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PASADENA LAW GROUP

ELDER LAW *Update*

NEWS AND IMPORTANT INFORMATION FOR SENIORS AND THEIR FAMILIES

In This Issue

- Worried About Running Out of Money In Your So-Called "Golden" Years? You Are Hardly Alone ....Page 1
- Reverse Mortgages Seem To Be Winning New Respect ....Page 3
- A Personal Note From Jan ....Page 4

Worried About Running Out Of Money In Your So-Called "Golden" Years? You Are Hardly Alone

Americans are living longer than ever before. That's great news, but it has a downside—the possibility of outliving our life savings. According to the Social Security Administration, a 65-year-old man can expect to live to age 84, on average, while a woman of the same age may make it closer to age 87. So if you retire at the age of 62, your nest egg may have to last for at least 20 years. Sure, Social Security will provide an income stream, but the amount is not enough for most retirees to live comfortably.

Little wonder, then, that according to a recent survey by the Transamerica Center for Retirement Studies, the most frequently cited retirement concern among Americans is outliving their savings and investments. In the survey, 44% or respondents across all ages expressed this fear, as compared to 41% of retirees. In addition, 47% of retirees believed they had not amassed a nest egg large enough to make it through retirement. A recent article in *Kiplinger* addressed this issue and offered advice on how to avoid going broke in retirement. Here are some of the highlights.

Don't Abandon Stocks

Yes, stocks can be risky. In January, Standard & Poor's 500-stock index was a roller coaster ride, with frightening drops and exhilarating climbs, but it the end it wound up down 5% for the month. Meanwhile, "expert" opinions online and elsewhere seem just as inconsistent. One investment guru claims the market is headed for imminent, unprecedented collapse, while another predicts record highs for years to come. Market volatility and commentary like this leads many retirees to abandon stocks. Unfortunately, without stocks it is very difficult to get the growth you need to live comfortably for 20 years or more after retirement.

(cont.)

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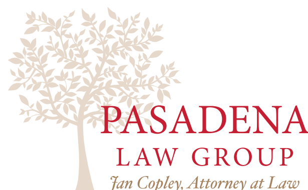

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Worried About Running Out Of Money In Your So-Called "Golden" Years? You Are Hardly Alone (cont.)

What should you do? While there is no universal formula, many advisors recommend moving to 60% stocks as you approach retirement, trimming back to 40% stocks in early retirement, and holding just 20% of your portfolio in stocks later in retirement.

Tap Retirement Accounts In The Proper Order

Lacking a sound withdrawal strategy can be costly. According to Carrie Schwab-Pomerantz, Chief Strategist for Consumer Education at Charles Schwab, the most tax-efficient approach is to first draw down the principal from maturing bonds and certificates of deposit, since they are no longer bearing interest. After that, if you are 70½ or older, you should take your required minimum distributions (RMDs) from traditional tax-deferred accounts, like IRAs and 401(k) plans, with a focus on assets that are no longer appropriate for your portfolio or overweighted. This is because you will be subject to severe penalties from the Internal Revenue Service if you fail to take your RMDs on time. Next, you'll want to sell from taxable accounts, since you only have to pay taxes on their capital gains. (It is important to note that if you are in the two lowest tax brackets you will not be subject to capital gains taxes.) Finally, you should take withdrawals from your tax-deferred and Roth accounts, in that order.

Don't Skimp On Insurance

Most seniors need to cut costs in retirement, but skimping on insurance is not the best way to do it. Maintaining adequate health insurance is particularly important. A serious illness or injury could be financially devastating and wipe out your life savings. While Medicare Part A is free for most retirees and covers hospital services, you have to spend more for Part B and Part D. (Part B covers visits to doctors and outpatient services while Part D is for prescription drugs.) Even with all of this, you might want to consider a supplemental Medigap policy for copayments, deductibles and the like. According to Schwab-Pomerantz, "Medicare is very complex, and it's more expensive than people realize. So it definitely needs to be part of the budgeting process."

