.....15 Years and still rolling.....

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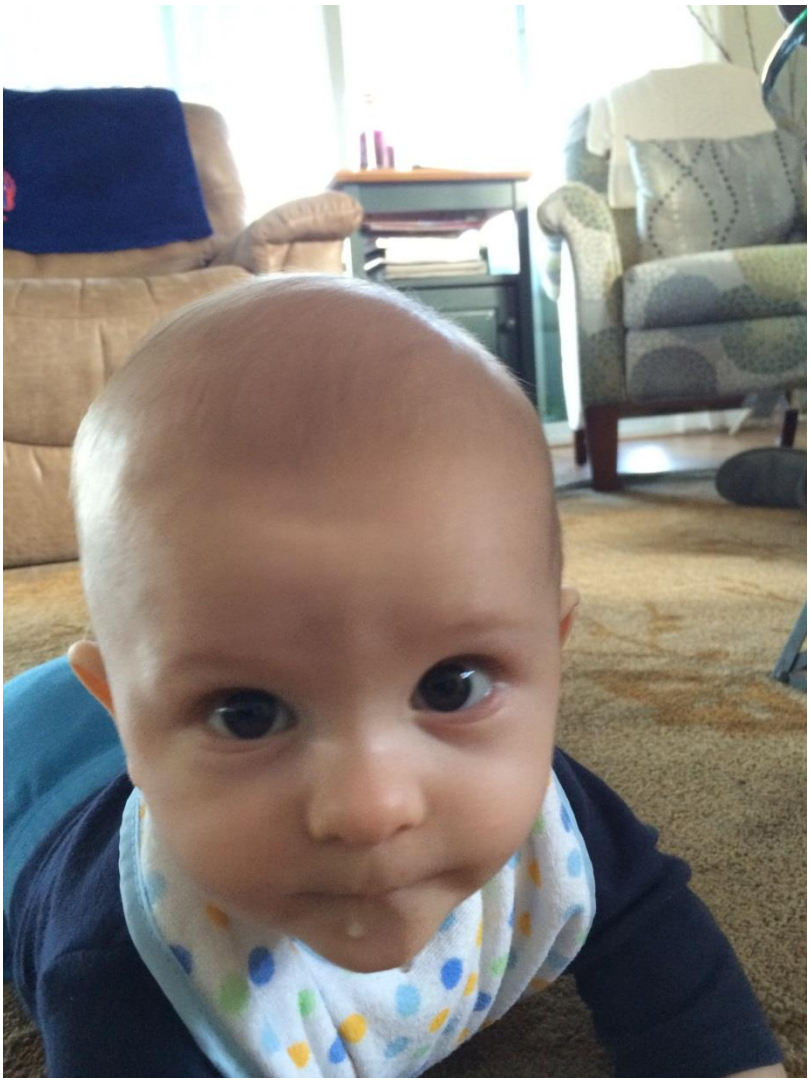
Think Community



My Buddy Preston, now part of our community

Thank you for joining us on Open MIC

9:00: AM Pacific Thursday 800 504-8071 Code is 5556463#

Food for thought:

When you or I write a check there must be sufficient funds in our account to cover the check, but when the Federal Reserve writes a check there is no bank deposit on which that check is drawn. When the Federal Reserve writes a check, it is creating money." - Federal Reserve Bank of Boston

The greatest thing in this world is not so much where we are, but in what direction we are moving." - Oliver Wendell Holmes

Coming this Summer

How would you like a complete system for moving from your first meeting with the lead to being in a position to complete the fact finder without any hesitation? The basis for this system came from deep within the Northwestern Mutuals basic sales approach, find out how the prospect feels in a simple easy to understand process. Anyone can learn it and anyone can master the **"Art"** of it. We will share it with you later this summer.....Bill

"Go Long, Go Short, Go Guaranteed"

A modern adaptation of a “golden oldie” to help you “bridge” the lead to the fact finder to the sale, to help generate large premium per sale. No one in our industry knows about this or uses it!

Editorial

I suppose it will become inevitable when we as agents are no longer needed, after all if an insurance company did not have to pay us, how much more profit would they have?

The gall of so many companies to think they can change our industry into what they actually want, a transaction, is way over the top for me. The life insurance industry tried to do it with web only based selling and guess what, there are as many life insurance agents now as there was before the internet. Northwestern Mutual now has 10,000 career agents, New York Life about 18,000, way up from 20 years ago.

Banks can sell annuities and they do so by offering only one thing, rates. We offer relationships and through those relationships we help our clients make the best decisions based on their personal situation and their goals. Rates are always secondary with us.....

So when a marketing VP in an interview makes the statements below, we need to realize just how disconnected they are from us.

This year’s theme is **COMMUNITY**, with our community you will find kindred souls who will help you help your clients, not about finding the best rates, but by reaching the right goals. Case prep, lead generation, support and comradely.

Use the insurance companies for their products and leave the rest alone, with the attitude this interview shows, we don’t need them, BUT they will always need us.

BB

Marketing Executive Comments

I deleted his name after I re-read his comments, then I deleted the insurance company name….. I read an interview with him at an industry meeting; I think his remarks are very timely, if you are a product salesman. I wonder if this is how home office management looks at our industry, we are only a process. I marked some in red….BB

Question: What are two trends that will dominate the life and annuity business in 2014, and why?

