

Retirement planning

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in retirement

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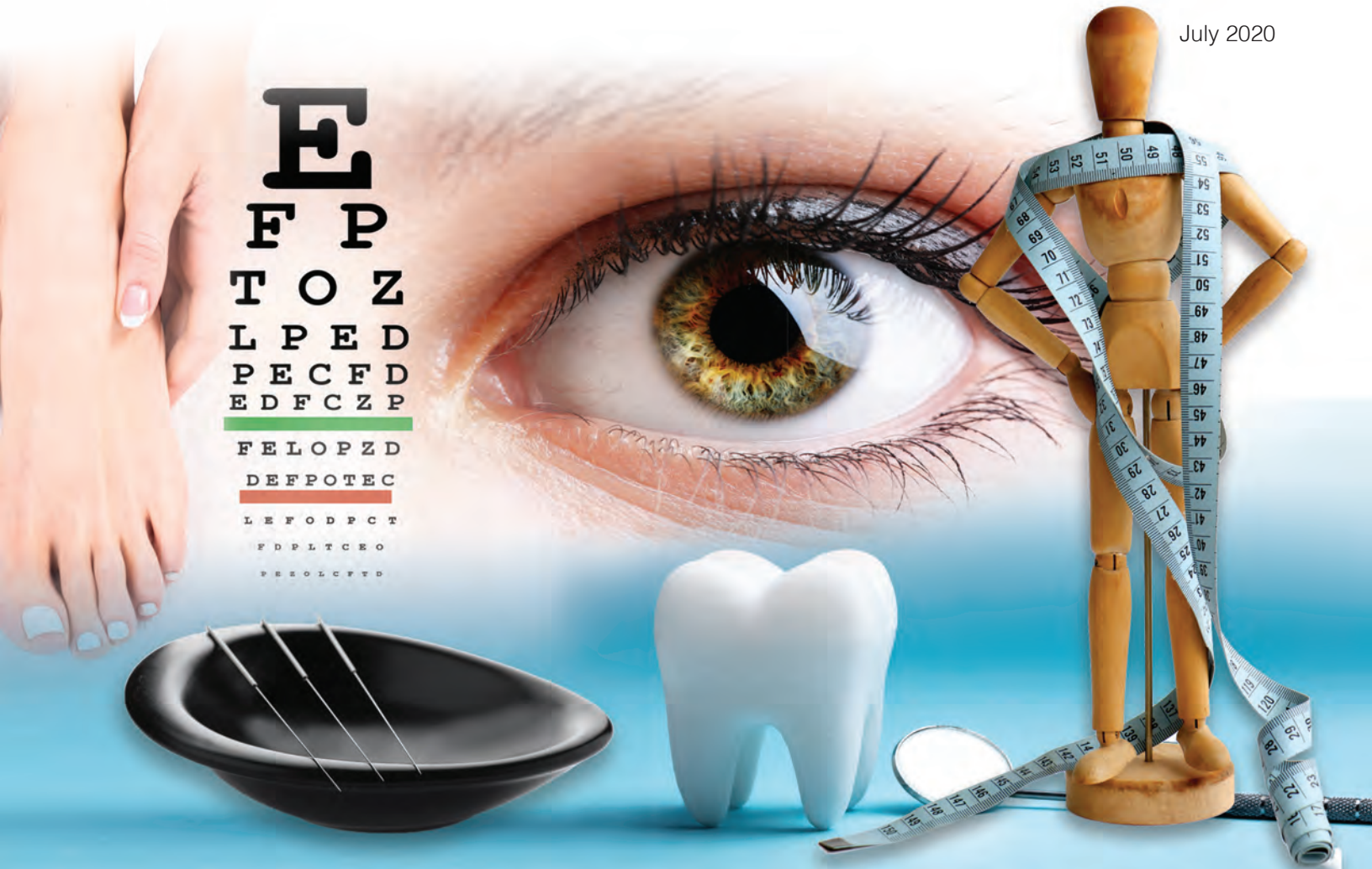
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Trust UPDATE



July 2020



Health care costs in retirement

One important variable when budgeting for retirement expenses is the cost of health care. How much will an average couple spend on medical expenses during an average retirement? Some \$285,000, according to a study reported by Fidelity Benefits Consulting reported in 2019. (The estimate assumes that the couple retires at age 65 and lives their actuarial lifespans). That figure does not include dental care or the cost of long-term care. It does include premiums, deductibles, and coinsurance.

