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Asset Management Resources, LLC will be hosting a dual seminar on Social Security and Medicare this spring- an event not to be missed! The seminar will take place on Tuesday, June 3 from 6:30-8:30 pm at the Hilton in Dedham and on Wednesday, June 4 from 6:30-8:30 pm at the Courtyard by Marriott in Hyannis. Guest speakers Kurt Czarnowski and Susan Flanagan will offer important information and field your questions. Space is limited, so please register early by calling Kristen Boyd at 508-771-8900 or emailing kristen@amrfinancial.com.

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eResources Review

Asset Management Resources' E-mail Newsletter

The Impact of Health-Care Costs on Social Security

For many retirees and their families, Social Security provides a dependable source of income. In fact, for the majority of retirees, Social Security accounts for at least half of their income (Source: Fast Facts & Figures About Social Security, 2013). However, more of that income is being spent on health-related costs each year, leaving less available for other retirement expenses.

The importance of Social Security

Social Security is important because it provides a retirement income you can't outlive. In addition, benefits are available for your spouse based on your benefit amount during your lifetime, and at your death in the form of survivor's benefits. And, these benefits typically are adjusted for inflation (but not always; there was no cost-of-living increase for the years 2010 and 2011). That's why for many people, Social Security is an especially important source of retirement income.

Rising health-care costs

You might assume that when you reach age 65, Medicare will cover most of your health-care costs. But in reality, Medicare pays for only a portion of the cost for most health-care services, leaving a potentially large amount of uninsured medical expenses.

How much you'll ultimately spend on health care generally depends on when you retire, how long you live, your health status, and the cost of medical care in your area. Nevertheless, insurance premiums for Medicare Part B (doctor's visits) and Part D (drug benefit), along with Medigap insurance, could cost hundreds of dollars each month for a married couple. In addition, there are co-pays and deductibles to consider (e.g., after paying the first $147 in Part B expenses per year, you pay 20% of the Medicare-approved amount for services thereafter). Your out-of-pocket yearly costs for medical care, medications, and insurance could easily exceed thousands of dollars.

Medicare's impact on Social Security

Most people age 65 and older receive Medicare. Part A is generally free, but Parts B and D have monthly premiums. The Part B premium generally is deducted from your Social Security check, while Part D has several payment alternatives. In 2013, the premium for Part B was $104.90 per month. The cost for Part D coverage varies, but usually averages between $30 and $60 per month (unless participants qualify for low-income assistance). Part B premiums have increased each year and are expected to continue to do so, while Part D premiums vary by plan, benefits provided, deductibles, and coinsurance amounts. And, if you enroll late for either Part B or D, your cost may be permanently increased.

In addition, Medicare Parts B and D are means tested, meaning that if your income exceeds a predetermined income cap, a surcharge is added to the basic premium. For example, an individual with a modified adjusted gross income between $85,000 and $170,000 may pay an additional 40% for Part B and an additional $11.60 per month for Part D.

Note: *Part C, Medicare Advantage plans, are offered by private companies that contract with Medicare to provide you with all your Part A and Part B benefits, often including drug coverage. While the premiums for these plans are not subtracted from Social Security income, they are increasing annually as well.*

The bottom line

The combination of rising Medicare premiums and out-of-pocket health-care costs can use up more of your fixed income, such as Social Security. As a result, you may need to spend more of your retirement savings than you expected for health-related costs, leaving you unable to afford large, unanticipated expenses. Depending on your circumstances, spending more on health-care costs, including Medicare, may leave you with less available for other everyday expenditures and reduce your nest egg, which can impact the quality of your retirement.

See disclaimer on final page

Spring Cleaning Your Debt

Making more than the required minimum payment is especially important when it comes to credit card debt. If you only make the minimum payment on a credit card, you'll continue to carry the bulk of your credit card balance forward for many years without actually reducing your overall balance.

It's springtime--time for you to take stock of your surroundings and get rid of the dirt and clutter that you've accumulated during this past year.

In addition to typical spring cleaning tasks, you may want to take this time to focus on your finances. In particular, now may be as good a time as ever to evaluate your debt situation and try to reduce and/or eliminate any debt obligations you may have. The following are some tips to get you started.

Determine whether it makes sense to refinance

If you currently have consumer loans, such as a mortgage or an auto loan, take a look at your interest rates. If you find that you are paying higher-than-average interest rates, you may want to consider refinancing. Refinancing to a lower interest rate can result in lower monthly payments on a loan and potentially less interest paid over the loan's term.