"The mobile network is one of the trends. It's changing the things we do to accommodate the younger purchasers, especially those who use the iPhone and iPad. Buyers are already going online to learn about life insurance and **compare prices.** Soon the whole process will change—taking the app, submitting it over the net, and having the agent do the entire process—selling, e-signature, getting the app, and submitting it.. We still deliver the policy to the agent who then delivers it to the customer. The agents will embrace this as long are they are involved. What the agents like is that it **significantly cuts down** on the communications they have with the home office, and that expedites the process. With the iPhone, for instance, they can email any questions or concerns they have about a case at midnight if they want—and get the answer back by morning.

A second trend is growth in sales of fixed annuities. This is **due to the economy**, the low interest rate environment, tax deferral, and the safety that's due to the guarantee of principal." ***— , field vice president-marketing, xxxxx Life Insurance Company***

Here is an example of an order takers mentality, all they think about is the process. If he is correct, then why would insurance companies even need us? This level of thinking is why we are not in this segment, let the banks and other rate hustlers have it.

Then this:

http://www.looktowink.com/2014/05/overstock-com-enters-insurance-market-virtual-agency/

OVERSTOCK.COM ENTERS INSURANCE MARKET WITH VIRTUAL AGENCY

May 5, 2014 by Michael Buck

SALT LAKE CITY – Online retailer Overstock.com has entered the insurance market with an online agency platform that offers personal and commercial policies through its heavily trafficked website — a first step in what might become a bigger business for the company.

"I think financial products may be a major part of our future," Overstock Chief Executive Officer Patrick Byrne told Best's News Service.

Overstock is offering private passenger automobile, residential covers and commercial policies through its website from about 12 carriers at the moment, Byrne said. Among the carriers participating on the platform are Progressive Corp. and Safeco Insurance, a subsidiary of Liberty Mutual Group.

The platform was launched in late April and initially saw steady traffic of around 50,000 to 60,000 visitors to the insurance tab on the retailer's home page, Byrne said. The company is trying to leverage its current customer base in a bid to tap into the insurance market.

"This makes great sense for us," Byrne said. "Seventy percent of our business is home, whether it's furniture or appliances, it's home. A lot of our customers are people who are buying a new home or a condo, or they're renting, they're moving into a new home or apartment. There's a lot of that in our customer base."

See link above for complete story....BB

Sherilyn Orr with "Best Rate" Leads Update 22 agents using these leads and climbing

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Nice share from our friend Chuck **B**artman

You might have to retire twice

An ING Direct survey found that **33 percent** of previous retirees re-entered the workforce, because they did not have enough money saved for retirement and 31 percent cited increased living costs. Of the half who were forced back to work for financial reasons, 31 percent returned on a full-time basis.

http://money.msn.com/retirement/why-youll-probably-retire-twice

this article adds more info to why people are being forced out of retirement…

Inflation is a huge concern, recently in our small town in Northern California, gas has risen from $3.88 to $4.45 a gallon….all in last 2 months. If it is a concern to me then it is a concern to our clients….links are all live…worth a look….BB

http://inflationdata.com/articles/2014/05/03/cost-living-infographic/

Cost of Living- Infographic

MAY 3, 2014 BY TIM MCMAHON

Over the years prices have changed (generally getting higher except possibly for technology devices). But it is difficult to track the changes if the length of the ruler is constantly changing. You need to compare it to a constant measurement.

When that comes to calculating the cost of things, in order to get an idea of how prices are doing you need to adjust them for inflation. That is called measuring "constant dollars". Typically the calculation is based on the CPI or Consumer Price Index.

Gasoline Costs

Gasoline costs are a fact of life and a major component of our day-to-day expenses and not only for what we put into our car but also as a major component of everything we buy. Looking at the cost of gasoline we can see that prices in inflation adjusted terms were actually the lowest in 2003 and the highest in 2008 with current prices in the middle.

In inflation adjusted terms, prices of gasoline increased 96.2%. In other words, gasoline prices increased 96% more than the average item.

Over 15 years, the average American will spend $22,000 on gasoline.

Buying a Car

The average price of a new car in 2003 was $21,169 which in 2013 dollars was $26,801. The best prices for cars was in 2006 when the average price in 2013 dollars was $26,174. But by 2013 the average price of a new car was up to $31,252. a whopping **17%** increase in inflation adjusted terms and a 47.6% increase in nominal terms!

NFL Ticket Prices

In 2003, the average NFL ticket cost $52.75 in nominal terms which equaled $66.79 in inflation adjusted terms. By 2013 NFL ticket prices had increased by **23%** to $82.00. So ticket prices increased **23% more than average inflation.**

College Costs

Inflation adjusted college education costs have been skyrocketing as prices handily outpaced inflation in other areas. The average college tuition cost in 2003 was $14,439 or $18,281 in inflation adjusted terms. Tuition costs peaked in 2012 at $23,200 ($23,540 inflation adjusted) and then dropped slightly to $22,261 in 2013. **College costs increased 22% more than inflation.**

