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## Medical Inflation Saddling Retirees With Higher Costs

Nothing brings home the need to craft a viable retirement savings plan more forcefully than the ever-increasing cost of long-term health care. Even the global economic meltdown failed to bring any relief, as the cost of care continued to rise in 2009. According to a study by MetLife, private room nursing home rates rose 3.3% to an average of $219 per day or $79,935 per year in 2009; assisted living costs also climbed 3.3% to an average of $103 per day or $37,572 a year; hiring a home health aide jumped 5% to an average of $21 an hour; and adult day care rose 4.7% to an average of $67 a day ($24,455 per year). All of those increases surpassed the 2009 inflation rate of 2.7%, consequently, your retirement plan needs to take into account that medical inflation is likely to continue to outpace rises in overall consumer prices.

Seven out of 10 Americans who reach age 65 will need some type of long-term care, according to the U.S. Department of Health and Human Services, and Medicare normally doesn't cover the cost of that care. These strategies could help you prepare for what can be a bankrupting expense.

**Start a Health Savings Account.** HSAs are medical savings accounts that offer tax incentives, and they are available in most states to those who enroll in a high deductible health plan. There are annual contribution limits, but you do not have to pay federal income taxes on contributions, and unspent funds roll over and accumulate year after year. If you can avoid withdrawing funds for medical expenses during the early years, an HSA may build into a significant tax-free health care fund for your retirement years. The money in an HSA can be invested, and if it's withdrawn to pay health care expenses it isn't taxed. For 2010, individuals may contribute up to $3,050, families may contribute up to $6,150, and there is a $1,000 catch-up provision for those over age 55.

**Buy Long-Term Care Insurance.** LTC insurance covers help with "activities of daily living" and, depending on the policy you buy, will pay for nursing home care as well as home care and services such as adult day care. Companies that sell LTC polices offer a vast array of options for this complex insurance. The cost depends on your age, the services your policy covers, how long benefits will be paid, whether you opt for inflation protection, and other factors. You must be in good health to buy most policies.

States regulate LTC insurance, and most make it difficult for insurers to raise rates. Yet the cost of your policy may ultimately rise as companies struggle to pay benefits in the face of rising costs and a population that lives longer and longer, and some insurers could fail to make good on their promises. Carefully compare insurers and policies before making a purchase.

**Increase Your Savings.** Managing your pre-retirement budget, moving to a lower-cost region of the country, and reducing expenditures during retirement

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## *All This Economy Needs Is a SparkTo Get Rolling*

The key concept I brought back from Schwab's recent national conference boils down to this: "It will only take a spark to get this economy rolling and that will happen sooner rather than later."

The economy has been showing modest gains across most indicators, with only unemployment staying stubbornly high. Corporate profits have been strong and major enterprises are holding a tremendous amount of cash. What Washington needs to understand is that heavy regulations, uncertainty, and bickering won't inspire the confidence corporations need to begin the process of hiring new people.

After the November elections there will be more balance in Washington. Whichever party you support, gridlock typically is good for the stock market. Perhaps this forces both sides to sit down and work together for the good of the country, but most likely it simply removes Washington as a road block to Main Street—from which real growth always comes.

The markets were surprisingly strong in both September and October. When we get that positive spark we need to really get the economy rolling, stock prices will strengthen further, interest rates will move upward, and bond prices will dampen. All of this implies we are about to embark on a journey of recovery and higher inflation.

Ron Dickinson

# Do You Know Estate Planning Basics?

With the future of the estate tax up in the air, you may be tempted to neglect estate planning. The federal tax on inherited wealth is currently scheduled to be repealed in 2010, only to return in 2011 under less favorable terms. Congress will most assuredly resolve this issue before year-end, perhaps exempting all but the wealthiest families from estate tax liability. Yet whatever the fate of the law, having a thoughtful, effective estate plan will continue to be crucial.

At a minimum, you need a legally enforceable will that lays out how you want your assets to be distributed. An accompanying, non-binding letter of instruction could further spell out your wishes. You may also want to establish one or more trusts designed to minimize taxes, manage assets for minors, provide asset protection for heirs, implement philanthropic plans, or protect assets from creditors. And a living will (or health care proxy) could provide valuable direction on end-of-life health care.

Are you familiar with estate planning basics? Use this quiz to test your knowledge.

**1. Which of the following is true?**
- a) A will is legally valid only if drafted by an attorney.
- b) You can transfer jointly owned property through a will.
- c) A will may appoint a guardian for minor children.
- d) Your property must go through probate if you don't have a will.

**2. When can a will be changed and remain legally enforceable?**
- a) Only if the changes are recorded by an attorney
- b) Only when the heirs named in the will provide their consent
- c) Any time before your death or mental incompetence
- d) Never

**3. In 2009, the federal estate tax exemption was:**
- a) $1 million
- b) $2 million
- c) $3.5 million
- d) Zero

**4. In 2010, the annual gift tax exclusion shelters gifts to individuals of up to:**
- a) $10,000
- b) $13,000
- c) $1 million
- d) Zero

**5. For estate tax purposes, the value of assets is based on:**
- a) Their fair market value on the date of the owner's death (or six months from that date)
- b) The amount received from the sale of those assets
- c) The assets' original cost
- d) The value stated in the owner's will

**6. A "power of attorney" is best described as:**
- a) A bequest in a legally validated will
- b) A document authorizing an agent to act on your behalf
- c) A document allowing life support systems to be shut down
- d) The use of a lawyer in estate planning matters

**7. Which of the following is not true?**
- a) The value of your principal residence is excluded from your estate.
- b) The value of property transferred to your spouse is exempt from estate tax at your death.
- c) A testamentary trust takes effect when you die.
- d) A will normally determines who will care for minor children.