Keep in mind that refinancing often involves its own costs (e.g., points and closing costs for mortgage loans), and you should factor them into your calculations of how much refinancing might save you.

Consider loan consolidation

Loan consolidation involves rolling small individual loans into one larger loan, allowing you to make only one monthly payment instead of many.

Consolidating your loans into one single loan has several advantages, including making it easier to focus on paying down your debt. In addition, you may be able to get a lower interest rate or extend the loan term on a consolidated loan. Keep in mind, however, that if you do extend the repayment term on a consolidated loan, it could take you longer to get out of debt and ultimately you may end up paying more in interest charges over the life of the loan.

Look into taking out a home equity loan

If you own a home and have enough equity, you may be able to use a home equity loan to pay off your debt. The interest on home equity loans is often lower compared to other types of loans (e.g., credit cards) and is usually tax deductible.

Home equity loans can be an effective way to pay off debt. However, there are some disadvantages to consider. If you end up having an available line of credit with a home equity loan, you'll need to be careful not to incur any new debt. In addition, when you take out a home equity loan, your home is potentially at risk since it serves as collateral for the loan.

Evaluate whether you should invest your money or pay off your debt

Another effective way to reduce your debt load is to take cash that you normally would put toward certain investment vehicles and use it to pay down your debt. In order to determine whether this is a good option, you'll have to compare the current and anticipated rate of return on your investments with interest you would pay on your debt. In general, if you would earn less on your investments than you would pay in interest on your debts, using your extra cash to pay off your debt may be the smarter choice.

For example, assume that you have $1,000 in a savings account that earns an annual rate of return of 3%. Meanwhile, you have a credit card balance of $1,000 that incurs annual interest at a rate of 19%. Over the course of a year, your savings account earns $30 interest while your credit card costs you $190 in interest. In this case, it might be best to use your extra cash to pay down your high-interest credit card debt.

Come up with a payment strategy to eliminate credit card debt

If you have a significant amount of credit card debt, you'll need to come up with a payment strategy in order to help eliminate it. Some options include:

- Making lump-sum payments using available funds such as an inheritance or employment bonus
- Prioritizing repayments toward cards with the highest interest rates
- Utilizing balance transfers

Whenever possible, make additional payments

Making payments in addition to your regular loan payments or the minimum payment due can reduce the length of the loan and the total interest paid over the life of a loan. Additional payments can be made periodically and at a time of your choosing (e.g., monthly, quarterly, or annually).

Making more than the required minimum payment is especially important when it comes to credit card debt. If you only make the minimum payment on a credit card, you'll continue to carry the bulk of your balance forward for many years without actually reducing your overall balance.

Saving through Your Retirement Plan at Work? Don't Let These Five Risks Derail Your Progress

Keep in mind that no investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.

As a participant in your work-sponsored retirement savings plan, you've made a very important commitment to yourself and your family: to prepare for your future. Congratulations! Making that commitment is an important first step in your pursuit of a successful retirement. Now it's important to stay focused--and be aware of a few key risks that could derail your progress along the way.

1. Beginning with no end in mind

Setting out on a new journey without knowing your destination can be a welcome adventure, but when planning for retirement, it's generally best to know where you're going. According to the Employee Benefit Research Institute (EBRI), an independent research organization, workers who have calculated a savings goal tend to be more confident in their retirement prospects than those who have not. Unfortunately, EBRI also found that less than half of workers surveyed had actually crunched the numbers to determine their need (Source: 2013 Retirement Confidence Survey, March 2013).

Your savings goal will depend on a number of factors--your desired lifestyle, preretirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. By examining your personal situation both now and in the future, you can determine how much you may need to accumulate to provide the income you'll need during retirement.

Luckily, you don't have to do it alone. Your employer-sponsored plan likely offers tools to help you set a savings goal. In addition, a financial professional can help you further refine your target, breaking it down to answer the all-important question, "How much should I contribute each pay period?"

2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your contribution dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

3. ...Or aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situation. Although it's a generally accepted principle to invest at least some of your money in more aggressive investments to pursue your goals and help protect against inflation, the amount you invest should be based on a number of factors.

The best investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Again, your employer's plan likely offers tools to help you choose wisely. And a financial professional can also provide an objective, third-party view.

