VISION FINANCIAL ADVISORY CORP
ENHANCING YOUR VISION

Paying for Long-Term Care During Retirement

Vision Financial Advisory
John D. VanDyke, ELP
Financial Advisor
5787 Balsam Dr.
Hudsonville, MI 49426
888-655-9561
616-455-3909
john.vandyke@visionfinancialpc.com
www.visionfinancialpc.com

Hi Everyone,

We're entering the Christmas season with a snowy start! As we look toward the end of 2010, some noteworthy changes are on the horizon, particularly in the tax arena. Some of those issues are addressed in this newsletter.

Also, long term care and the weakening dollar are a couple of subjects that are increasingly in the financial mainstream, and so I've included related information in this edition.

Thank you for your business... and enjoy a wonderful Christmas season!

-John

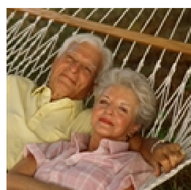
December 2010

Paying for Long-Term Care During Retirement

Cash-In Refinancing: Can You Benefit from This Growing Trend?

Year-End Investment Planning Is More Challenging in 2010

What does a stronger dollar mean for my portfolio?



You may have spent a good part of your working years planning for a financially secure retirement. But many issues can arise during retirement that can impact your financial health as well as your quality of life. For instance, the cost of medical expenses due to a prolonged illness or injury can quickly deplete your retirement savings and affect your quality of life and your spouse's. As we get older, the prospect of long-term care becomes a real possibility. If you're retired, how will you pay for long-term care if faced with those expenses?

Retirement savings and income

An obvious source for paying long-term care expenses is current income you receive from a retirement pension or Social Security retirement income. However, using current income may prove insufficient, or impractical, given other household expenses.

You could use qualified retirement accounts such as a 401(k) or IRA, or investments you set aside as a retirement nest egg. But you may be spending savings otherwise needed for the current or future financial support of your spouse or other family members. And withdrawals from qualified retirement accounts are generally taxed as ordinary income, meaning the more you take out, the more you may have to pay in taxes.

If you have equity in your home, you may be able to tap into that to pay for long-term care. However, since your home is probably one of your most valuable assets, there are many issues to consider before using it to pay for long-term care. Should you sell your house or take out a home loan? If you decide to take out a loan, what type of loan will work best for you? Some loan options include a conventional home equity loan, a first mortgage, and a reverse mortgage.

Private insurance

Aside from paying for your long-term care out of your own pocket, you might share the cost through various insurance products. The most common of these is long-term care insurance, which typically pays for the cost of long-term care up to a specified dollar amount per day, such as $150, for a fixed period of time, such as three years. Most policies will pay for care provided in your home, in an assisted-living facility, and in a nursing home. But the premium for this type of insurance can be expensive and the policy usually doesn't cover the entire cost of care, meaning you'll probably still have to pay for a portion of your long-term care expenses out-of-pocket.

Other types of insurance may also be used to pay for long-term care. Cash value accumulations in life insurance or annuities can be accessed, either by cashing the policy in or by borrowing against the cash value. However, policy loans and cash value withdrawals may reduce the policy's death benefit or cause the policy to lapse. Also, some life insurance and annuities have built-in features or riders that allow access to amounts in excess of the cash accumulation value if it's used to pay for long-term care.

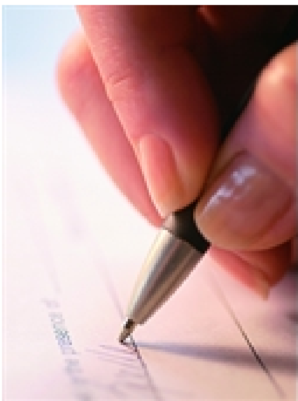
Medicaid and veterans benefits

According to the National Clearinghouse for Long-Term Care Information, Medicaid pays for about 49% of aggregate long-term care expenses. Medicaid is a federally funded program administered through the states that provides long-term care benefits for those who meet state-specific financial eligibility requirements, as well as certain health or functional criteria. However, retirees are often unable to qualify for Medicaid because their income or asset values exceed financial eligibility requirements. Aside from Medicaid, the Department of Veterans Affairs may provide long-term care for service-related disabilities for veterans who meet eligibility requirements.

