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OUR NEWS LETTER

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In Our Newsletter

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While many Americans will need long-term care as they get older, few are prepared to pay for it.

Medicare, which provides Americans over the age 65 with health insurance, doesn't cover most long-term care services. And Medicaid — the primary safety net for long-term care coverage — only covers those who are indigent.

Federal estimates suggest 70% of people ages 65 and older will need long-term care before they die, but only 3% to 4% of Americans age 50 and older are paying for long-term care policies, according to insurance industry figures.

The high cost of premiums for those private long-term care policies puts it out of reach for most people.

Even some who have this kind of insurance find it doesn't provide enough to cover the costs of home health aides, assisted-living facilities or nursing homes.

"People think that long-term care insurance is for everyone — but it is not," said Jessie Slone, executive director of the American Association for Long-term Care Insurance, an advocacy group. "It's for a very small subset of individuals who plan, and have some retirement assets and income they can use to pay for it."

To qualify, applicants need to pass a health review. Slone said insurance companies have underwriting policies with "page after page" of conditions that will disqualify people from getting that coverage. "If you live a long life, the chances of you needing care are significant. So then the issue becomes who's going to provide for that care, and who's going to pay for it. For some, long-term care insurance is an option."

Prices vary, based on the age when people apply, how good their health is at the time, and how much coverage they want. "You have to start looking at this generally in your 50s or 60s," Slone said. "Because, as you get older, you're going to have conditions which insurers are going to look at, determine that you're very likely to need long-term care and not give you a policy."

That coverage, if you can get it, doesn't come cheap: In 2023, the annual average cost for a policy for a couple both age 55, taking out a $165,000 initial pool growing at 3% compounded annually — ranged from a low of $5,018 to $14,695 a year, according to the association.

But, compared to auto insurance — which most people may never use — long-term care insurance is a good investment for those who can afford it, Slone said. "Car insurance is the most expensive insurance you ever pay because the chances of you getting into a car accident are somewhat remote. But the chances of someone needing long-term care if they make it to 90 are pretty significant."

Lori Smetanka, executive director of the National Consumer Voice for Quality Long-Term Care, a national nonprofit advocacy group, views it differently. She said the private long-term care insurance system has become a "bust" amid rising premiums and difficulties accessing benefits.

Consider the fact that the number of companies offering long-term care insurance is declining, while payouts are steadily increasing as the baby boomer generation ages. "Most people have found it very expensive," Smetanka said. "But, at the same time, people are finding that it wasn't covering what they needed."

Last year, insurers paid a record of more than $14 billion to cover an estimated 353,000 long-term care claims, according to industry figures. That's compared to about $11.6 billion just three years ago.

Currently, there are about 7.5 million people in the U.S. age 65 and older with private long-term care insurance, according to industry data.

With that incentive, some states, including Washington and California, are looking at creating long-term care social insurance pools funded by payroll taxes and other sources of funding. The effort also is being spurred, in part, by the rising costs borne by states for Medicaid long-term care coverage, which they share with the federal government.

"More and more states are coming to the conclusion that this is an under-funded system," said Marc Cohen, a researcher and co-director of the LeadingAge LTSS Center at the University of Massachusetts at Boston. "There are simply not enough dollars going into the system – given the needs and the demands of the growing elderly population."

So far, Washington is the only state to try to address the issue. A law approved by the state Legislature in 2019 created a long-term care benefit program, which provides residents with up to $36,500 to pay for costs such as caregiving, wheelchair ramps, meal deliveries and nursing home fees.

The Cares Funds is covered by a payroll tax that deducts 0.58% out of paychecks but guarantees a $36,500 lifetime benefit for those who have paid into the fund for 10 years.

Several other states are studying the issue. In California, a task force is looking at how to design a long-term care program, according to the National Conference of State Legislatures. Massachusetts, Illinois and Michigan also are weighing the costs versus benefits of creating a state long-term care benefits program.

But the issue of imposing new taxes to pay for long-term care insurance is controversial — and politically unpopular — on both a state and federal level.

Washington's long-term care insurance law is facing a repeal effort from a group backed by hedge fund executive Brian Heywood that argues the system should be voluntary. Voters in November will decide whether to allow people to opt out, which supporters say would essentially gut the program.

"There are a lot of states that are looking to see what happens in Washington," Cohen said. "If this billionaire who is funding this repeal effort wins, it will be a real blow."