Milk Prices

In 2003, the average price of a gallon of milk was $2.95 or $3.73 in inflation adjusted terms. In 2013 the average price of a gallon of milk was $3.50 so finally we have found one item that has decreased in inflation adjusted terms. But that simple single item that is decreased doesn't make up for all the other increases. **(milk if subsidized by the farm bill…BB)**

Big Mac

The average Big Mac cost $2.71 in 2003, for an inflation adjusted price of $3.43. By 2013, the average price of a Big mac had increased to $4.56 once again **out pacing inflation by 33%.**

I nearly fell out of my chair while reading the article about Shaq and how annuities provided his financial foundation. Smart agents will market this heavily….BB

Shaquille O'Neal, A Billion Dollars, Annuities and Exposure to Risk

I recently read an article about Shaquille O'Neil and his after basketball life, truly amazing. Did you know in his 19 year NBA career the earned a total of $292 million in compensation? He was the highest paid player over that time period, making enough money for a couple of hundred families to live in complete comfort. With the age of the athlete we have watched salaries sky rocket to levels we cannot comprehend and just regular folks.

Shaq was one of the all-time greats, he proved it on and off the basketball floor. Did you know he also starred in movies and had 3 very successful records with sales in excess of 1.3 million copies? Shaq became a brand and he used his celebrity to put in place a money making machine for his retirement from basketball.

The article mentions his endorsement life, products we know on a national basis, such as Buick, Icy Hot, Reebok, Zales, Foot Locker, Arizona Tea and many more. The list includes more than 20 products and companies. His endorsement income is now greater than his salary as a top NBA center and there is more to come.

In addition to product endorsements, he is also a TV analyst, an international motivational speaker and a private party DJ. Yes, you can have Shaq come to your house for 2 hours, have him DJ your party for only $50,000. Shaq is booked all day every day in a nonstop worldwide promotional endorsement and entertainment tour.

It was estimated he could earn in excess of a BILLION dollars in just his endorsement career. Certainly a lot of money and reason to be concerned about how the money is invested and protected to insure his and his family's financial security.

In the article he was asked about the income he is now earning and he said "I don't pay any attention to the money, if I lose it all it is no big deal, myself and my family are already financially secure because when I started in the NBA, every year I invested in annuities. **Annuities now provide more income than me and my family need**.

The money I earn now is just for fun.

Annuities? Yes, a man who in his lifetime will earn in excess of a BILLION dollars is depending on annuities to guarantee his financial future.

Here is the link to the article; it ends with his financial philosophy about annuities.

http://www.businessweek.com/articles/2014-04-24/retired-shaquille-oneal-cultivates-fame-and-fortune

Here is an important report from Kerry Pechter, I subscribe to his newsletter, http://retirementincomejournal.com ....$165 a year and provides industry information....BB

I marked important parts in red for you, visit Kerry's website, linked above. Links below are live, LIMRA slides are great.

The Retirement Industry Conference

By Kerry Pechter *Fri, Apr 25, 2014*

At the Retirement Industry conference in Chicago two weeks ago, researchers from LIMRA's Secure Retirement Institute presented annuity sales data for 2013. They also predicted **6%** average annual growth for fixed annuities, 2% growth for variable annuities and 4% for annuities overall between now and the end of 2018.

Slides from the presentation by Joseph Montminy and Jafor Iqbal of LIMRA can be found here.

With sales of **$145.3 billion in 2013, variable annuities** remained the top selling type of annuity in the U.S. But despite the bull market in equities last year—higher equity prices don't coincide with higher VA sales the way they did a few years ago—gross sales fell slightly from 2012 levels.

(See change below...BB)

The reasons: reduced life insurer appetite for selling VAs, less generous living benefit riders and a greater emphasis by manufacturers on less capital-intensive VAs that are designed for tax-deferred accumulation **rather than guaranteed retirement income**.

Difference companies are using different product strategies. Jackson National (with its popular Elite Access VA,) Guardian, AXA, and Protective are among the leaders in promoting accumulation-focused VAs, according to LIMRA. AXA, Allianz Life, MetLife and CUNA are promoting structured VAs that give investors upside potential with a cap and a buffer against downside losses.

According to the presentation, all of the major VA issuers, including Prudential, MetLife, Jackson National, Lincoln Financial, AXA and others, have cut their risk exposure either by reducing their distribution, requiring contract owners to use

managed-volatility funds, offering to buy back in-the-money contracts, or blocking additional contributions to existing contracts.

(On the upside, last year's bull market helped drive up VA account values, on which part of VA fee revenue is based.)

VA contract owner behavior

Because VA policyholder behavior has a big impact on profitability, LIMRA has tracked it on behalf of its life insurance members. As the data show, withdrawal and surrender behavior is largely determined by the kind of money the annuity was purchased with (qualified or non-qualified), the age of the owner and whether the owner is systematically withdrawing the assets for retirement income.

The guaranteed lifetime withdrawal benefit (GLWB) rider has been a mixed blessing for VA issuers. It brought in lots of premium, but it attracted qualified money (seeking retirement income), mainly from IRAs, instead of the after-tax money (seeking tax deferral on large sums) historically associated with VA purchases.

Qualified contracts with GLWBs are less likely to lapse, and to the extent that those riders were underpriced (as many were during the VA "arms race" of the mid-2000s), the cost of maintaining them and managing their market risks and longevity risks can make them long-term liabilities.