That is a scary number, but because it is spread over many years it is a manageable number. Manageable, yes, but not to be taken for granted.

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What won't be covered by Medicare Parts A and B?

- Eyeglasses or contact lenses
- Eye exams for eyeglasses
- Hearing aids or exams for fitting them
- Most dental care
- Dentures
- Cosmetic surgery
- Acupuncture
- Routine foot care

Source: www.medicare.gov



Health care costs . . . continued

Medicare basics

The first thing to know about Medicare is that it is individual coverage; there is no family version of the program. A spouse is not covered; each individual has his or her own coverage.

The Initial Enrollment Period for Medicare consists of the three months before the month in which you turn 65, the month of your birthday, and the three months after you turn 65. It's generally recommended for most people to sign up for Medicare during their initial enrollment period, even if they have not yet begun receiving Social Security benefits. Starting the coverage late will trigger a late enrollment penalty.

If you don't sign up when you are 65, there is an open enrollment period from January through March each year, with coverage beginning the following July. Late enrollment runs the risk of a gap in coverage.

The "parts" of Medicare

There are several components of Medicare that need to be understood to enable sound choices in health care coverage.

Part A, hospital coverage, covers hospital visits, certain hospital treatments and procedures, some skilled nursing facility care, and hospice care. Part A coverage is free to those (and their spouses) who have paid Medicare taxes for at least 40 quarters (about 10 years), but it does have a deductible for each benefit period (\$1,408 in 2020). Those who have from 30 to 39 quarters of Medicare tax payments can buy Medicare coverage for \$252 per month; those with fewer than 30 quarters may purchase it for \$458 per month (those are the 2020 premium figures).

Part B covers doctor visits, outpatient services, physical and speech

therapy, lab tests, blood transfusions, medical equipment and supplies, and ambulance services. Parts A and B are sometimes called "Original Medicare." There is a monthly premium for Part B coverage, which most people simply have deducted from their Social Security benefits each month. The premium is adjusted for income and ranges from \$144.60 per month to \$491.60 per month in 2020. If you enroll late, there can be a lifetime 10% penalty fee added to the premium.

There is an annual deductible of \$198 in 2020. Some services require a copay which can be as high as 20% of the cost of the service.

Part C is most commonly referred to as "Medicare Advantage." These are programs administered by private companies, offering a range of services with a range of prices. On the plus side, they may include drug coverage, vision coverage, or dental care not covered by Medicare. On the minus side, they may require using in-network services, which may mean a change of doctors for some.

Part D is prescription drug coverage. Original Medicare did not include such coverage, and the cost of drugs in retirement can be quite substantial. Part D is optional, and if it is desired it should be started when first enrolling in Medicare to avoid late penalties. The costs for Part D coverage are complicated. Premiums depend upon marital status and modified adjusted gross income. Deductibles, copays, and what drugs are covered vary among companies. What's more, there is an unpopular "donut hole" in the coverage in which copays are much higher until a catastrophic level of expense is reached.

Filling in the gaps

The holes in Medicare coverage may

be filled in with a Medigap policy, which is sold by private companies. Medigap policies have standard sets of benefits, which are designated by letter—A, B, C, D, F, G, K, L, M, and N. Each company must use these designations. Plans F and C were discontinued on January 1, 2020, and are no longer offered, but those who already have such plans can keep them so long as they keep paying the premiums.

Key reasons to consider a Medigap policy:

- Eliminate most Part A and Part B out-of-pocket costs,
- Additional long-term care coverage (but not the same as a long-term care insurance policy),
- Cover medical costs while abroad, and
- Generally no need to change doctors.

