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# INVESTMENT HOUSE, LLC

## *Financial Solutions Under One Roof*

### The Impact of Health-Care Costs on Social Security



For many retirees and their families, Social Security provides a dependable source of income. In fact, for the majority of retirees, Social Security accounts for at least half of their income (Source: Fast Facts & Figures About Social Security, 2013). However, more of that income is being spent on health-related costs each year, leaving less available for other retirement expenses.

#### The importance of Social Security

Social Security is important because it provides a retirement income you can't outlive. In addition, benefits are available for your spouse based on your benefit amount during your lifetime, and at your death in the form of survivor's benefits. And, these benefits typically are adjusted for inflation (but not always; there was no cost-of-living increase for the years 2010 and 2011). That's why for many people, Social Security is an especially important source of retirement income.

#### Rising health-care costs

You might assume that when you reach age 65, Medicare will cover most of your health-care costs. But in reality, Medicare pays for only a portion of the cost for most health-care services, leaving a potentially large amount of uninsured medical expenses.

How much you'll ultimately spend on health care generally depends on when you retire, how long you live, your health status, and the cost of medical care in your area. Nevertheless, insurance premiums for Medicare Part B (doctor's visits) and Part D (drug benefit), along with Medigap insurance, could cost hundreds of dollars each month for a married couple. In addition, there are co-pays and deductibles to consider (e.g., after paying the first \$162 in Part B expenses per year, you pay 20% of the Medicare-approved amount for services thereafter). Your out-of-pocket yearly costs for medical care, medications, and insurance could easily exceed thousands of dollars.

#### Medicare's impact on Social Security

Most people age 65 and older receive Medicare. Part A is generally free, but Parts B and D have monthly premiums. The Part B premium generally is deducted from your Social Security check, while Part D has several payment alternatives. In 2013, the premium for Part B was \$104.90 per month. The cost for Part D coverage varies, but usually averages between \$30 and \$60 per month (unless participants qualify for low-income assistance). Part B premiums have increased each year and are expected to continue to do so, while Part D premiums vary by plan, benefits provided, deductibles, and coinsurance amounts. And, if you enroll late for either Part B or D, your cost may be permanently increased.

In addition, Medicare Parts B and D are means tested, meaning that if your income exceeds a predetermined income cap, a surcharge is added to the basic premium. For example, an individual with a modified adjusted gross income between \$85,000 and \$170,000 may pay an additional 40% for Part B and an additional \$11.60 per month for Part D.

**Note:** Part C, Medicare Advantage plans, are offered by private companies that contract with Medicare to provide you with all your Part A and Part B benefits, often including drug coverage. While the premiums for these plans are not subtracted from Social Security income, they are increasing annually as well.

#### The bottom line

The combination of rising Medicare premiums and out-of-pocket health-care costs can use up more of your fixed income, such as Social Security. As a result, you may need to spend more of your retirement savings than you expected for health-related costs, leaving you unable to afford large, unanticipated expenses. Depending on your circumstances, spending more on health-care costs, including Medicare, may leave you with less available for other everyday expenditures and reduce your nest egg, which can impact the quality of your retirement.

#### January 2014

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*If you have questions about how long to keep copies of your federal tax returns and related records, see IRS Publication 17, Your Federal Income Tax. And because states may have different rules, check with your state's tax authority to find out how long to keep state tax returns and records.*

## Think Outside the Shoe Box When Organizing Financial Records

If you've ever had trouble finding an important financial document, you know why it's necessary to keep your financial records organized. Less clutter means less stress, and though you'll need to commit a bit of time up front to organize your files, you can save time and money over the long term when you can find what you need when you need it.

### What records do you need to keep?

If you keep paperwork because you "might need it someday," your files are likely overflowing with nonessential documents. One key to organizing your financial records is to ask yourself "Why do I need to keep this?" Documents that you should retain are likely to be those that are related to tax returns, legal contracts, insurance claims, and proof of identity. On the other hand, documents that you can easily duplicate elsewhere are good candidates for the shredder. For example, if you bank online and can view or print copies of your monthly statements and cleared checks, you may not need paper copies of the same information.

### How long should you keep them?

A good rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. If a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely.