Cohen said efforts on a federal level to create a publicly funded insurance pool haven't gained much traction. A long-term care program created by Congress through the CLASS Plan, which was tied to the Affordable Care Act, was voluntary. That law was repealed in early 2013.

"It never got off the ground before it was repealed," he said. "With the dysfunction in Congress, we're likely to see more action on a state level than the federal."

Recent polls suggest there may be some public support for the move. A survey by the National Council on Aging found more than 90% of the 1,000 female respondents across party lines support the idea of creating a government program to pay for the cost of long-term care.

"The level of support was significant, and very bipartisan," said Howard Bedlin, a long-term care expert with the council. "People keep talking about how Congress can't find bipartisan support. Well, the voters clearly support it.

"The politicians just aren't giving these issues the attention they deserve."

Beware the retirement savings 'time bomb,' tax expert warns

Minimizing taxes in retirement is an essential step many people overlook.

It's all about the taxes.

That's the key concept for retirement savers specifically because IRAs and 401(k)s are only tax-deferred — not tax-free.

"These funds have not yet been taxed, so you need a plan to minimize these taxes [so you] can keep more of your hard-earned retirement money," Ed Slott, a certified public accountant in New York and an expert on IRAs, told Yahoo Finance. "It's what you keep that counts."

This planning has always been the core of Slott's retirement tax planning strategies. "Always pay taxes at the lowest rates," Slott told Yahoo Finance. "People miss this critical point and often end up paying much more in taxes in retirement — when you'll need the money the most."

Slott is the author of the new book "The Retirement Savings Time Bomb Ticks Louder: How to Avoid Unnecessary Tax Landmines, Defuse the Latest Threats to Your Retirement Savings, and Ignite Your Financial Freedom." Here's what he recently told Yahoo Finance about minimizing taxes in retirement, edited for length and clarity:

The time bomb is the tax embedded in every traditional IRA and 401(k) account that is tax-deferred. I'm not talking about Roth IRAs and 401(k)s.

The reason I'm saying it's ticking louder — I always felt it was ticking — but now it's really loud is, at some point, taxes are going up to pay the big debt this country is facing. People complain about taxes. But the top federal tax rate from 1946 through 1963 was 91%. In 1964, it went down to only 77%. I was only 10 years old then, but I heard the whole country did a happy dance. Look where we are today. The top rate is 37%.

Provisions in the 2017 Tax Cuts and Jobs Act (TCJA) that lowered individual tax rates are scheduled to expire on Dec. 31, 2025, unless Congress acts to extend them. So you have less than two years left where you can take advantage of today's rates before they might go back up.

Always pay taxes at the lowest rates. People don't do it because they don't want to pay tax before they have to. So the idea of converting to a Roth IRA bothers them. The way I see it, you need to use these two years to get money out of those taxable accounts. Start trimming those

IRA balances while you can get them out at the lowest rates and move them away from the tax man into what I call tax-free territory in a Roth account.

Future taxes. I am worried about tax rates rising for people in their retirement.

I look at retirement like a football game. The football game is easily divided into the first half and the second half. The first half is the accumulation phase. Everybody's familiar with that. That's when you do all your work. You're building, you're saving, you're investing, you're sacrificing to have more.

The problem is, most people, when they get to halftime, think that's the end of the game. They'll come in and say, 'Ed, I'm retired. Look how much I saved for retirement.' They think the game's over. Meanwhile, the IRS comes out to play in the third and fourth quarter. They're playing nobody, so they win. Investing and saving is the first half, but protecting that money is the second half.

For most people, their largest single asset, other than maybe their home, is their IRA and 401(k) account, and those are loaded with taxes. So the second half of the game is what counts. Many games are won or lost in the last five seconds of the game on some kick as time runs out. It's the same thing here.

You could really blow it in the second half of the game through paying large amounts of taxes, excessive and unnecessary taxes, or lose it to unnecessary penalties, or not knowing simple rollover rules or early distribution rules.

That's more money you're going to fork over at some point to Uncle Sam. Remember, a lot of your IRA or 401 (k) is not yours. There's a mortgage on it, like a mortgage on a home, a debt owed right back to the government. Most people should probably stop contributing to traditional 401(k)s and IRAs and go Roth 401(k)s or Roth IRAs.