Costs for Medigap insurance will vary with coverage selection. These are individual policies, just as Medicare is. It may make sense for spouses to have different policies, or for one spouse to skip Medigap altogether.

Start early

This has been a lot to take in. There are no easy answers to securing adequate health care coverage during retirement. A good rule of thumb is to begin exploring the options about one year before the planned retirement date. For most people that will be when they turn 64—that magical age identified by John Lennon and Paul McCartney on *Sgt. Pepper's Lonely Hearts Club Band*.

For help with your retirement income planning, we will be pleased to put our experience at your service. □

Finding liquidity

Has there ever been a more difficult time for investors? The usual uncertainties—where are interest rates going? what is the stock market doing?—are compounded by the unique lack of certainty about the coronavirus pandemic. Is Phase 1 ending? Will there be a Phase 2 and 3? Has Phase 2 already started? How will the economy evolve in this unprecedented environment?

Great fortunes may be made or lost during periods of economic upheaval. To be able to take advantage of opportunities that may arise, one needs ready access to cash.

Fine art

Auction house Sotheby's reports a surge in customers who are borrowing using their fine art or jewelry as collateral [www.sothebys.com/en/articles/creating-liquidity-from-art-during-challenging-times]. In part this may be attributed to the fact that many auctions necessarily have been postponed due to the pandemic. A record number of online auctions conducted by Sotheby's has offset the loss of public auctions, but not all collectibles are suitable for that approach.

One major reason for borrowing using fine art and jewelry as collateral, according to the article, is the need for funds to pay estate taxes, given the uncertainties of successfully liquidating a collection in such volatile times. At the other extreme are those who expect that there will be some relative bargains coming available in the art market, and who want to have ready access to cash

to take advantage of them. The art market generally does not correlate precisely with the stock market, but it often lags it. For example, the art market dropped about 20% after the 2008-09 recession, before coming back strongly.

Loans against fine art will have a loan-to-value ratio (LTV) of 40% to 60%. Factors that go into determining the suitable ratio include the diversity of the collateral, the price points, the potential for blockage discounts if many items have to be sold at once, and the depth of the market demand for the pieces.

Borrowers need to be aware of how often the value of the collateral will be reappraised. A loan against art will work the same way as a loan against stocks. Should the value of the art fall, there will be a margin call. In that event, the borrower will have to provide a repayment or additional collateral to secure the loan.

How about you?

Is portfolio management keeping you up at night? Are you confident that you will have the liquidity needed as the pandemic unfolds and the economy responds?

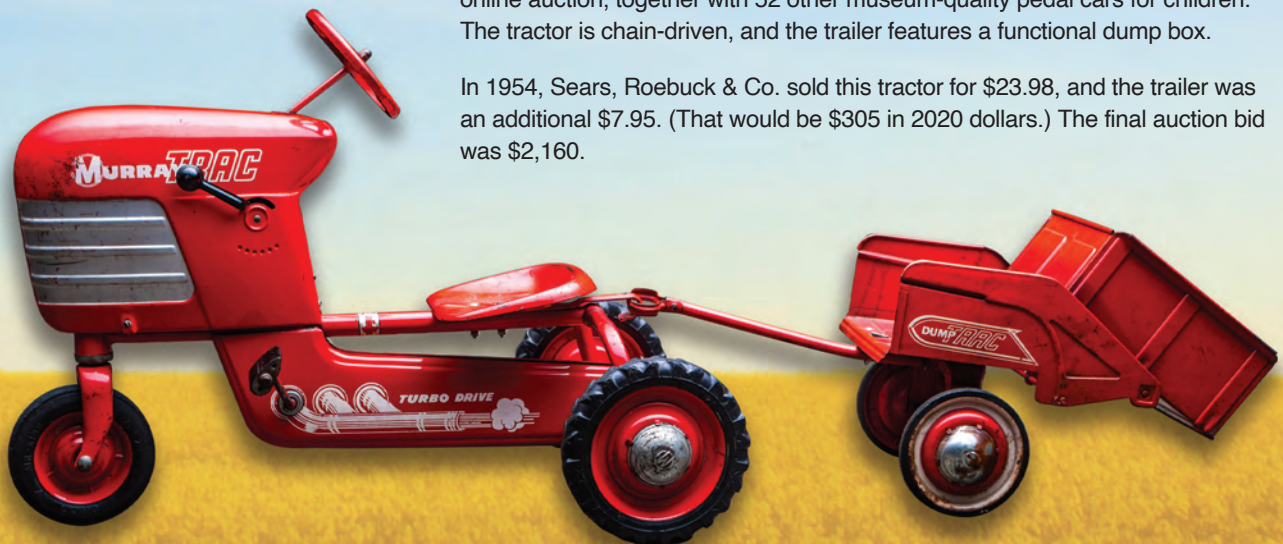
We provide objective investment advice, and we manage investment portfolios. Our fees are geared to our responsibilities. We help to optimize portfolios for risk and reward, consistent with our clients' investment goals and objectives.