4. Giving in to temptation

Many retirement savings plans permit plan participants to borrow from their own accounts. If you need a sizable amount of cash quickly, this option may sound appealing at first; after all, you're typically borrowing from yourself and paying yourself back, usually with interest. However, consider these points:

- Any dollars you borrow will no longer be working for your future
- The amount of interest you'll be required to pay yourself could potentially be less than what you might earn should you leave the money untouched
- If you leave your job for whatever reason, any unpaid balance may be treated as a taxable distribution

For these reasons, it's best to carefully consider all of your options before choosing to borrow from your retirement savings plan.

5. Cashing out too soon

If you leave your current job or retire, you will need to make a decision about your retirement savings plan money. You may have several options, including leaving the money where it is, rolling it over into another employer-sponsored plan or an individual retirement account, or taking a cash distribution. Although receiving a potential windfall may sound appealing, you may want to think carefully before taking the cash. In addition to the fact that your retirement money will no longer be working for you, you will have to pay taxes on any pretax contributions, vested employer contributions, and earnings on both. And if you're under age 55, you will be subject to a 10% penalty tax as well. When it's all added up, the amount left in your pocket after Uncle Sam claims his share could be a lot less than you expected.

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IMPORTANT DISCLOSURES

What is a college net price calculator?

A college net price calculator--now required by the federal government on all college websites--is an online calculator that attempts to give families an estimate of how much grant aid a student might expect at a particular college based on that student's financial and academic profile and the college's specific criteria for awarding grant aid. The cost of attendance at a college minus grant aid equals the net price, hence the name "net price calculator."

The idea behind net price calculators is to give students and their parents a more accurate picture earlier in their college search of what they will likely need to pay at a specific college instead of forcing them to rely on the college's published sticker price. The key word here is "likely." The figures quoted by a net price calculator are simply estimates; they are *not* guarantees of aid, and colleges go out of their way to spell this out. Nevertheless, running the numbers on one is an excellent way to get an early estimate of what a student's net price might be at a particular college.

So how do colleges estimate how much grant aid a student might get? It varies. Each college has a different formula for determining how much institutional grant aid it distributes; thus, no two net price calculators are identical. For example, you might enter identical financial and family information on two separate net price calculators and come out with a net price of $20,000 per year at College A and $35,000 per year at College B.

A typical net price calculator will ask for parent income and assets, student income and assets, and number of children in the family, including how many will be in college at the same time as the student in question (tip: the more children in college at the same time, the lower the net price!). It may also ask more detailed questions, such as a student's class rank and/or test scores, how much money parents have saved in employer retirement plans in the most recent tax year, current home equity, the year the family home was purchased, and how much parents expect to pay in out-of-pocket health-care costs in the coming year.

A typical net price calculator should take about 10 to 15 minutes to complete. These calculators might show up in very different places on college websites, so be prepared to search around for them.

What unique challenges do women face in achieving a financially secure retirement?

Women can face special challenges when saving for retirement. Generally speaking, women tend to spend less time in the workforce, and when they do work, they typically earn less than men in comparable jobs. As a result, women's retirement plan balances, Social Security benefits, and pension benefits are often lower than their male counterparts. In addition, women generally live longer than men, so they typically have to stretch their retirement savings and benefits over a longer period of time.

What can you do to maximize your chances of achieving a financially secure retirement? Start saving as soon as possible. The best time to start saving for retirement is in your 20s; the second best time is right now. At every stage of your life, there will always be other financial needs competing with the need to save for retirement. Don't make the mistake of assuming it will be easier to save for retirement in 5, 10, or 15 years. It won't. Start small, with whatever amount you can afford, and contribute regularly, adding to your contribution when you can.

If you're in the workforce, an employer retirement plan like a 401(k) plan can be a convenient, no hassle way to get started and build your retirement nest egg--contributions are deducted automatically from your paycheck and may qualify you for employer matching funds. If you're out of the workforce and married, you can contribute to an IRA (traditional or Roth), provided your spouse earns enough to cover the contributions.

In many cases, your job is your lifeline to being able to save for retirement. Before leaving the workforce for family obligations, consider exploring with your employer the possibility of flexible work arrangements, including telecommuting and part-time work, that might enable you to continue to earn a paycheck as you balance your family obligations.

Start planning now by taking the following steps: (1) set a retirement savings goal; (2) start saving as much as you can on a regular basis, and track your progress at least twice per year; and (3) find out how much you can expect to receive from Social Security at www.socialsecurity.gov.