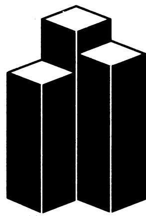

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RETIREMENT INSIGHTS

SUMMER 2009

How Will You Deal with Long-Term-Care Costs?

> "On average, caregivers who were at least 50 years old in 2007 spent $5,531 of their own money to provide assistance to another individual."
>
> Source: AARP, 2008

Life expectancies have increased significantly and are expected to continue to increase in the future. As people age, however, they are more likely to develop conditions that limit their ability to live independently. As life expectancies increase, so does the need to make provisions for long-term-care costs.

What Are Your Options?

Health insurance policies typically don't pay for nursing home care, while Medicare only pays for 100 days of skilled nursing home care, if admission follows a hospital stay. Medicaid pays a significant portion of all nursing home costs, but the government has enacted tougher rules to qualify for assistance. Many elderly individuals rely on family members for help, but the personal toll can be huge.

Do you need long-term-care insurance? If your assets, not including your home, equal at least $2 million, you can probably fund long-term-care costs with those assets, although you may not want to deplete your assets for this care. Those with very few assets will probably be covered by Medicaid. It is the people between these two extremes who should consider long-term-care insurance. This coverage may be especially important for women, who tend to outlive their husbands.

What Should You Consider?

If you're thinking about purchasing long-term-care insurance, consider these points:

- ✔ **Purchase at a relatively young age.** You should probably purchase the insurance by the time you are in your late 50s or early 60s. After that, the premiums get much more expensive. You also run the risk that you could develop a serious health condition that would prevent you from qualifying for the insurance.
- ✔ **Check for inflation provisions.** Since you may not receive benefits for many years, and long-term-care costs have increased significantly in recent years, make sure your policy has inflation protection (additional fees apply).
- ✔ **Obtain insurance from a stable insurance company.** You want to obtain insurance from a company that is sure to be around for the long term.
- ✔ **Select an appropriate benefit period.** Many people choose a benefit period of three years to cover the average nursing home stay. However, due to the substantial costs associated with long-term care, you may want to select a longer period. Lifetime coverage, however, probably isn't necessary. Only 1.5% of policyholders with five years of coverage exhausted their benefits

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A 3-Step Asset Allocation Strategy

Perhaps the most important move you can make for your investments is to properly diversify your portfolio. By investing in a mix of stocks, bonds, and cash, you may reduce the risk of a significant loss.

How you combine your diverse mix of investments is called your asset allocation. Asset allocation is a highly individual determination that's based on your risk tolerance, financial goals, and age. Asset allocation will spread out your investments among stocks, bonds, and cash.

Continued on page 2

Asset Allocation Strategy

Continued from page 1

The benefits of allocating your assets across the three types of investments include:

✔ Proper asset allocation diversifies your portfolio among the three types of investments, reducing your total risk exposure.

✔ Allocating your assets between the three types allows you to tailor your portfolio to your specific goals.

✔ You can help manage the level of risk and volatility.

Considerations

To properly allocate your investments across stocks, bonds, and cash, consider this three-step approach to asset allocation:

Step 1: Be honest about your level of risk tolerance. Some people think that investing in a relatively unknown start-up company with a great idea is a sound investment, while others prefer to stick with stable companies with household names. In other words, people's risk tolerances vary.

If you don't mind the more dramatic ups and downs associated with higher-risk investments, you may see higher return potential. But if you can't stand the thought of putting your hard-earned money in an untested company, you're probably better off sticking with relatively low-risk allocations, even though you may see more modest returns.

Step 2: Write down your financial goals. What are the purposes of your investments? Are you saving to buy your first home? Planning to send your children to college? Looking to retire early? Whatever your financial goals are, knowing them will help you determine how to allocate your assets to help you meet them.

Step 3: Consider your time horizon for meeting those goals. How much time do you have before you need your money for your goals? Is retirement a long-term goal, with 30 years to go? Or is it a short-term goal, with only five years to go? If you're just starting a career, do you have short-term goals, like buying a house, as well as intermediate-term goals, like sending your children to college?

There's no consensus on exactly how much of your portfolio should be in any of the three investment categories at any time. However, broadly speaking, the further away in time you are from your financial goals, the more aggressively you can invest. Asset allocation does not assure a profit or protect against loss in declining financial markets.

Please call so we can help you allocate your assets given your unique situation. ✔✔✔

Stretching Your Salary

In the current economic climate, many employers are cautious about increasing expenditures. That means your best bet for the near term is to make your current salary stretch further. Some tips to consider include:

✔ **Deposit your paycheck directly into your bank account.** That way, you'll be less tempted to cash part of your paycheck and spend it.