Clients tell me all the time, 'in retirement, I'll be in a lower bracket because I won't have income.' They miss the point that if they do nothing, the IRA continues to grow. And at age 73, the new required minimum distribution age, they're going to be forced to take it out.

Not taking out more when rates are lower, being shortsighted. You have to take the long view over the long haul and pay taxes. If you can get it out at low rates, that really is the secret. But people don't do it because who wants to pay taxes before you absolutely have to. If you don't, though, you're going to be forced to at age 73. You want your plan, not the government plan, when your options fall by the wayside.

It pays to take distributions before you have to in order to take advantage of these low rates. Do a Roth conversion, or put it into some kind of tax-free vehicle like life insurance. The minute you get those funds into tax-free vehicles, they grow and compound for you.

It's generally the IRA rollover. But there are other options. You can keep it in your 401(k), or roll it to a new company's 401(k) plan if you get a new job, or take a lump sum distribution. The IRA rollover gives you the most control.

Invest it. No reason you have to spend it unless you need it for living expenses, and you can take out more than you have to and start spreading the tax over more years of these low brackets.

Once you're in RMD territory, you must take that RMD, and that can't be converted to a Roth IRA. So take the RMD and then take a little more, if you can, and convert that portion. The idea is to get that taxable IRA balance down as low as possible. Because if it just builds, you are going to have these taxes.

Your RMD is your best asset to give to charity. Take advantage of the Qualified Charitable Distribution (QCD). Give the charity your taxable accounts. The charity doesn't pay tax.

Some people have favorite causes or charities or want to give to their alma mater. You should do it with taxable IRAs. And one of the best ways to do that is a direct transfer from your IRA to a charity.

The QCD is available to IRA holders who are age 70 1⁄2 or over when the distribution is made, per the IRS rules. You can donate up to $105,000 total to one or more charities directly from a taxable IRA. That would be a reason to roll over to your IRA and not keep it in your employer's plan because you can't do a QCD from an employer plan like a 401(k).

You are getting it out at zero tax and giving it to a charity, something you would've done anyway. It's a great way to get money out of your IRA and fulfill your charitable intent. Plus, if you do it correctly, with the timing of it, it can offset your RMD.

One caveat: I would only do it if you're already giving. I never say give to charity for a tax break.

Retirement success? Plan for a marathon — not an extended vacation

Retirement planning would be easy if all advisors had to do was talk to their clients about saving enough money, according to **Gary Sirak**. But there's a lot more to retirement planning than money, and Sirak has built a practice around helping clients prepare for aspects of retirement they might never have considered.

Sirak is the owner of Sirak Financial Services in Canton, Ohio. In his 40 years of advising clients, he listened to their stories and experiences. It didn't take him long to realize that retirement planning is not just about planning for the financial side of the post-employment years. He took the insights gleaned from helping his clients on their retirement journeys and wrote the book *How to Retire and Not Die: The 3 Ps That Will Keep You Going*.

Most people think of retirement as an extended vacation, Sirak said. But he believes retirement is more like a marathon. Most people would not run a marathon without the proper training and preparation, yet people go into the retirement marathon believing that once they hit their target number for retirement savings, they're ready to say goodbye to the workplace. The reality, Sirak said, is that would-be retirees often go into their post-working lives without the right preparation, and that preparation goes beyond saving enough money.

Sirak said he was "100% clueless" about what retirement meant to clients when he began working in his father's life insurance agency 40 years ago. But after hearing his father's clients tell their life stories as they planned for retirement, he began to realize that planning to have enough money in retirement is important, "but other things are important too, and I learned that there's more than what meets the eye when helping people plan for retirement."

As his career progressed, Sirak visited many of his older clients in hospitals and nursing homes, and he attended the funerals of many clients as well. This led to an "aha moment" that inspired him to write his book and change the way he focused on planning.

"I kept thinking there's a better way to solve the problem of retirement," he said. "The problem isn't that they didn't have enough money; it was that they didn't know what to do with the rest of their days. I needed to learn more about how clients think about retirement, and I set out to help my clients and friends figure out what retirement is all about."

The three P's Sirak describes in his book are the three things he believes everyone must decide on when envisioning retirement: **purpose**, **passion** and **plan**.

Helping clients find their purpose

Sirak described purpose as “what you do for other people.”

“When I think of purpose, I see things I can do for other people that make me feel good,” he said. “It could be charitable work, maybe volunteering for a nonprofit. It could be mentoring young people. It’s about figuring out what you can do for others.”