According to LIMRA, contract owners who elected guaranteed lifetime withdrawal benefits (as opposed to guaranteed minimum income benefits, withdrawal benefits or account balances) who purchased their contracts with qualified money, who set up systematic withdrawal plans, and who keep their annual withdrawals close to the percentages dictated by the rider, were the **least likely to surrender** their contracts in 2012.

Assessing the 2.36 million existing VA contracts with living benefits in 2012, LIMRA found that 71% were owned by Boomers ages 48 to 66 and two-thirds were purchased with qualified money. The average contract was "in the money" by $16,300 in 2012. (Thanks to the bull market, the amount of in-the-moneyness has probably shrunk since then, a LIMRA spokesman said.)

Owners of qualified contracts with living benefits had an average surrender rate of only 4.2% in 2012, and those with a GLWB had an average surrender rate of just 2.9%. Surrenders by GLWB owners with systematic withdrawal plans were rare (2-3% at any age).

FIA sales soar

The abrupt rise in sales of fixed indexed annuities (FIAs) during the last three quarters was the big annuity sales story of 2013. Sales rose to $11.9 billion in the fourth quarter from $7.9 billion in the first quarter.

Fixed indexed annuities are selling better for several reasons. The five-year Treasury rate more than doubled after May 3, to 1.72% from 0.68%, offering fixed annuity issuers about 100 basis points of breathing room. Aggressive private equity-owned insurers, particularly Security Benefit, made their presence felt. FIAs with GLWBs probably absorbed some of the demand for lifetime income that VA issuers lacked the appetite or the capacity for.

The Boomer retirement wave continued to drive demand for guaranteed income. In 2013, $105 billion of the $230 billion in annuity sales involved income guarantees, according to LIMRA. VAs with GLWBs accounted for $61.7 billion, VAs with GMIBs for $11.9 billion, and FIAs with GLWBs for $20.7 billion. Single premium immediate annuities ($8.3 billion) and deferred income annuities ($2.2 billion) both posted record annual sales.

Resignation in retirement

Mathew Greenwald of Greenwald & Associates, the research survey firm, and Carol Bogosian of the American Society of Actuaries presented the findings of a recent survey and focus groups involving 1,000 near-retirees, 1,000 retirees, and 200 retired widows ages 45 to 80.

The research, part of the Society of Actuaries' ongoing analysis of the cluster of risks associated with aging and retirement, found that most **people drift into retirement without much planning or preparation**, nor do they worry much about their ability to adapt to the challenges of retirement if and when they arise.

Middle-aged and older Americans tend to be either confident, optimistic or resigned about retirement. They appear to underestimate their need to tap savings in retirement (as a supplement to pensions, Social Security, dividends, capital gains and interest), tend not to recognize the risk of cognitive decline in old age, and don't appreciate the potential impact of inflation on their future purchasing power, the data showed.

As earlier research has shown, many pre-retirees seem to overestimate their ability or willingness to extend their working years. In focus groups, retirees confessed that retirement is often thrust upon people rather than chosen.

"When the company reorganized and showed that they weren't interested in people my age and opportunities came and went. Opportunities came to younger people and to me it was a sign that you'd better start thinking about it," said one focus group participant.

Another said, “I was on the road constantly. I found that I was getting less and less enjoyment out of it… It was just too much.”

RETIREVILLAGE
PARTNERS WITH ANNUITY.COM

Hello RetireVillage subscribers.

A quick note on uploading contacts to your RetireVillage.com website…. If you want us to upload your contacts for you send them to us in the attached Excel spreadsheet attached. If your contacts are in an .xls format and you want us to convert it to a .csv file for uploading just send it over and we will do it for you.

If you want to upload them yourself here are the instructions. Login for your site is at the bottom of your home page.

Please feel free to call or e-mail anytime with questions you may have. 800-814-5378 Joe Rych

1) Contact list must be in CSV (comma delimited) format – if they are in XLS format open your file and save as a CSV (comma delimited)

2) You only need to enter first name, last name, and e-mail address

3) Log into your website at bottom of home page

4) Click on “My Contacts”

5) Then click on “upload contacts”

6) To upload contacts, browse to the file folder where you saved your CSV file - Then click on the orange “upload” button

7) You will then see a screen that shows how many contacts were uploaded

Thanks again for your support…. Please feel free to call or e-mail anytime with questions you may have.

800-814-5378

Joe Rych

Rollovers are important, learn these….BB

5 facts to know about retirement plan rollovers

http://www.lifehealthpro.com/2014/04/22/5-facts-to-know-about-retirement-plan-rollovers

here is a sample, things you should know….BB

Lump Sum Distributions

For certain older taxpayers, special tax breaks exist for qualified retirement plan (e.g., 401(k), profit sharing, pension, or stock bonus) distributions which are taken pursuant to a **lump sum distribution**. In general terms, a lump sum distribution is simply a distribution of the entire qualified retirement plan balance to the taxpayer within one tax year.
However, in order to obtain special tax treatment under the lump sum distribution rules, the following must occur:

1. The distribution must be taken from an exempt trust (i.e., 401(k), profit sharing plan, etc.);

2. The entire plan balance must be paid to the retiree (i.e., plan participant);

3. The entire distribution must take place within one tax year (i.e., by December 31); and

4. The qualified plan balance must be payable to the taxpayer "on account of" (upon) one of the following triggering events:

   a. Death;

   b. Attainment of age 59½;

   c. Separation of employee from service; or

   d. Disability.

