



Eddy Company, LLC

Brian Eddy, MBA, CFA, CFP(R),
AEP(R)

Founder/Advisor

122 Main Street

Gloucester, MA 01930

978-282-3339

617-816-5493

brian@eddycompany.com

www.eddycompany.com

June 2017

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Eddy Company Newsletter

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Alternatives to Long-Term Care Insurance



The costs of long-term care can be overwhelming, potentially exhausting retirement income and savings. You may be thinking about buying long-term care insurance (LTCI) to help cover some

of the potential costs of long-term care, but LTCI can be expensive, and if you do buy the coverage, you probably hope you never have to use it. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

The prospect of paying costly premiums for LTCI that you may never use might not appeal to you. But there are alternatives worth considering.

Self-insure

You could use your personal savings and retirement income to pay for long-term care expenses (self-insurance). While this option may be appealing, there may be some drawbacks. Depending on the type of long-term care, where that care is provided, and for how long, it's possible that you could run out of savings while still needing care. Also, using your own savings and income for long-term care costs may affect the financial well-being of a spouse or other dependents. And you may not have anything left to pass on to your heirs when you die.

Life insurance to pay for long-term care

One of the risks of buying LTCI is that you may spend thousands of dollars in premiums and never use the insurance. As an alternative, you may be able to use life insurance to help pay for long-term care expenses. For instance, some insurers offer policies that combine long-term care insurance with permanent life insurance. While these "combination" policies may differ, they generally offer a pool of money that can be used to pay monthly expenses associated with long-term care. If you don't use the policy for long-term care, then it will pay a

death benefit to your designated beneficiaries if the policy is in force at your death.

Alternatively, you might be able to add an acceleration rider to your life insurance policy that will allow you to tap into (accelerate) your death benefit for long-term care expenses.

Again, if you don't use the death benefit for long-term care costs, the policy will pay the death benefit to the beneficiaries you name in the policy. In any case, before buying a policy, you should have a need for life insurance and you should evaluate the policy on its merits as life insurance. Optional benefit riders are available for an additional fee and are subject to contractual terms, conditions, and limitations as outlined in the policy and may not benefit all investors. Any payments used for covered long-term care expenses would reduce (and are limited to) the death benefit and can be much less than those of a typical long-term care policy. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Medicaid

Medicaid is a joint federal and state government program that helps people with low income and assets pay for some or all of their health-care bills, including some costs associated with long-term care. Qualifying for Medicaid and covered services is based on federal requirements and eligibility rules, which vary from state to state. Generally, to be eligible for Medicaid, you must meet certain preconditions, which include income and asset levels that meet your state's eligibility requirements. You may need to exhaust your savings to qualify for Medicaid. Once the state determines that you're eligible for Medicaid, the state will make an additional determination of whether you qualify for long-term care services, based on whether you need assistance with personal care and other service needs, such as eating, bathing, dressing, toileting, and transferring (to or from a bed or chair).



The intersection of student loan debt and Social Security benefits

Since 2001, the federal government has collected about \$1.1 billion from Social Security recipients to cover unpaid federal student loans, including \$171 million in 2015 alone. During that time, the number of Americans age 50 and older who have had their Social Security benefits reduced to pay defaulted federal student loans has risen 440%.

Source: *The Wall Street Journal*, *Social Security Checks Are Being Reduced for Unpaid Student Debt*, December 20, 2016

Student Loan Debt: It Isn't Just for Millennials

It's no secret that today's college graduates face record amounts of debt. Approximately 68% of the graduating class of 2015 had student loan debt, with an average debt of \$30,100 per borrower — a 4% increase from 2014 graduates.¹

A student loan debt clock at finaid.org estimates current outstanding student loan debt — including both federal and private student loans — at over \$1.4 trillion. But it's not just millennials who are racking up this debt.

According to the Consumer Financial Protection Bureau (CFPB), although most student loan borrowers are young adults between the ages of 18 and 39, consumers age 60 and older are the fastest-growing segment of the student loan market.²

Rise of student debt among older Americans

Between 2005 and 2015, the number of individuals age 60 and older with student loan debt quadrupled from about 700,000 to 2.8 million. The average amount of student loan debt owed by these older borrowers also increased from \$12,100 to \$23,500 over this period.³

The reason for this trend is twofold: Borrowers are carrying their own student loan debt later in life (27% of cases), and they are taking out loans to finance their children's and grandchildren's college education (73% of cases), either directly or by co-signing a loan with the student as the primary borrower.⁴ Under the federal government's Direct Stafford Loan program, the maximum amount that undergraduate students can borrow over four years is \$27,000 — an amount that is often inadequate to meet the full cost of college. This limit causes many parents to turn to private student loans, which generally require a co-signer or co-borrower, who is then held responsible for repaying the loan along with the student, who is the primary borrower. The CFPB estimates that 57% of all individuals who are co-signers are age 55 and older.⁵

What's at stake

The increasing student loan debt burden of older Americans has serious implications for their financial security. In 2015, 37% of federal student loan borrowers age 65 and older were in default on their loans.⁶ Unfortunately for these individuals, federal student loans generally cannot be discharged in bankruptcy, and Uncle Sam can and will get its money — the government is authorized to withhold a portion of a borrower's tax refund or Social Security benefits to collect on the debt. (By contrast,

private student loan lenders cannot intercept tax refunds or Social Security benefits to collect any amounts owed to them.)