Sirak said one of his retired clients had been a truck driver. He was bored in retirement and asked Sirak what he should do.

“I said to him, ‘What do you like to do?’ He said, ‘I like being on the road, and I like talking to people.’ I helped him figure out that maybe he could try volunteering with Meals on Wheels. He loves it, he gets to be on the road, and he delivers meals to 15 women every week. He says he made 15 best friends. That’s finding your purpose.”

Helping clients spark passion

Purpose may be what you do for others, but passion is what you do for yourself, Sirak said. “It’s what makes you happy and what makes you tick and what gives you joy at the end of the day. Passion is the stuff you love to do.”

The challenge in helping clients find their passion, he said, “is when I talk to most people, they don’t know what their passions are. They may know what they like to do, but they haven’t homed in on it. For example, I ask someone what they’re passionate about and they might say, ‘I like going to Italian restaurants.’ That’s great, but it’s not really passion. You have to help the client figure out what truly makes them happy.”

Making a plan

Retirement can stretch out for decades, and clients often don’t have a clear idea of how they will spend their time. Just as clients kept a schedule when they were working, they need to plan how they will schedule their days after they no longer have to punch the time clock.

During a client’s working years, “your days and weeks were planned out for you,” Sirak said. “You went to work, you went to lunch, you came home — your days were planned. Now, in retirement, they’re not. So you need to have a plan.”

Sirak said his father taught him about the need to have a plan for your retirement days.

“My dad retired to Florida, but then he came back to Ohio. Why? He said it was because he didn’t have enough of a plan to keep him busy full time in Florida. My dad carried a little black book, and in that book was a list of all the things he had scheduled to do that week. He played bridge one day, he played golf the next day, he had something scheduled for every day, and he

planned it out for the entire month. And that resonated with me; I thought it was a very smart thing to do."

Sirak has an exercise he does with his clients where he asks them to envision what they actually will do in retirement.

"I ask them to tell me how they will spend their first day in retirement, then their first week in retirement, their first month, their first year — what does that look like to them? So often, clients give me the deer-in-the-headlights look because they have had some kind of vision of retirement but they haven't considered how it will play out day by day, year after year.

"They might say, 'We're going to travel to Italy for a month, and then we'll spend three months in Florida over the winter.' That's great, but tell me what you're going to do when you get back home. And they have no idea."

Putting it on paper

Sirak helps his clients get specific about their retirement visions by having them put to paper their loves, likes and hates.

"Loves, likes and hates don't sound like much, but they are powerful," he said. "If the client is still working, I ask them to write down everything they hate about their job. If they're already retired, I ask them to write down everything they hate at home. I ask them to write down all the things they like, and that list is usually a short one, which is good. Then I ask them to write down their loves. The loves can be people or they can be things. Sometimes people list one person, but nobody has listed more than five."

Sirak then goes over the list with the client to get more details on why the client listed what they did and how that will pertain to their retirement.

"Here's an example: I have a client who said one thing he hated was cutting the grass. He lived in a house on three acres of land, and he had a lot of grass to cut. We figured out that he had enough money saved to hire someone to cut that grass for him and that would be one less thing he hated."

Another client told Sirak that he loved to paint but hadn't picked up a paintbrush in 40 years because he was so busy at his job. Sirak asked what types of paintings the client liked to create and encouraged him to take up the art again. The client signed up for classes at his local art museum, "and now he's the happiest person you'll ever see."

Money comes second

When Sirak meets with a client to discuss retirement planning, he leads the conversation by asking the client what they like to do and how they envision their retirement will be. After the client begins sharing their retirement vision, then the talk will turn to how the client will fund that vision.

"It's the opposite of how many advisors do it, which is to talk about how much money the client needs or how much they can invest, and then tell them how much retirement they can afford," he said.

"Everybody thinks retirement is about money, and it's really not. Money is certainly a big piece of it. And then it's not a big piece at all. You manage what you live on and where you are comfortable. I have clients who don't have a lot of money saved for retirement, but they spend time with their grandchildren, they are active in the community, they have fulfilling lives doing things that don't necessarily cost a lot."

COOLER INFLATION READING HELPS THE CASE FOR FED RATE CUT IN SEPTEMBER

Cooler inflation reading helps the case for a Fed rate cut in September

The latest sign that inflation is cooling makes it more likely the Federal Reserve will be able to gain enough confidence to cut interest rates this fall.