Would you like to know more about our capabilities? We would be pleased to meet with you at your convenience, to lay out our credentials and offer our insights in more detail. □

Surprising Collectibles

This child's tractor was produced by the Murray-Ohio Manufacturing Company in the 1950s. It was offered for sale by RMSothebys in June in the "Pedal Power" online auction, together with 52 other museum-quality pedal cars for children. The tractor is chain-driven, and the trailer features a functional dump box.

In 1954, Sears, Roebuck & Co. sold this tractor for \$23.98, and the trailer was an additional \$7.95. (That would be \$305 in 2020 dollars.) The final auction bid was \$2,160.



Trustee duty fulfilled

This true story about trusteeship comes from a recent court case. Marian Jackson had her living trust drafted in 1996. She had the trust restated in January 2015 and amended the trust twice more before her death. During her life, Marian was the trustee of her trust. After her death, the lawyer who drafted her trust took over as trustee, and that lawyer's partner became the trust protector. A trust protector is someone who is given the authority, separate from the trustee, to have changes made to the trust itself so that it continues to meet the objectives of the trust creator.

The primary beneficiary of the trust was Gerald Gowdy. He was not a surviving spouse, but Gerald may have been Marian's life partner. At Gerald's death part of the trust assets would pass to Marian's children, and Gerald could exercise a power of appointment to provide for his own heirs for the balance of the trust.

The trust included two important features. First, it provided that any successor trustee to the lawyer-trustee must have capital of \$100 million, or an insurance policy with those policy limits, or have \$100 million under management. Second, there was an *in terrorem* clause. Anyone who brought a lawsuit to change or challenge the terms of the trust would lose his or her interest in the trust entirely.

A year after Marian died, Gerald became dissatisfied with the trustee's handling of the trust. He felt the trustee's fees were too high, that paying both the trustee and the trust protector when they were law partners amounted to double billing, that there had been a conflict of interest in the trust drafting because the draftsman became the trustee. Gerald was also upset that the trustee had refused his distribution request. He asked the trustee and the trust protector to resign. The trustee refused, but the trust protector did resign.

Gerald resorted to filing a lawsuit to have the trustee removed, and he asked that the trust be decanted into a new trust "to repair drafting errors." "Decanting" is an accepted legal process for modifying an irrevocable trust that otherwise can't be amended, but it is more commonly initiated by the trust protector. Significantly, the new trust omitted the qualifications for successor trusteeship, because Gerald had been unable to find a successor trustee who met the qualifications.

Unfortunately for Gerald, he failed to document his damages, if any, caused by the trustee's alleged malfeasance. He lost on the merits of his case. However, even the failed attempt to decant into a trust with materially different provisions did serve to trigger the *in terrorem* clause, the court held, and so Gerald lost his entire trust interest. His heirs lost as well. □

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