As many of you know I have been selling life insurance lately, when the situation makes sense. Ed Slott has a great idea here, have a look….BB

http://www.lifehealthpro.com/2014/05/01/3-reasons-to-replace-the-stretch-ira-with-life-ins

3 reasons to replace the stretch IRA with life insurance

By Ed Slott
MAY 1, 2014 •

Now is the time to help clients plan to replace the stretch IRA with something even better — life insurance.

No one is a bigger fan of the so called "stretch IRA" than me. I've been touting its benefits for over 20 years. The stretch IRA is a term that describes how an inherited IRA can be extended ("stretched") over the lifetime of an individual IRA beneficiary if the IRA was set up properly and the beneficiary knows what to do after death.

But the stretch IRA may be on the chopping block. Congress is constantly looking for new revenue and may soon replace the stretch IRA with a 5-year rule: Instead of extending distributions from inherited IRAs over a beneficiary's lifetime, the beneficiary will have to withdraw the entire inherited IRA by the end of the 5th year after the year of the IRA owner's death. This will diminish the long-term benefits of leaving an IRA or a Roth IRA to beneficiaries.

Now is the time to help clients plan to replace the stretch IRA with something even better — life insurance. Life insurance has three huge advantages over the stretch IRA:

1 — Life insurance distributions to beneficiaries are tax-free

Though an inherited IRA can be stretched, the distributions will generally be taxable. Though inherited Roth IRA distributions will generally be tax-free to beneficiaries, the Roth IRA is paid for using funds that could be better leveraged for life insurance instead. Taking taxes out of the picture gives beneficiaries more leeway with distributions.

2 — Life insurance is not subject to required minimum distribution (RMD) rules

Inherited IRAs are subject to RMDs (whether the beneficiary needs the funds or not), forcing distributions out of the inherited tax-sheltered account. In addition, calculating RMDs on inherited IRAs can be challenging for beneficiaries and can result in penalties if the right RMD is not taken.

3 — Life insurance is not buried with complicated tax rules

Inherited IRAs are subject to confusing and tricky tax rules that make it more likely that an IRA beneficiary will blow the stretch IRA and end up with a tax problem instead.

Moving inherited IRA funds incorrectly can cause the account to be taxable because a non-spouse IRA beneficiary cannot do a rollover, but most beneficiaries do not know this.

Inherited IRA funds cannot be rolled over into a beneficiary's own IRA. That would be treated as a distribution triggering premature income taxes and ending the inherited IRA. Beneficiaries are generally not aware of these tax traps until it is too late.

Finally…wonder what the "catch" will be….BB

FINRA approves background checks for brokers

http://www.investmentexecutive.com/-/finra-approves-background-checks-for-brokers

Separately, FINRA says that it also plans to search public financial records for all registered reps, and that it will be searching publicly available criminal records for all registered individuals who have not been fingerprinted within the last five years. In the future, it also plans to conduct periodic reviews of public records to ascertain the accuracy and completeness of the information available to investors, regulators and firms

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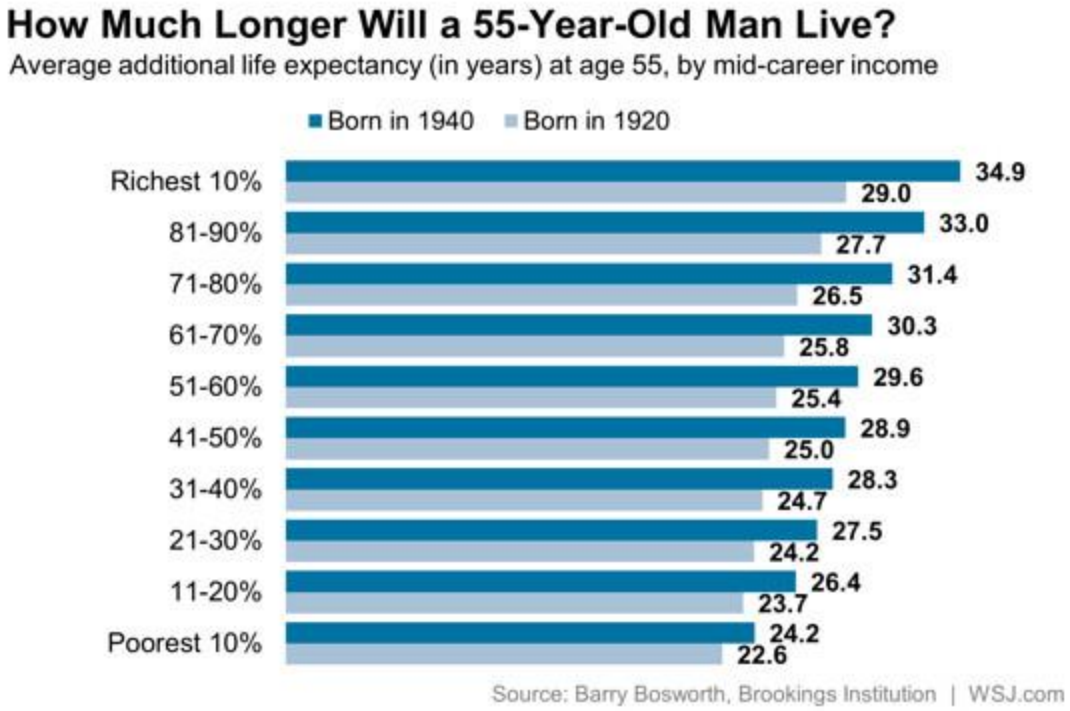
The older you are, the older you are….BB

