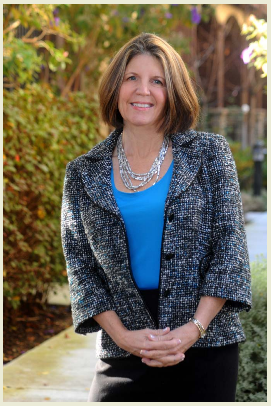


Flournoy Wealth Management
Pam Flournoy, CFP®
LPL Financial Advisor
CA Insurance License # 0E58750
1165 Lincoln Ave #330
San Jose, CA 95125
408-271-8800
408-887-8704
pam.flournoy@lpl.com
www.flournoywealthmanagement.com

Dear Friends and Colleagues,

What assets will you sell to pay for your care when you need it?

I know we don't want to talk about it. But we do think about it. Sometimes we have to when we are faced with family and friends who have suddenly (or not so suddenly) gone from active lives to needing care. When that time comes, the bills will be paid for the care that you or your spouse need. Selling an asset, a piece of land, renting out the family residence are ways that some of my family members are paying for their long term care. What's your plan? Yes, I know it won't happen to you, but just in case, let's look at the choices of investment and/or insurance vehicles that can help you pay for this care. Tax efficiency, leveraging today's assets to achieve a larger pool of money for care tomorrow or down the road, flexibility and access to your retirement assets is key to planning for long term care.

I help my clients invest AND plan for the various paths they may take in the future! Let's talk!

Pam

February 2014

FLOURNOY
WEALTH MANAGEMENT

Your Financial Future

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 $147 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.

Married Filing Jointly or Separately? The Choice Is Yours

Because of a number of special rules, your combined income tax will often be lower if you file married filing jointly than if you file married filing separately, but that is not always the case. It all depends on your unique circumstances. You should generally calculate your tax both ways and choose the filing status that results in the lower combined tax.

If you are married, you generally have a choice of filing your federal income tax return(s) as married filing jointly (MFJ) or as married filing separately (MFS). Because of a number of special rules, your combined tax will often be lower if you file married filing jointly than if you file married filing separately, but that is not always the case. You should generally calculate your tax both ways to determine which filing status results in the lower total tax.

Basic rules

You and your spouse can file as married filing jointly if you are considered married and you both agree to file a joint return. On a joint return, you and your spouse report your combined income, exemptions, deductions, and credits. You are both responsible for any tax, interest, or penalty due on a joint return.

Alternatively, you and your spouse can file as married filing separately. On a separate return, you each generally report only your own income, exemptions, deductions, and credits. You each are responsible only for any tax, interest, or penalty due on your separate return.

Special rules for married filing separately

Maybe not unexpectedly, many tax items for MFS are exactly half of the amounts for MFJ:

- The tax brackets (for MFS, higher tax rates are reached at lower income levels than for MFJ)
- The phaseout thresholds for personal exemptions
- The limitation thresholds for itemized deductions
- The limits on the amount of income that can be excluded under an employer's dependent care assistance program
- The alternative minimum tax exemptions
- The amount of capital losses you can deduct
- The income levels at which the child tax credit is reduced
- The income levels at which the retirement savings contributions credit is reduced
- The income thresholds for the additional 0.9% Medicare tax on Social Security wages and self-employment income and the 3.8% Medicare tax on net investment income

Some items are not available for MFS:

- The credit for child and dependent care expenses (in most cases)
- The earned income credit
- The exclusion or credit for adoption expenses (in most cases)
- The American Opportunity credit and the Lifetime Learning credit
- The deduction for student loan interest, and the deduction for tuition and fees
- The exclusion for interest from qualified U.S. savings bonds used for higher education expenses

Other rules that apply to MFS:

- With MFS, if your spouse itemizes deductions, you cannot claim the standard deduction, and even if you claim the standard deduction, the standard deduction for MFS is half the amount for MFJ
- The thresholds for taxation of Social Security benefits are lower for MFS than for MFJ
- The phaseout thresholds for deductible contributions to a traditional IRA (if you were covered by an employer retirement plan) or for contributions to a Roth IRA start at $0 for MFS

Something else to consider

If your adjusted gross income (AGI) for MFS is lower than for MFJ, you may be able to deduct a larger amount for certain deductions that are deductible only to the extent they exceed a percentage of your AGI (e.g., medical expenses, casualty and theft losses, and job expenses and other miscellaneous deductions) for MFS. For example, medical expenses are generally deductible only to the extent they exceed 10% of AGI. By claiming medical expenses on a separate return with a lower AGI, the amount of medical expenses that can be deducted may be increased.

New rules for same-sex marriages

In response to a 2013 Supreme Court decision invalidating a key provision of the Defense of Marriage Act, the IRS has ruled that same-sex couples who were legally married in a jurisdiction that recognizes their marriage are treated as married for federal tax purposes, regardless of whether the jurisdiction the couple lives in recognizes same-sex marriages. However, the rule does not apply to registered domestic partnerships, civil unions, or similar formal relationships recognized under state law. As a result, legally married same-sex couples generally must file their 2013 (and future) federal income tax returns as married filing jointly or married filing separately. Also, legally married same-sex couples may wish to consider filing amended returns for earlier years as married filing jointly or married filing separately. State tax treatment of same-sex couples varies widely.