The odds of a cut in September jumped Thursday after the release of favorable new numbers from the Consumer Price Index (CPI), with traders now pricing in an 83% probability of an easing at the Fed's meeting on Sept. 17-18.

"I think it puts September firmly on pace for a cut," Peter Tchir, Academy Securities macro strategy head, told Yahoo Finance.

Some Fed watchers even think that a cut at the Fed's July 30-31 meeting is now a possibility if some other pieces fall into place.

"The Fed could very well lower rates sooner than September if the labor market softens at a faster clip," said Quincy Krosby, chief global strategist for LPL Financial.

The Consumer Price Index on a "core" basis — which excludes volatile food and energy prices the Fed can't control — rose 3.3% year over year in the month of June. That was a tenth of a percent below expectations and below the level seen in May.

Month-over-month core CPI was also encouraging, rising 0.1% after increasing 0.2% in May.

The "muted" month-over-month increase "strengthens the case for a September rate cut," said Paul Ashworth, chief economist for Capital Economics.

A lot, however, still depends on the next reading of the Fed's preferred inflation gauge — the "core" Personal Consumption Expenditures index (PCE) — as well as further cooling of the jobs market, Ashworth added.

San Francisco Fed president Mary Daly didn't commit to any specific timing on rate cuts in a conversation with reporters Thursday following the CPI release except to say that the time is "closer than six months ago."

"With the information we have received today, which includes data on employment, inflation, GDP growth and the outlook for the economy, I see it as likely that some policy adjustments will be warranted," Daly said.

Inflation will continue to come down gradually, she added, but "when exactly that happens and when it would be appropriate to make an adjustment of policy is still unclear." She said she still needs to see more information.

Another central bank policymaker, St. Louis Fed president Alberto Musalem, said Thursday that the new CPI number "points to encouraging further progress towards lower inflation" but that "I will be looking for more evidence that inflation can be expected to converge to 2% going forward."

Richard de Chazal, macro analyst for William Blair, said the fact that June marks the third consecutive month of more moderate inflation growth helps "confirm that inflation is firmly back on a downward trajectory."

But he still does not expect a smooth path down to the Fed's inflation goal of 2% because the annual rate of change comparisons start to become tougher through the second half of this year.

"To help justify the start of rate cuts, the Fed will need to shift the focus to a decelerating labor market, rather than continuing to rely entirely on the softening of inflation to do all the heavy lifting on rates," de Chazal said.

"Today's report, and the subtle shift to a more balanced focus on slowing employment growth by the Fed, helps firmly put a September rate cut in the sights."

Federal Reserve Chair Jay Powell made it clear earlier this week that he is in fact paying closer attention to a cooling jobs market.

"The most recent labor market data do send a pretty clear signal that labor market conditions have cooled considerably compared to where they were two years ago," he said during testimony before US lawmakers. "This is no longer an overheated economy."

For a long time, the Fed has been focused on the inflation side of its mandate, holding rates at a 23-year high in an effort to cool the economy.

But Powell says with the job market getting back to where it needs to be, the Fed is looking closely at both sides of its mission — stable prices and maximum employment.

Daly, the San Francisco Fed president, is also turning more of her focus to the job market as she sees the risks to inflation and the job market coming into more equal balance.

"I'm looking at the labor market which is not only coming into better balance but...suggests that we're to the point now where additional labor market slowing is more likely to result in a rise in unemployment," Daly said Thursday.

The focus on the job market comes after last week's release of an unemployment report for June that showed signs of a gently cooling labor market, with the unemployment rate ticking up a tenth of a percent for the second month in a row to 4.1%.

While the unemployment rate of 4.1% is still historically low, it's up from 3.4% early last year.

Powell also made it clear this week that the central bank is in fact inching closer to feeling comfortable about rate cuts, telling lawmakers that he was encouraged by evidence of cooler inflation and that more "good data" would help get the Fed to where it wants to be.

The inflation numbers "have shown some modest further progress" after some hotter readings in the first quarter, "and more good data would strengthen our confidence that inflation is moving sustainably toward 2%," he said in his testimony.

Powell, however, stopped short of saying whether cuts could begin in September. He also cautioned that he is "not prepared" yet to say that the central bank is sufficiently confident inflation is coming back to the goal of 2%.

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