Now, here is how I look at this info, other than possible access to a better doctor, what is it the rich have that poorer folks don't have? Money. But wait, money isn't the answer it is not worrying about money that is the key. If you have enough money every month to live as you wish then you have less stress. What do we provide that can provide income? **Income riders. If** Income Riders can provide income that cannot ever be outlived, then stress would be less right?

So the real analysis would be changed to this, if you have an income rider you will live longer, make sense? BB

http://blogs.wsj.com/economics/2014/04/18/the-richer-you-are-the-older-youll-get/

Economist **Barry Bosworth** at the **Brookings Institution** crunched the numbers and found that the richer you are, the longer you'll live. And it's a gap that is widening, particularly among women.



Mr. Bosworth parsed this data from the **University of Michigan**'s Health and Retirement Study, a survey that tracks the health and work-life of 26,000 Americans as they age and retire. The data is especially valuable as it tracks the same individuals every two years in what's known as a longitudinal study, to see how their lives unfold.

The good news is that men of all incomes are living longer. Yet the data shows that the life expectancy of the **wealthy is growing much faster than the life expectancy of the poor.**

I still stand by my philosophy that stress is the major cause of not living longer and knowing you have income that can never be outlived can reduce stress. BB

Don't ask me why agriculture shown twice?

I think it is interesting where our money from taxes is spent.

What $10,000 In federal income taxes Pays for, 2014 (Excluding taxes and expenditures for Social Security and Medicare)	
Programs	Share
Health care	$2,519
National defense	2,479
Job/Family security	1,877
Net interest	864
Veterans benefits	544
Misc. programs	498
Immigration/Law enforcement/Justice	206
Natural resources/ Energy/Environment	192
International affairs	182
Agriculture	115
Science/Space/ Technology programs	113
Disaster response	90
Agriculture	115
Community/Regional/ Area development	37
All programs	10,000
Source: The White House, April 15, 2014.	

Here is a handout for basic SS information, designed to kick the door open for a more advanced discussion, feel free to customize it as I have done below as an example.

Tips for Understanding Social Security to Maximize Your Retirement Income

Written by Joan Smith, The Smith Agency, Calistoga CA

Joan Smith specializes in working with seniors and baby boomers in the Calistoga area. Joan also has her own radio show every Thursday at 7 pm on KPRW (7:10 am). Safe Money radio with Joan

Everyone makes mistakes and the Social Security Administration is not exempt. If you are relying on social security as a portion of your retirement income it is important you make sure your income is at the level it is supposed to be. It is a financial calculation and if a mistake is made it could affect your income.

Here are some tips:

- **Incorrect Reporting Data**: Social security income is based on your earnings. If an error is made in reporting then the calculation can be off. Each year the Social Security Administration sends you a statement of your account. Look at it and compare it with your income tax returns. Even a small mistake can have a long term affect. Your report will have a toll free number to call to speak to a real person....here is the number. 800-772-1213.

- Incorrect calculations: Your benefits are based on a mathematical formula. Make certain that no mistake was made in the calculation, go to their website and you can double check their math. www.socialsecurity.gov

- **Incorrect personal data**: This could be a mistake in your birth-date, social security number, marital status or address. Many times mistakes are made after a divorce and a name change.

- **Incomplete information about a spouse**: Many times a spouse will keep their name in marriage and the records at social security are not adjusted to reflect the marital status. In the event of

multiple marriages the surviving spouse may not receive all the expected benefits, a calculation can include previous spouses.

You must sign a disclosure, I am not recommending this for your clients, use it for information. This information is also available through Morningstar for a fee. I am a subscriber at Morningstar.

FINRA Fund Analyzer

http://apps.finra.org/fundanalyzer/1/fa.aspx

	BlackRock Aggressive Growth Prepared Portfolio Class C
	Data as of 4/22/2014
Ticker Symbol	BCAPX
Investment Amount	$10,000.00
Estimated Return You Selected	5.00%
Holding Period	**10**
Fund Value After 10 Year(s)	$13,537.92
Profit/Loss	**$3,537.92**
Total Fees & Sales Charges	$2,160.82
Total Fees	$2,160.82
Total Sales Charges	$0.00

Medicaid is welfare, I think it is important to have a basic knowledge of this topic, I am asked often about it. Jeff Sadlers article is very well done and informative....BB

4 things to know about Medicaid, long-term care

BY JEFF SADLER
May 5, 2014 •

To understand the state of Medicaid today, it is important to understand the costs of the program and the expenses state legislatures face every year.

In good economic times, there is generally enough revenue to fund the program and little or no budget alteration is needed. But when times are tough (and these past few years have seen America in its most precarious financial situation in decades), the job becomes exceedingly difficult.

