Suite 205, Greenville, SC 29601

Reverse Mortgages *(Continued from page 3)*

Beyond a major medical emergency or a sudden financial shock, a readily available line of credit can also offer financial security in a world full of temporary financial insecurities. Perhaps you will only use the available funds for a short-term loan to get through a minor financial crisis or an unforeseen gap in your income. Whatever the need, it is comforting to know you have access to your home's equity to help smooth out any financial

Please consult your tax advisor for more complete information. Hanover Advisors is a Registered Investment Advisor that provides neither tax advice nor legal advice.

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