#### Records that you may want to keep for a year or less include:

- Bank or credit union statements
- Credit card statements
- Utility bills
- Annual insurance policies

#### Records that you may want to keep for more than a year include:

- Tax returns and supporting documentation
- Mortgage contracts and supporting documents
- Receipts for home improvements
- Property appraisals
- Annual retirement and investment statements
- Receipts for major purchases

#### Records that you may want to keep indefinitely include:

- Birth, death, and marriage certificates
- Adoption papers
- Citizenship papers

- Military discharge papers
- Social Security card

Of course, this list is not all-inclusive and these are just broad guidelines; you may have a good reason for keeping some records for a shorter or longer period of time.

### Where should you keep them?

Where you should keep your records and documents depends on how easily you want to be able to access them, how long you plan to keep them, and how many records you have. A simple set of labeled folders in a file cabinet works fine for many people, but electronic storage is another option if space is tight.

For example, one easy way to cut down on clutter and still keep everything you need is to store some of your files on your computer. You can save copies of online documents or purchase a scanner that you can use to convert your documents to electronic form. But make sure you keep backup copies on a portable storage drive or hard drive, and make sure that your files are secure.

Another option to consider is cloud storage. Despite its lofty name, cloud storage is simply an online backup service that allows you to upload and store your files over the Internet, giving you easy access to information without the clutter. Information you upload is encrypted for security. If you're interested, look for a company with a reliable reputation that offers automatic backup and good technical support, at a reasonable subscription cost.

### Staying organized

Keeping your financial records in order can be even more challenging than organizing them in the first place. One easy way to prevent paperwork from piling up is to remember the phrase "out with the old, in with the new." For example, when you get this year's auto policy, discard last year's. When you get an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful).

But don't just throw your financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder that will destroy any document that contains account numbers, Social Security numbers, or other personal information.

Whatever system you choose, keep it simple. You'll be much more likely to keep your records organized if your system is easy to follow.

# What's in Store for Health-Care Reform in 2014



## Increase in small business tax credit

The maximum tax credit available to qualifying small employers (no more than 25 full-time equivalent employees) that offer health insurance to their employees increases to 50% of the qualifying employer's premium costs (35% for tax-exempt employers) on January 1, 2014. This is an increase from the maximum credit of 35% (25% for tax-exempt employers) that began in 2010.

While the Affordable Care Act (ACA) became law in 2010, several of the more substantive provisions of the law don't take effect until 2014. Here's a review of some of the key parts of the ACA that are scheduled to begin in 2014.

## Individual mandate

The ACA imposes a shared responsibility mandate, which requires that most U.S. citizens and legal residents of all ages (including children and dependents) have minimum essential health coverage or pay a penalty tax, unless otherwise exempt. The monthly penalty is equal to the greater of a declared dollar amount (\$95 in 2014) or a percentage of the individual's gross income.

**Note:** The employer's mandate to provide coverage for employees was also scheduled to begin in 2014; however, the requirement will not be enforced until January 2015.

## State Exchanges

The ACA requires that each state establish state-based American Health Benefit Exchanges for individuals and Small Business Health Options Program (SHOP) Exchanges for small employers. The Department of Health and Human Services will establish Exchanges in states that do not create the Exchanges. The general purpose of these Exchanges is to provide a single resource in each state for consumers and small businesses to compare health plans, get answers to questions, and enroll in a health plan that is both cost effective and meets their health-care needs.

Exchanges may only offer qualified health plans that cover essential benefits, limit out-of-pocket costs, and provide coverage based on four levels of cost sharing--bronze, silver, gold, and platinum. Also, tax credits and cost-sharing subsidies will be available to U.S. citizens and legal immigrants who buy health insurance through the health Exchanges.

## Insurers must provide guaranteed issue and renewability of coverage

All individual and group plans must issue insurance to all applicants regardless of health status, medical condition, or prior medical expenses. Insurers must renew coverage for applicants even if their health status has changed. Grandfathered individual plans are exempt from these requirements. Grandfathered plans are those that were in existence prior to the enactment of the ACA (March 2010) and have not been significantly altered in subsequent years.

In the past, insurers used pre-existing medical condition provisions to deny coverage for care

related to the condition (pre-existing condition policy exclusion), increased the premium to cover the condition, or denied coverage altogether. Beginning January 1, 2014, the ACA prohibits insurers in group markets and individual markets (with the exception of grandfathered individual plans) from imposing pre-existing condition exclusions.

In keeping with the guaranteed availability of coverage, insurers may not charge individuals and small employers higher premiums based on health status or gender. Premiums may vary only based on family size, geography, age, and tobacco use.