✔ **Contribute to your 401(k) plan.** Not only will this help with your retirement goals, it can help with your current financial situation. Any contributions you make are deducted before income taxes (unless contributing to a Roth 401(k) plan), so you don't pay any current federal income taxes on your contributions. In addition, many employers match some portion of your contribution, which can substantially increase your 401(k) balance at no cost to you.

✔ **Check out your 401(k) investments.** Your job isn't finished once you make contributions to your 401(k) plan, since you are also responsible for investing those contributions. Make sure you are familiar with all options in your plan and review those options at least annually. Even if you only increase your rate of return by a percent or so, that can make a significant difference in your ultimate 401(k) balance over several decades.

✔ **Review your health insurance coverage.** If your employer offers more than one option, review those choices carefully to select the most appropriate insurance for the least cost. When your spouse also has coverage, review options from both employers and determine which is the best alternative for you.

✔ **Take a look at other fringe benefits offered by your company.** Many employers provide a variety of fringe benefits. Usually, you do not have to pay any income taxes on these benefits. Thus, carefully assess your company's fringe benefit package to ensure you are utilizing all appropriate ones. ✔✔✔

Long-Term-Care* Costs

Continued from page 1

(Source: *Financial Planning*, April 2007).

- ✔ **Be aware of the policy provisions.** Benefits should be paid in as many situations as possible, including skilled care, intermediate care, custodial care, home health care, and adult day care. Many people prefer to remain at home as long as possible, so make sure the policy covers a wide range of home services. Review the waiting period carefully to ensure a good balance between premium costs and out-of-pocket costs.
- ✔ **Understand the level of assistance needed to qualify for benefits.** Typically, benefits are paid when you are unable to perform two of five activities of daily living, including bathing, eating, using the bathroom, moving back and forth from a chair to a bed, and remaining continent. Typically, benefits are also triggered when a cognitive impairment, such as Alzheimer's disease, requires substantial supervision.
- ✔ **Determine how benefits are paid.** Some policies pay a set daily amount, regardless of your actual costs. This may be a good alternative if you are staying at home and want to compensate a friend or family member for helping you. Other policies will only pay your actual out-of-pocket expenses up to a daily limit or may only pay reasonable and customary costs.
- ✔ **Review new policy provisions.** Long-term-care policies are relatively new, so policy riders are evolving. Make sure to check out new provisions, such as the ability to combine a life insurance and long-term-care policy, an accelerated premium provision that allows you to stop making premiums after a certain number of years, or a provision that returns premiums if you die without using benefits. Also look into partnership policies (not available in all states), which allow you to qualify for Medicaid after exhausting the policy's benefits, while keeping more assets than normally allowed by Medicaid.
- ✔ **Consider sharing a policy with your spouse.** Some companies now offer policies that allow spouses to share policy benefits, which can operate in several ways.
- ✔ **Check the policy's tax status.** A qualified policy allows you to deduct a certain percentage of the premium, depending on your age, as a medical expense on your tax return. Medical expenses are deductible to the extent they exceed 7.5% of your adjusted gross income.

* Like most insurance policies, long-term-care policies contain exclusions, limitations, reduction of benefits, and terms for keeping them in force. ✔✔✔

Does Buy and Hold Still Make Sense?

We all know the basics — design an asset allocation plan, ignore market fluctuations, and stick with the plan for the long term. In other words, become a buy-and-hold investor. But in an era where everything seems to change overnight, is it realistic to expect to find investments you'll be comfortable owning for years or even decades? Before you answer that question, you need to consider whether it's possible to reliably time the market. Unfortunately, it's a difficult strategy to implement for a couple of reasons:

- ✔ **No one has been able to consistently predict where the stock market is headed.** Many try, but so many factors affect the market that even professionals watching the market full-time find it difficult to time the market with any degree of accuracy. In retrospect, everything seems crystal clear. Also, significant market gains can occur in a matter of days, making it risky to be out of the market for any length of time.
- ✔ **Frequent trading seems to reduce, rather than increase, returns.** Several studies of investor trading found that investors who trade more frequently have lower portfolio returns than those who trade less frequently. A recent study found that for the 20 years ending in 2007, the average equity fund investor earned an annualized return of 4.5%, compared to an annualized return of 11.8% for the Standard & Poor's 500 (Source: *Fortune*, November 10, 2008).* Why? Investors tend to buy hot sectors and sell underperforming investments — the opposite of a buy-low-and-sell-high strategy. Also, trading results in a taxable event. Even with capital gains rates at 15% and the highest ordinary income tax rate at 35%, taxes can significantly reduce your portfolio's return.