Cuts to Medicaid are difficult to make, yet that is what virtually every state has had to do over the last few years to one degree or another.

In regard to long-term care and Medicaid, only 7 percent of Medicaid beneficiaries utilized the program for help with long-term care expenses, but they were responsible for 52 percent of Medicaid expenditures. If Medicaid were a business and its chief financial officer looking to cut expenses to get out of the red, long-term care expenses would likely be the place to start.

Other Medicaid long-term care numbers bear this out:

- One-third of elderly Medicaid enrollees used long-term care services, but they accounted for **86 percent** of all Medicaid spending on the elderly.
- Fifteen percent of beneficiaries classified as disabled used long-term care services, but they accounted for 58 percent of all Medicaid spending on the disabled.

The economy is improving, but this trend is unlikely to reverse itself.

Desperate states may be forced to take frantic measures; **they can actually opt out of the Medicaid program if they desire**. They are required to participate only if they want federal funding. Some states are crunching the numbers to see whether they can abandon the Medicaid program and all it entails and instead construct their own, less costly health insurance programs for the poor.

Elected and appointed officials in several states, including Washington, Texas, South Carolina, Wyoming, and Nevada, have publicly floated the idea. Wyoming found that Medicaid accounts for 63 percent of its nursing home revenue.

Governors are constantly lobbying the federal government for leeway in administering the programs in an attempt to trim the number of Medicaid beneficiaries. The current percentage of Americans on Medicaid is the highest since 1987.

Just a few years ago, the state of Virginia actually proposed a bill in its legislature (Virginia House Bill 345) that required it to withdraw from Medicaid upon passage of the Patient Protection and Affordable Care Act (PPACA).

How did it come to this? What is Medicaid and what are the objectives of this public system?

1. Just what is Medicaid?

Medicaid is a **welfare assistance** program for low-income individuals and is also the largest payer of long-term care expenses in the country. The Medicaid program is jointly funded by federal and state governments. Since each state's rules can vary, guidelines on eligibility differ from state to state for Medicaid benefits.

In general, an individual can keep only up to $2,000 to $3,000 worth of assets, while a spouse's protected assets are one-half of the couple's countable assets up to the maximum, which is indexed annually. In many states the 2013 maximum was $115,920.

(a good source is www.elderlawansers.com BB)

In addition, a monthly income allowance is permitted for people who apply for Medicaid and the amount of income varies by state. Spouses are generally allowed to keep their income, and if it falls below a specific amount, which varies by state and is indexed annually, income from the *disabled spouse* (i.e., Medicaid participant) can be directed to the *community spouse* (i.e., income from the spouse on Medicaid can be directed towards the spouse not on Medicaid.).

2. How is Medicaid eligibility determined?

Medicaid eligibility rules are sufficiently vague and subjective to make qualification easier than one might expect in the hands of a capable elder law attorney. Frankly, this is where some of the thornier ethical issues surrounding Medicaid lie.

The Medicaid program was intended for **poor people**, not people who are poor on paper. Many long-term care Medicaid beneficiaries are in the middle- to upper-income classes and, without assistance to obtain eligibility, they would never be in the program. This slippery means of qualifying is not illegal, but one can see from the numbers that it has caused overuse of the program with the relatively few people accessing it for long-term care aid responsible for spending a disproportionate share of public monies for their long-term care expenses.

The federal government has tried in the past to tighten up some of the vague language through which people can easily qualify. Each federal move has been countered by an

analysis of the law and the identification of a new loophole, launching another round of what is referred to as "Medicaid planning." The government then responds with more regulation, and so on. It's like a chess match without a timer.

The Deficit Reduction Act of 2005 was the boldest move by the federal government to date in this ongoing battle to preserve Medicaid for the truly needy. In addition to reauthorizing the Long-Term Care Partnership Program, the Deficit Reduction Act made several changes to Medicaid eligibility:

- The look-back period on a Medicaid application is now **five years for everything**. It used to be five years only for transfers involving trusts, and three years for all other transfers; now, Medicaid will be checking your client's finances a full *five* years from the date of application.
- The penalty period assessed for individuals deemed ineligible for Medicaid benefits because of a transfer within the look-back period now begins with the date of Medicaid *application*. Previously, the ineligibility period started on the date of *transfer*. That's a significant difference. Now every financial transaction made in the previous five years is scrutinized and any penalties are assessed according to the date of application. This change dealt a substantial blow to some Medicaid planning strategies for those trying to qualify as "poor on paper."
- A cap was placed on the amount of home equity allowed when determining Medicaid eligibility. **The cap is currently $536,000**, although states can opt for $802,000, providing they apply for permission from the Department of Health and Human Services. The majority of states have used the $500,000 limit (as indexed for inflation) as they do battle with their own Medicaid budgets. Some states (Idaho and Nebraska, to name two) have chosen the $750,000 limit (as indexed for inflation), probably in recognition of the number of farms in those states whose equity value can be calculated on the high side. This rule was enacted to counteract the Medicaid planning technique of putting the majority of assets into a protected asset — the home — from which money could be easily accessed via a home equity line of credit. This was a less risky move than transferring assets out of one's name.
- Any annuity that has a deferred or balloon payment is counted as an asset. Or, if it has gone into an irrevocable payment mode, the annuity will be considered an asset transferred at less than fair market value and will be subject to a qualifying penalty period. Further, a Medicaid applicant must name the state as remainder beneficiary on all annuities or as second remainder beneficiary behind a spouse, disabled child, or minor child under the age of 21.