## Essential health benefits

All nongrandfathered small group and individual health plans must offer a package of essential health benefits from 10 benefit categories. The categories include ambulatory patient services, emergency services, hospitalization, laboratory services, maternity and newborn care, mental health and substance abuse treatment, prescription drugs, rehabilitative services and devices, preventive and wellness services, and pediatric services, including dental and vision.

## Other policy provisions

The ACA also imposes several requirements and eliminates other provisions commonly found in insurance policies:

- Group and individual policies (including grandfathered plans) may not impose waiting periods longer than 90 days before coverage becomes effective.
- Annual deductible for small group (fewer than 50 full-time equivalent employees) health plans (excluding grandfathered plans) must not exceed \$2,000 per insured and \$4,000 per family. These amounts are indexed to increase in subsequent years.
- The most you'll pay annually for out-of-pocket expenses (deductibles, coinsurance, and co-pays) for all individual and group health plans (excluding grandfathered plans) cannot exceed the maximum out-of-pocket limits for health savings accounts (\$6,350 for individual/\$12,700 for family in 2014).
- All group health plans and nongrandfathered individual health plans can no longer impose annual or lifetime dollar limits on essential health benefits.

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## What is a college net price calculator?

A college net price calculator--now required by the federal government on all college websites--is an online calculator that attempts to give

families an estimate of how much grant aid a student might expect at a particular college based on that student's financial and academic profile and the college's specific criteria for awarding grant aid. The cost of attendance at a college minus grant aid equals the net price, hence the name "net price calculator."

The idea behind net price calculators is to give students and their parents a more accurate picture earlier in their college search of what they will likely need to pay at a specific college instead of forcing them to rely on the college's published sticker price. The key word here is "likely." The figures quoted by a net price calculator are simply estimates; they are *not* guarantees of aid, and colleges go out of their way to spell this out. Nevertheless, running the numbers on one is an excellent way to get an early estimate of what a student's net price might be at a particular college.

So how do colleges estimate how much grant aid a student might get? It varies. Each college

has a different formula for determining how much institutional grant aid it distributes; thus, no two net price calculators are identical. For example, you might enter identical financial and family information on two separate net price calculators and come out with a net price of \$20,000 per year at College A and \$35,000 per year at College B.

A typical net price calculator will ask for parent income and assets, student income and assets, and number of children in the family, including how many will be in college at the same time as the student in question (tip: the more children in college at the same time, the lower the net price!). It may also ask more detailed questions, such as a student's class rank and/or test scores, how much money parents have saved in employer retirement plans in the most recent tax year, current home equity, the year the family home was purchased, and how much parents expect to pay in out-of-pocket health-care costs in the coming year.

A typical net price calculator should take about 10 to 15 minutes to complete. These calculators might show up in very different places on college websites, so be prepared to search around for them.



## My teenage daughter just got her driver's license. Will my auto insurance rates go up?

The short answer is: yes. Anytime you add an extra driver to your policy, your rates will increase. However, you

may end up paying even more when you add your daughter to your policy, since teenage drivers are some of the highest-risk drivers on the road. According to the most recent statistics from the National Transportation Safety Board, teen drivers have represented less than 7% of the driving population but have accounted for more than 13% of drivers involved in all deadly crashes. (Source: National Transportation Safety Board, October 2013)

Fortunately, there are some steps you can take to help make insuring your teen a bit more affordable.

- **Take advantage of policy discounts:** Your first step should be to ask your insurer if your teen qualifies for any policy discounts that are specifically designed for teens. For example, many insurance companies offer discounts (usually around 10% to 15% off of premiums) for teens who complete a driver's education course, obtain a certain grade point average, or participate in a safe driver program.
- **Consider the type of car your teen will be driving:** Typically, new cars are more expensive to insure than older ones. As a result, you may want to consider purchasing an older, less expensive car for your daughter to drive. You may even be able to save more money by forgoing collision coverage on an older vehicle.
- **Consider whether an individual policy makes sense:** In the future, circumstances may arise where it may be more affordable to insure a teen under his or her own individual policy as opposed to listing him or her as an insured on your policy (e.g., he or she gets into an accident or has numerous motor vehicle infractions). When the time comes, ask your insurance agent to help you run the numbers to see which option is more affordable.
- **Be sure to shop around:** You'll want to take the time to compare the rates offered by different insurers. Insurance company rates vary widely, so it often pays off in the end to do your homework.