The CFPB also found that older Americans with student loans (federal or private) have saved less for retirement and often forgo necessary medical care at a higher rate than individuals without student loans.⁷ It all adds up to a tough situation for older Americans, whose income stream is typically ramping down, not up, unlike their younger counterparts.

Think before you borrow

Since the majority of older Americans are incurring student loan debt to finance a child's or grandchild's college education, how much is too much to borrow? It's different for every family, but one general guideline is that a student's overall debt shouldn't be more than his or her projected annual starting salary, which in turn often depends on the student's major and job prospects. But this is just a guideline. Many variables can impact a borrower's ability to pay back loans, and many families have been burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

A recent survey found that 57% of millennials regret how much they borrowed for college.⁸ This doesn't mean they regretted going to college or borrowing at all, but it suggests that it would be wise to carefully consider the amount of any loans you or your child take out for college. Establish a conservative borrowing amount, and then try to borrow even less.

If the numbers don't add up, students can reduce the cost of college by choosing a less expensive school, living at home or becoming a resident assistant (RA) to save on room costs, or graduating in three years instead of four.

¹ The Institute for College Access & Success, *Student Debt and the Class of 2015*, October 2016

²⁻⁷ Consumer Financial Protection Bureau, *Snapshot of Older Consumers and Student Loan Debt*, January 2017

⁸ *Journal of Financial Planning*, September 2016

Withdrawal Options for Your Thrift Savings Plan (TSP)



****You should consider carefully the consequences of an in-service distribution. Distributions from your pre-tax TSP account are subject to federal income tax, and an additional 10% penalty tax will generally apply to distributions made prior to age 59½. The taxation of in-service withdrawals from a Roth TSP account depends on whether the distribution is a qualified or nonqualified withdrawal. Consideration should also be given to the overall depletion of your retirement savings. In addition, if you're married, your spouse must be notified of any request for an in-service distribution, and in most cases must consent.***

The information in this article is not intended as investment advice and is not a recommendation for retirement savings.

The Federal Thrift Savings Plan (TSP) is a tax-deferred retirement savings and investment plan set up to help federal civilian employees and military personnel save for retirement. The TSP is a defined contribution plan. Employees and servicemembers are eligible to make pre-tax contributions of at least part of their salaries annually to the plan, while the government may match some or all of those contributions. Since 2012, participants are allowed to designate all or part of their deferrals as Roth contributions, which are funded on an after-tax basis. Several withdrawal options are available through which participants can access their TSP funds, either while still working for the government or upon retirement.

In-service withdrawals

As a TSP participant, you may be eligible to take a one-time, age-based withdrawal from your TSP upon reaching age 59½. All or a portion of your vested account balance may be withdrawn at that time. If you elect to take a partial withdrawal, you can't take another partial withdrawal upon separating from service.

The rules are a little different if you make an in-service withdrawal in cases of financial hardship. Specific requirements and limits apply, and each time you take a hardship distribution, you are barred from making another hardship distribution for a period of six months. And you can't make contributions to your TSP for a six-month period.* While in-service withdrawals may be available, it's more likely that you'll take withdrawals from your TSP when you retire or leave federal government employment.

Leave funds in the TSP

You may find that you don't need to access money from your TSP account immediately upon retirement. In that case, you can defer taking withdrawals from your TSP and allow it to remain in place. However, you'll have to start taking withdrawals by April 1 of the year following either the year you turn age 70½ if you're no longer a federal employee, or the year you separate from federal service, whichever is later.

Partial withdrawal after leaving employment

You can make a one-time partial withdrawal and leave the rest of your money in your TSP. To be eligible for a partial withdrawal, you must not have made a prior partial withdrawal or an age-based in-service withdrawal, and your withdrawal request must be for at least \$1,000.

Lump-sum withdrawal

When you are ready to withdraw your money from your TSP account, you can do it all at once (commonly referred to as a lump-sum payment) or over a period of time. Or you can purchase an annuity that will make payments to you for life. You also can choose any combination of these full withdrawal options. Keep in mind that withdrawals from a TSP, other than from a Roth TSP, are generally fully taxable as ordinary income.

Series of monthly payments

You can request a specific dollar amount that you'll receive each month until your entire TSP has been paid to you. Or you can receive monthly payments according to IRS Life Expectancy Tables based on your age and your account balance. The TSP will recalculate your monthly payment every year you take withdrawals of this type.