Cash-In Refinancing: Can You Benefit from This Growing Trend?

A growing trend

According to Freddie Mac, 33% of homeowners who refinanced their first-lien mortgages in the third quarter of 2010 did a cash-in refinance.



With mortgage interest rates at or near historic lows, you may be wondering if it's time to refinance your home. But declining property values and stricter mortgage lending standards may make it harder for you to capitalize on low mortgage rates, because you may no longer have enough equity in your home to qualify for a new mortgage. Enter cash-in refinancing. With cash-in refinancing, you bring cash to closing to reduce your mortgage balance and increase your home equity, enabling you to meet the lender's loan requirements.

Why is cash-in refinancing becoming popular?

Cash-in refinancing reverses the trend of cash-out refinancing that has been popular during the last decade. If, like many homeowners, you refinanced your home three or four years ago when home values were skyrocketing, you may have tapped into your available home equity to obtain cash to invest, put toward home improvements, or pay off debt. According to Freddie Mac, more than 80% of homeowners who refinanced a few years ago received cash back at closing. But the unfortunate combination of declining home values and rising foreclosure rates forced financial institutions to tighten lending standards, leading to a sharp increase in the number of homeowners now putting cash in at closing instead of taking cash out.

Of course, to complete a cash-in refinance, you must have a lump sum of money that you can put toward reducing your mortgage balance. Those contemplating a cash-in refinance often have funds sitting in a savings or money market account that is yielding low returns--e.g., 1% or less--that they would like to put to better use. For example, if you're nearing retirement and plan to stay put, you may especially welcome the opportunity to pay down your mortgage balance and refinance at a low interest rate, thereby reducing your retirement expenses.

Here are some other reasons to consider a cash-in refinance:

- You can't otherwise qualify to refinance because the value of your home has declined. If the appraised value of your home has fallen, your equity may not be enough to meet minimum lending requirements; bringing cash to the table may enable you to refinance your loan.
- You have enough equity in your home to meet a lender's criteria for refinancing, but not enough to avoid paying private mortgage insurance (PMI), which lenders generally require if you have less than 20% equity in your home. Bringing enough cash to the closing to reach that all-important 80% loan-to-value ratio will enable you to avoid paying PMI and reduce your mortgage balance at the same time.
- You want to qualify for a better mortgage interest rate and terms. For example, putting cash in at closing could help you avoid taking out a jumbo mortgage, which generally has a higher interest rate.
- You want to reduce your loan term. For example, now that interest rates are low, you may be able to afford the monthly payment on a 15-year mortgage rather than a 30-year mortgage, but to do so, you need additional home equity.

Even if you can refinance, should you?

The prospect of potentially shaving hundreds of dollars off your monthly mortgage payment or saving thousands of dollars in interest over the life of your loan is obviously appealing. But there's a lot to think about before you take the plunge. One major drawback of increasing your home equity is that you could tie up money you may need for other purposes, such as reducing high interest debt or bolstering an emergency savings account. Home equity isn't liquid, and in difficult economic times it's wise to have some cash on hand. It's possible that home values will continue to decline instead of stabilize or even rise; if so, you may sink further underwater, so make sure you're able to ride out the economic storm.

Finally, make sure that you'll really benefit financially from a cash-in refinance. For example, if you plan on moving within the next couple of years, you may not have enough time to recoup the costs associated with obtaining a new mortgage, even if you're able to refinance at today's historically low interest rates.