You should also make sure you have adequate auto and home insurance. As people grow older, the chances of having accidents on the road and at home increase. According to the Centers for Disease Control and Prevention, adults 65 and older are injured in car accidents at a rate of 586 per day. In addition to your medical expenses, an adverse ruling in an accident related lawsuit could prove financially catastrophic. This is why you need to review your automobile and home insurance policies, and increase their limits if they seem inadequate. Or, purchase a separate umbrella liability policy. An umbrella policy will kick in if the limits on your primary policies are exceeded. Umbrella policies are surprisingly affordable, with premiums on a $1 million policy costing approximately $300 a year.

For additional tips on protecting your nest egg in retirement, you can read the entire *Kiplinger* article by going to **http://www.kiplinger.com/slideshow/retirement/T037-S001-12-ways-to-go-broke-in-retirement/index.html.**

Reverse Mortgages Seem To Be Winning New Respect

Ten years ago, many financial advisors dismissed reverse mortgages out of hand. Their reasoning was that reverse mortgages, which give homeowners an advance on their home equity and allow them to delay repayment until the home is sold, were risky and only for people in desperate financial straits.

However, according to an article by the editor of Retirement Weekly, new safeguards have led many advisers and researchers to reevaluate reverse mortgages and explore when and how they might be used in financial planning. For example, the Reverse Mortgage Stabilization Act of 2013 prevents homeowners (in most cases) from taking all of their equity at once, which could reduce the default rate on reverse mortgages by half. Instead, homeowners with reverse mortgages must wait at least one year to take a lump sum.

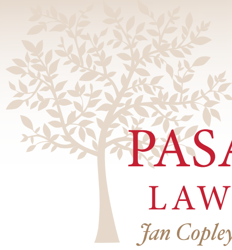
Other regulations require homeowners to show that they are able and willing to pay their property taxes and home insurance. In 2014, almost 12% of reverse-mortgage borrowers in the federally insured Home Equity Conversion Mortgage (HECM) program defaulted on their property taxes or homeowners insurance. Another new regulation provides protection for the nonborrowing spouse.

It is important to note that in the HECM program the government assumes some of the risk for the borrower. An HECM borrower is typically not responsible for losses associated with negative equity. If the balance on the reverse mortgage exceeds the value of the home, the federal insurance covers the difference.

So what are some of the best ways to utilize a reverse mortgage? One involves borrowing enough of the equity in the home to pay off an existing mortgage. It is estimated that over 60% of reverse-mortgage borrowers have used the proceeds from the reverse mortgage for this purpose. Why is this strategy beneficial? A recent report by Harvard University's Joint Center for Housing Studies found that nearly 40% of seniors age 65 and older carry a mortgage today, more than double the number who did so in 1992. Using a reverse mortgage to pay off a forward mortgage can improve a household's monthly cash flow. Of course, it is essential to avoid overleveraging oneself. If the homeowner uses the borrowed money to, say, buy an expensive new car, then he or she has not only taken on more debt but also lost the financial cushion of having equity in a home.

Another way to use a reverse mortgage is to establish a line of credit through the HECM program. This can make more sense than taking a lump sum and holding the money in reserve. The unused portion of a line of credit grows over the years, providing the homeowner with access to more money. This money can be used in a variety of ways, such as protecting savings, increasing income in retirement, and even protecting retirement funds from fluctuations in the financial markets. How? In a bear market, the homeowner can borrow funds as needed through the line of credit instead of withdrawing money from his or investment portfolio. When withdrawals from a portfolio are made during down markets, the losses are locked in and less money is available for growth when the markets eventually rebound. By borrowing from the HECM line of credit instead, the portfolio has a better chance to recoup losses from a bear market.

Reverse mortgages are not for everyone. To find out if one is right for you, contact us today for a personal consultation. You can read the entire article from the editor of *Retirement Weekly* by visiting **https://finance.yahoo.com/news/math-reverse-mortgages-030200085.html**.



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A Personal Note From Jan

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