Life annuity

Three types of annuities are available: (1) an annuity that is paid to you during your lifetime (single life annuity); (2) an annuity that is paid to you while you and your spouse are alive, then paid to the surviving spouse for the rest of his or her life after one of you dies (joint life with spouse annuity); or (3) an annuity that is paid to you while you and a person chosen by you (with an insurable interest in you) are alive, then paid to the survivor (beneficiary) for his or her life after you die. However, if you are a married Federal Employee Retirement System (FERS) participant, you must elect a joint life with spouse annuity with a 50% survivor benefit, level payments, and no cash refund feature, unless your spouse consents to another annuity option. There are no fees or commissions associated with these options.

Factors that determine how much your monthly annuity payments will include how large your account balance is, the interest rate at the time the TSP purchases your annuity, the performance of your investment fund, your age (and your joint annuitant's age, if applicable), and the annuity option you elect. The TSP website (tsp.gov) has a calculator you can use to project your future account balance.

Your TSP offers several options for withdrawing money from your account. Your specific goals will determine when to take money out and how you wish to receive it. When making this decision, you should consider your income needs and the lifestyle you would like to have in retirement.

Eddy Company, LLC

Brian Eddy, MBA, CFA,
CFP(R), AEP(R)
Founder/Advisor
122 Main Street
Gloucester, MA 01930
978-282-3339
617-816-5493
brian@eddycompany.com
www.eddycompany.com

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Should I purchase towing and rental reimbursement coverage for my car?

For many individuals, driving a car is a necessity. Whether you're driving to work or running errands on the weekend, not having your main source of transportation for even just a week or two can have a major impact on your daily routine. As a result, you'll want to make sure your transportation needs are properly covered in case your car is ever disabled or in an accident. Fortunately, in addition to standard auto insurance coverage, most insurers offer optional towing and rental reimbursement coverage for an additional cost.

You can usually purchase towing coverage for a small premium. This type of coverage will pay for any towing and labor charges (up to a specified limit) incurred when your vehicle is disabled. This coverage can be used any time your car breaks down — not just when it's in an accident. Keep in mind that the insurer usually pays only for labor performed (e.g., jump-starting a battery, changing a tire) at the location where your vehicle is disabled and does not cover actual repair work performed at a service station.

Towing coverage is convenient to have, especially if you travel a lot in your car. However, if you already have roadside assistance through another source (e.g., a road and travel plan), you may not need to purchase towing coverage.

Rental reimbursement coverage pays a set amount per day for the cost of a rental car if your car is being repaired because of an accident that is covered under your auto insurance policy (some policies also provide coverage when a vehicle is stolen). Typically, this type of coverage is limited to a certain amount per day (e.g., \$30), up to a maximum amount (e.g., \$900). For an additional premium, the daily limit can usually be increased.

Whether you need rental reimbursement coverage for your car will depend on your transportation needs. If you own two vehicles or have access to an alternative means of transportation, you may be able to get by without it. However, if your car is your main source of transportation, it may be a worthwhile purchase.



What is a funeral trust?

A funeral trust is an arrangement entered into with a provider of funeral or burial services. Prepaying funeral expenses may allow you to "lock in" costs for future funeral or burial services at an agreed-upon price. The funeral home sometimes serves as trustee (manager of trust assets), and you usually fund the trust with cash, bonds, or life insurance. A revocable funeral trust can be changed and revoked by you at any time. An irrevocable trust can't be changed or revoked, and you generally can't get your money out except to pay for funeral services.

Irrevocable funeral trusts may also help you qualify for long-term care benefits through Medicaid. For example, these trusts may be funded with assets that would otherwise be countable resources for Medicaid (i.e., included in determining Medicaid eligibility). They are often sold through insurance companies, in which case they are typically funded with life insurance. And you can fund the funeral trust right before entering the nursing home — there's no "look-back" period for these transfers, unlike the case with certain other transfers that can

cause a delay in the start of Medicaid benefits.

Another advantage of funding your trust with life insurance is that the trust will have no taxable income to report, because life insurance cash values grow tax deferred. Otherwise, income from trust assets may be taxed to you as the grantor of the trust, unless the trustee elects to treat the trust as a qualified funeral trust by filing Form 1041-QFT with the IRS, in which case trust income is taxed to the trust.

But what happens if you want to change funeral homes, or the facility you selected goes out of business? Does your irrevocable trust allow you to change beneficiaries (e.g., funeral homes)? Are trust funds protected from creditors of the funeral home? State laws regulating prepaid funeral trusts often require funeral homes to keep trust assets separate from their own business assets, keeping them safe from funeral home creditors. And most irrevocable trusts are transferable to another funeral home should the initial business fail or you change funeral homes.

There are expenses associated with the creation of a trust and the purchase of life insurance, and benefits are not guaranteed.