Dave Ramsey's Endorsed Local Providers elp

Year-End Investment Planning Is More Challenging in 2010

Federal tax brackets for ordinary income are scheduled to change in 2011 as follows:

10% becomes 15%

15% remains 15%

25% becomes 28%

28% becomes 31%

33% becomes 36%

35% becomes 39.6%

If you don't normally review your investments at the end of each year, 2010 might be a good time to start. And if year-end investment planning is already part of your routine, you might want to pay special attention this year. Why? Because significant changes in the tax code that are scheduled to go into effect in 2011 could substantially alter the taxation of your portfolio next year. That could in turn affect your investment strategy. And since many expect additional changes that will affect next year's tax landscape, it's even more important than usual to think about whether your portfolio needs fine-tuning.

Begin planning before December 31

If you plan to sell a profitable investment at some point, you'll want to assess whether you should sell before the end of the year. That's especially true if you're in a low tax bracket or you have investments that have appreciated substantially. Investors in the 10% and 15% tax brackets currently owe no capital gains taxes on long-term capital gains. That is scheduled to change in 2011, when the long-term capital gains rate at this level is scheduled to increase from 0 to 10%. If you're in the 25% bracket or higher this year, you'll also need to think about this issue, though the scheduled increase from the current 15% to 20% isn't quite as dramatic as the leap from 0 to 10% that those in the lower income brackets will face. (Special, slightly lower rates for investments held for more than five years will apply beginning in 2011.)

Also, the tax brackets themselves are scheduled to change next year (see sidebar). If you plan to harvest a tax loss and think you may be in a higher tax bracket next year, it might make sense to first determine whether the loss would be more valuable later. Though tax considerations shouldn't be the sole factor in a decision to buy or sell, they shouldn't be ignored, either--especially this year.

Complicating your decisions, of course, is the uncertainty about whether the scheduled changes will undergo further revision before the end of the year. One possibility is to have a game plan based on the current scenario, and adjust it as warranted. It may seem like a burden, but for those in higher tax brackets, the extra effort could pay off come tax time.

Think about your overall tax burden

If you converted an IRA to a Roth IRA this year or are thinking about doing so before the end of the year, you may need to take that into account when deciding whether to book capital gains in 2010. That's because you're able to report the taxable ordinary income from the conversion on either your 2010 return or in the 2011 and 2012 tax years (half of the income in each year). Your decision about when you will account for the taxable income that results from a Roth conversion may affect your decision about the timing of investment sales, or vice versa. If you choose to report the income resulting from your Roth conversion on your 2010 return, consider whether it makes sense to realize sizable capital gains this year. If you feel it's to your advantage to sell assets and pay the capital gains tax in 2010, you may want to consider opting to postpone payment of the taxes owed on the Roth conversion until 2011 and 2012. That would mean the total taxes owed would be spread over three years rather than one (though as noted above, your future tax bracket also should be factored into the calculation).

Consider the tax status of dividends

Qualifying dividends are scheduled once again to be taxed next year as ordinary income, as they were before 2003, rather than at long-term capital gains rates, which are typically lower. If you'll be in the 15% tax bracket, that represents an increase of 15%. And if you'll be in the 28% tax bracket or higher next year, the change in the tax status of dividend payments could also have an impact; the higher your tax bracket in 2011, the greater the impact.

Don't forget the usual suspects

In addition to staying on top of the tax issues that complicate this year's investment planning efforts, there are some tasks that are useful every year. A portfolio review can tell you whether it's time to adjust your holdings to maintain an appropriate asset allocation. Also, if you have losses, you may be able to harvest those losing positions to offset some or all of any capital gains. Be sure to consider how long you've owned the asset; assets held a year or less generate short-term capital gains and are taxed as ordinary income.

If you're selling an investment but intend to repurchase it later, be careful not to buy within 30 days before or after a sale of the same security. Doing so would constitute a violation of the "wash sale" rule, and the tax loss would be disallowed. Finally, if you're considering the purchase of a mutual fund outside of a tax-advantaged account, find out when the fund will distribute dividends or capital gains, and consider postponing action until after that date to avoid owing tax on that distribution.