Rather than trying to time the market, devise an asset allocation strategy you'll be comfortable with for years and then purchase investments for that strategy. (Asset allocation does not assure a profit or protect against loss in declining financial markets.) That doesn't mean you'll never sell an investment, but selling should be an infrequent part of your investment strategy. If you'd like help implementing this strategy, please call. ✔✔✔

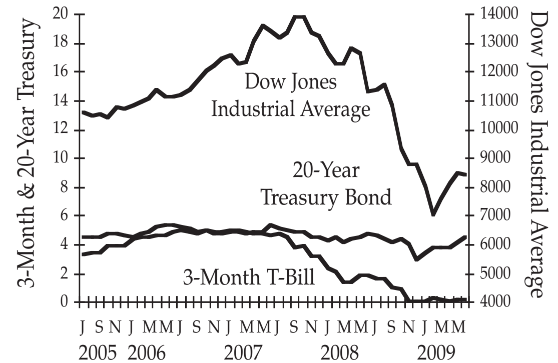
* The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future results. Returns are presented for illustrative purposes only and are not intended to project the performance of a specific investment.

Market Data

	Month End			% Change	
	Jun 09	May 09	Apr 09	YTD	12 Mon.
Dow Jones Ind.	8447.00	8500.33	8168.12	-3.8%	-25.6%
S&P 500	919.32	919.14	872.81	1.8	-28.2
Nasdaq Comp.	1835.04	1774.33	1717.30	16.4	-20.0
Wilshire 5000	9424.92	9408.25	8963.04	3.7	-27.9
Gold	934.50	975.50	883.25	10.4	0.5
Silver	13.60	15.62	12.39	-10.6	-21.4
				Dec 08	Jun 08
Prime rate	3.25	3.25	3.25	3.25	5.00
Money market rate	0.07	0.23	0.25	1.84	2.22
3-month T-bill rate	0.20	0.18	0.14	0.05	1.90
20-yr. T-bond rate	4.54	4.22	3.80	3.04	4.84
Dow Jones Corp.	5.34	6.01	6.52	7.16	5.93
Bond Buyer Muni	5.43	5.32	5.36	6.02	5.22

Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield July 2005 to June 2009



Sources: *Barron's, Wall Street Journal*

Will You Be Able to Work Longer?

> "There is a 23% chance that at least one member of a 65-year-old couple will live to age 95."
>
> Source: *Journal of Financial Planning,* September 2008

Retiring at age 65 without working for the rest of your life is starting to look like a difficult proposition. It was already challenging due to longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings. Then, most people's retirement savings decreased significantly over the past couple of years due to declining investment and home values. The prospect of funding a retirement that could span 30 years is looking very tough. The most common solution to the problem is to work longer than the current average retirement age of 63.

Today's workers are typically healthier and working at less physically demanding jobs than workers in prior generations, which makes working longer seem like an easy solution. But there are a number of factors that might not make that possible. First, approximately 15% to 20% of workers will not be healthy enough to remain in the work force longer (Source: Center for Retirement Research, September 2008). One study found that approximately half of those who retired early did so for health reasons (Source: *The McKinsey Quarterly*, November 2008). Second, since reduced Social Security benefits are available at age 62, a majority of workers claim benefits as soon as they are available. Finally, a significant portion of older workers no longer work for the same employer from middle age to retirement age. If workers want to remain in the work force until their late 60s, they may be forced to find a new job in their 50s or 60s.

A recent study looked at the percentage of men between the ages of 58 and 62 who were working for the same employer they had at age 50. In 1983, 75% of full-time male workers worked at the same employer, compared to only 50% in 2006 (Source: Center for Retirement Research, September 2008). These results were consistent across all educational levels. If workers are leaving voluntarily, they are probably moving to better jobs with better pay, which should mean they will stay employed longer. If workers are laid off or forced out of their jobs in their 50s or 60s, they are likely to take inferior jobs at lower pay, which may mean they are less likely to stay employed into their late 60s.

While it is difficult to determine why workers changed jobs, the wages of workers who switched jobs were approximately 75% of the wages of those with the same employer (Source: Center for Retirement Research, September 2008). Another study found that workers who left their jobs between the ages of 51 and 65 with at least 10 years of tenure did so due to retirement, layoffs, and voluntary and involuntary quits, with each factor accounting for one-third of the total (Source: Center for Retirement Research, September 2008). ✔✔✔ FR2009-0127-0461

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