FLOURNOY WEALTH MANAGEMENT

Paying for Long-Term Care Insurance with Tax-Free Funds

Generally, to be considered a tax-free exchange rather than a taxable surrender, you cannot receive the annuity proceeds--the proceeds from the annuity must be paid directly to the LTCI company. Also, Section 1035 applies only if the annuity owner and the LTCI policy owner are the same person.

The high cost of long-term care can quickly drain your savings, absorb most of your income, and affect the quality of life for you and your family. Long-term care insurance (LTCI) allows you to share that cost with an insurance company. If you're concerned about protecting your assets and maintaining your financial independence, (LTCI) may be right for you.

But LTCI premiums can be expensive, and cash or income needed to cover those premiums may not be readily available. The good news is that there are several tax-free options that can help you pay for LTCI.

Using a health savings account

A health savings account, or HSA, is a tax advantaged savings account tied to a high deductible health insurance plan. An HSA is funded with pretax contributions up to certain annual limits set by the IRS. Any growth inside an HSA is tax deferred, and what you don't spend in one year can carry over to subsequent years. Just as importantly, withdrawals made from your HSA for qualified medical expenses are tax free.

Tax-qualified LTCI premiums are a qualified medical expense eligible to be paid from HSA funds. The maximum annual premium you can pay tax free is subject to long-term care premium deduction limits.

Convert taxable annuity to tax-free long-term care insurance

Generally, withdrawals from a nonqualified deferred annuity (premiums paid with after-tax dollars) are considered to come first from earnings, then from your investment (premiums paid) in the contract. The earnings portion of the withdrawal is treated as income to the annuity owner, subject to ordinary income taxes. IRC Section 1035 allows you to exchange one annuity for another without any immediate tax consequences, as long as certain requirements are met. But, what you may not know is that the Pension Protection Act (PPA) extends the tax-free exchange of annuities for qualified stand-alone LTCI or combination annuity/LTCI policies. This effectively allows you to purchase LTCI with annuity cash values that would otherwise have been taxable to you if withdrawn.

However, there are some potential drawbacks:

- You may incur annuity surrender charges when transferring your annuity.
- Transferring your annuity means you won't have the potential income the annuity could provide.
- While premiums for qualified LTCI are tax deductible as qualified medical expenses, annuity payments used to pay for long-term care are not tax deductible.
- Not all long-term care policies allow you to pay premiums in a lump sum, so you may have to make partial 1035 exchanges from the annuity to the LTCI company, but not all annuities allow partial 1035 exchanges.

HELPS may help

Another opportunity to pay for LTCI on a tax-free basis may be available to qualifying retired public safety officers. Part of the Pension Protection Act of 2006, the Healthcare Enhancement for Local Public Safety (HELPS) Retirees Act, allows certain retired public safety officers to make tax-free withdrawals from their retirement plans to help pay for LTCI for themselves and their respective spouses and dependents.

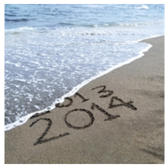
Eligible retired public safety officers include law enforcement officers, firefighters, chaplains, and members of a rescue squad or ambulance crew. Public safety officers must have attained normal retirement age or they must be separated from service due to a disability. HELPS does not extend to 911 operators, dispatchers, and administrative personnel. In addition, if an eligible participant dies, the exclusion from tax for withdrawals does not extend to surviving spouses or other beneficiaries of the participant's retirement plan.

Eligible government retirement plans include qualified trusts, Section 403(a) plans, Section 403(b) annuities, and Section 457(b) plans. Up to $3,000 per year may be withdrawn on a pretax basis, and the money must be paid directly from the retirement plan to the LTCI company. However, not all retirement plans may allow for these withdrawals, and some state laws may not allow the tax-free treatment of distributions.

HSAs, the PPA, and the HELPS Act have opened the door to long-term care coverage for people who might otherwise have a hard time affording it. Your financial professional may be able to provide more information on these and other ways to help you plan for the potentially high cost of long-term care.

FLOURNOY
WEALTH MANAGEMENT

Flournoy Wealth Management
Pam Flournoy, CFP®
LPL Financial Advisor
CA Insurance License # 0E58750
1165 Lincoln Ave #330
San Jose, CA 95125
408-271-8800
408-887-8704
pam.flournoy@lpl.com
www.flournoywealthmanagement.com



How much can I contribute to my IRA in 2014?

The amount you can contribute to your traditional or Roth IRA remains $5,500 for 2014, $6,500 if you're 50 or older. You can contribute to an IRA in addition to an employer-sponsored retirement plan like a 401(k). But if you (or your spouse) participate in an employer-sponsored plan, the amount of traditional IRA contributions you can deduct may be reduced or eliminated (phased out), depending on your modified adjusted gross income (MAGI). Your ability to make annual Roth contributions may also be phased out, depending on your MAGI. These income limits (phaseout ranges) have increased for 2014:

Income phaseout range for deductibility of traditional IRA contributions in 2014	
1. Covered by an employer-sponsored plan and filing as:	
Single/Head of household	$60,000 - $70,000
Married filing jointly	$96,000 - $116,000
Married filing separately	$0 - $10,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	$181,000 - $191,000

Income phaseout range for ability to fund a Roth IRA in 2014	
Single/Head of household	$114,000 - $129,000
Married filing jointly	$181,000 - $191,000
Married filing separately	$0 - $10,000

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.

FLOURNOY
WEALTH MANAGEMENT