Vision Financial Advisory
John D. VanDyke, ELP
Financial Advisor
5787 Balsam Dr.
Hudsonville, MI 49426
888-655-9561
616-455-3909
john.vandyke@visionfinancialpc.com
www.visionfinancialpc.com

Registered representative and securities offered through Securities Service Network, Inc., member FINRA/SIPC. Fee based advisory services offered through SSN Advisory, Inc., a registered investment advisor.

What does a stronger dollar mean for my portfolio?

In the summer of 2008, investors were watching the dollar shrink. Because interest rates here were still relatively low, investors favored riskier investments that offered higher returns. The euro's value climbed to a record of almost $1.60 at one point. But with autumn came the crisis that shook the global financial system. Panicked investors suddenly decided that dollar-denominated assets such as U.S. Treasury bonds didn't look so wimpy after all. Within three months, a euro was worth 30 cents less. Worries about the European debt crisis and whether the euro would even survive as a currency has kept the dollar at roughly the same level or better for much of 2010.

What does that mean for your portfolio? The most obvious impact of a stronger dollar is on the value of overseas investments; the value of holdings denominated in a foreign currency will fluctuate with the exchange rate between that currency and the dollar. Some mutual funds that invest overseas attempt to hedge their currency exposure, using currency futures and other derivatives to try to limit the impact of that fluctuation on the fund's value. Others do not, hoping that any dollar weakness will increase the fund's value for U.S. investors.

Before investing in an international fund, check its prospectus, which is available from the fund. In addition to carefully considering its investment objectives, risks, fees, and expenses, don't forget the special risks of global investments, including political risks, currency risks, and different accounting standards; all of these can vary considerably by country and region. Also, find out whether the fund is hedged or unhedged. A falling dollar can enhance the returns of an unhedged fund, but the lack of a hedge leaves it unprotected if the dollar strengthens.

A stronger dollar can affect your portfolio even if you don't think you own any foreign investments. Many U.S.-based multinationals get a substantial percentage of their revenues overseas. A stronger dollar can cut into those revenues as U.S. exports become more expensive for overseas consumers. Also, many broad-based mutual funds include a percentage of overseas holdings among their assets.

Why should I care about Europe's debt problems?

When it became apparent last spring that Greece might be unable to make scheduled payments on its government bonds, equities plunged around the world. How is it possible for the debt of one country to have such a profound impact on investments in a 401(k) plan a continent away?

Investors were worried that Greece's problems with its budget deficit and level of sovereign debt (bonds issued by the national government) were emblematic of issues plaguing other eurozone countries--issues that could create global problems in economies with more global impact, such as Spain. For Europe, sovereign debt is the potential equivalent of the subprime mortgage market in the United States--the first domino that could spark major shocks to the banking industry and, by extension, the global financial system.

Concerns about the level of sovereign debt and the potential for default or restructuring of payments have already affected credit availability internationally; banks are conserving more capital, worried that they might need those reserves to cover any losses on their sovereign debt holdings. Global investors worry that tighter credit could slow a fragile global economic recovery or cause it to grind to a halt. European businesses and consumers that aren't able to buy U.S. exports could become a problem for U.S. corporations, many of which earn a substantial percentage of their revenues overseas.

Another concern is the stability of the euro itself. If stronger European economies lose the will to help bail out weaker countries, or if highly indebted countries are unable to make drastic and unpopular budget cuts, investors worry that the euro could be in peril. Equities hate uncertainty wherever it is, and the specter of chaos in the global financial system can affect markets worldwide. To combat these problems, European leaders have adopted many of the same steps taken in the United States during the 2008 financial crisis, such as establishing a massive lending facility and subjecting large banks to stress tests to determine their ability to withstand financial shocks.

Dave Ramsey's Endorsed Local Providers

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2013