Note: Medicaid is called *Medi-Cal* in California and *MassHealth* in Massachusetts.

Many elder law attorneys cried foul when this law was finalized, and there have been repeated attempts to repeal it. Although there is concern that some legitimate Medicaid claims might fall through the cracks, lawmakers hoped that these changes would discourage people who could otherwise pay for their care or transfer the risk to a third party (by purchasing insurance for it).

The idea was to ease some of the growing financial pressure on the states trying to administer the program and long-term care expenses are the major culprit in the rise of these expenditures. Solve that problem, states reason, and perhaps the whole program can be salvaged.

People often forget that Medicaid is a publicly financed program: it is paid for with tax dollars. Individuals who find their way into this program when they have the resources to afford other solutions hurt those who do not have such options and who depend on this aid. Every day state legislators and administrators wrestle with their Medicaid budgets. This is why most states have embraced the Long-Term Care Partnership Program as a way to help reduce this financial burden.

Following is a listing of what one can keep today and still qualify for Medicaid:

- An individual's principal residence if home equity is below the threshold of $536,000 in 2013 (or $802,000 in some states); it can be above these limits if a spouse or child (under age 21 or blind and disabled) lives in it. The home equity limit is indexed for inflation.
- An automobile
- Personal property up to reasonable limits
- Jewelry (such as an engagement or wedding ring)
- A small amount of life insurance cash value
- Burial plots
- If married, the healthy spouse can keep (in 2013) 50 percent of total assets up to $115,920
- Long-term care partnership policy proceeds

The obviously vulnerable assets here are the liquid ones: cash, checking and savings accounts, investments, stocks, individual retirement accounts, pensions, etc. These assets would have to be transferred out five years ahead of filing for Medicaid assistance.

. What are the drawbacks?

When individuals put themselves in the hands of Medicaid, people who are accustomed to having their own way may be in for a surprise.

First, the asset transfer must be irrevocable: in short, you cannot access that money. You can, however, transfer it to a child and have your bills directed to them to pay. But be careful. One agent told me that he knew a couple who transferred all their liquid money away to their son, only to see him divorced a couple of years later and half of their assets going to their former daughter-in-law.

Second, a Medicaid recipient may not be able to go to the facility that they want for long-term care. Medicaid works only with providers who accept Medicaid reimbursement (the lowest of any third-party payers), which could limit one's choice. Third, a Medicaid

recipient will likely have roommates. People whom you might never have associated with in your former life are now your companions for the rest of it.

Recent changes to the Medicaid program have made it more attractive for those trying to qualify for Medicaid assistance. In the past, one of the biggest drawbacks to qualifying for the Medicaid program for long-term care assistance is that Medicaid would traditionally reimburse only for nursing home care, the least desirable (to consumers) of all long-term care services. But in the last decade, Medicaid has been mandated to cover the more desirable benefit of home care. This has gained the interest of more consumers who in the past would have dismissed Medicaid as a financing option.

The home care movement in Medicaid stems from the 1999 U.S. Supreme Court ruling on *Olmstead* v. *L.C.,* which held that the unnecessary institutionalization of people with disabilities is a form of discrimination. Thus began a steady shift of Medicaid beneficiaries from nursing homes to their own homes. Advocates say it saves Medicaid money because home care is less expensive. Opponents of this trend state that it merely extends the length of a Medicaid claim because you are giving people something they want — home care — vs. a nursing home, and thus are inviting earlier application. States simply see larger Medicaid expenditures every year.

Many of the wealthier people who take the Medicaid planning route do so even though the easier (and affordable) alternative might be to pay for long-term care insurance instead. Most advisors in this area likely counsel their clients to consider long-term care insurance first before orchestrating any financial moves to improve their eligibility for Medicaid.

Medicaid planning takes on added importance, however, if one cannot qualify for long-term care insurance coverage. An individual must satisfy a number of medical underwriting criteria to buy a long-term care insurance policy. Although there are many long-term care insurance solutions, an individual should consult an elder law attorney if he or she cannot qualify for long-term care insurance to create a prudent financial strategy for long-term care.

. What are the looming threats?

But Medicaid is currently facing nearly insurmountable financial problems, despite the best efforts of the American Recovery and Reinvestment Act of 2009 (ARRA), which boosted federal funding for Medicaid to the states through June 30, 2011). The new health care law also increases Medicaid enrollment with (again) some financial help from the federal government to get it going.9

But these are temporary band-aids on a situation that cries out for long-term fiscal solutions. The federal government may be able to artificially prop these programs up for a time, but states face tougher decisions ahead. It seems likely that long-term care expense reimbursement would be a promising area to trim to balance a state budget.

Today, **Medicaid accounts for 40 percent of all long-term care spending**. And because this serves only a small number of beneficiaries overall, look for states to consider making eligibility for reimbursement of these expenses much harder for potential applicants. Many will apply to the Department of Health and Human Services for an exception. Others will seriously consider opting out. Either way, the budget issue will be dealt with — in the interest of balancing the numbers.

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