If you have questions about estate planning or need to refine your plan, please give us a call. We can work with you and your attorney to make sure all of your needs are met. ●

*Answers: 1-c; 2-c; 3-c; 4-b; 5-a; 6-b; 7-a*

# Beware Of Homeowner's Insurance Gaps

Disaster may strike your home when you least expect it. There could be damage from flooding, an earthquake, termites, or even mold—just to name a few possibilities. And though you probably assume repairs will be covered by your homeowner's insurance policy, they may not be. Your policy may exclude more events than you realize. Even when you are covered—for, say, flood damage—there may be "gaps" in your coverage that limit the amount you can recover.

The good news is that a typical homeowner's policy covers losses resulting from fires, tornadoes, and severe storms. But the list of what it normally doesn't cover may surprise you. For instance, coverage may not extend to floods and earthquakes, although you can usually add a policy rider for such events. The rider's cost will vary based on whether you reside in a high-risk area.

Similarly, if you have to clean up a mess created by a water or sewage backup, the expense won't be covered by standard homeowner's insurance. But here, too, you can purchase a special rider to avoid this headache, often for less than $100 a year.

The list of other types of damage that usually aren't covered range from mold to insect and termite infestations to acts of terrorism, war, and nuclear attack. Dig your policy out of your files and take a few minutes to assess your risk exposure for these events.

Even if you're covered for damage—through standard insurance or a rider—payments from the insurance company are based on the property's replacement cost, not its fair market value. Also, if your home is destroyed and it's insured for less than the replacement value, you'll have to pay some of the rebuilding cost. In addition, deductibles and maximum dollar caps may affect reimbursements for possessions that are destroyed or stolen.

# 10 Recession-Proof Ways To Enjoy Life

Americans are officially saving more these days, with the personal savings rate rising from near zero to almost 6% in late 2010, according to the U.S. Bureau of Economic Analysis. Long addicted to conspicuous consumption—and prodigious borrowing—we've relearned the value of deferred gratification, and whether we're motivated by necessity or prudence, this is probably a good thing. But the downside is that being frugal often isn't much fun. Sitting home in front of the television can get kind of boring (and doesn't do much for the waistline, either). Here, then, are 10 cheap thrills, fun ways to get your juices flowing again while spending little or nothing.

**1. Get passionate about local sports.** The cost of taking your family to a single professional football or baseball game can run to several hundred dollars. So consider attending high school, college, or even minor league pro events. Go often, get to know the players, and pick out tomorrow's stars. And don't forget women's teams, and less familiar sports such as lacrosse, rowing, and skiing.

**2. Look for the arts close to home.** The same principle applies to dance, theater, and classical music. But if watching a high school orchestra saw its way through Beethoven isn't your idea of high culture, find out whether there's a nearby conservatory or professional arts school that opens performances to the public for free or a nominal ticket price. The Juilliard School in New York, for example, offers a calendar packed with the best and brightest students strutting their stuff in wide-ranging artistic disciplines.

**3. Organize your life.** Everyone has a spare room, basement workshop, garage, or junk drawer that calls out in reproach whenever you walk by the mess. Imagine how much better you'll feel if you finally tackle the job, which will require much more in the way of sweat equity than cash outlays. Buying a few shelves, pegboards, and organizer gadgetry may be all you need to transform a wasted space.

**4. Cut your cable bill with Netflix and Roku.** If you're paying through the nose for HBO and Showtime mostly for the movies, consider this alternative. For as little as $10 a month, Netflix lets you order a DVD online, keep it as long as you like, then send it back in a postpaid mailer and receive the next choice on your list. And though turnaround takes only a couple of days, in the meantime you can choose from thousands of films streamed instantly—at no additional charge—to your computer and thence to your TV. All you need are a wireless internet router and a receiver like the one Roku (roku.com) sells for $80 that lets you watch movies and TV classics from Netflix, Amazon, and more.

**5. Cook with friends and neighbors.** If your town doesn't have a gourmet club, you could start one. Typically you'll create one course for a monthly feast enjoyed in the home of a club member. For the cost of the food and a few hours in the kitchen, you get a cheap night out and have a chance to meet or reconnect with a local crowd.

**6. Get in shape (but cancel the gym membership)**. Local recreational groups often sponsor adult basketball leagues and clubs for rowing and running. For minimal cost, you get camaraderie and regular exercise doing something you enjoy.

7. Go to the library. "Free public library" may be right in its title, and your local branch exists to let you borrow not just books but also magazines, music, and movies. It may have online resources, too, and libraries have spent the recession finding ways to help their constituents, providing everything from money-saving tips to job search networking.

**8. Make a charitable contribution of time, not money.** It may be gratifying to write that year-end check, but rolling up your sleeves to take an active role—whether by volunteering a few hours a week or taking a seat on a nonprofit board—can be even better (and cheaper).

**9. Rediscover a dream.** Youthful visions of grand endeavors—as a writer, inventor, chef, or adventurer—very often get sacrificed as you start a family and heed the call to earn, earn, earn. But it's almost never too late to rekindle long-dormant passions, particularly if you find yourself between jobs.

**10. Reconnect with old friends.** If you join Facebook, LinkedIn, or other social networks, you're bound to hear from people you knew in high school, work colleagues from long ago, or even an old flame or two. Take the plunge, get back in touch, and see what happens. ●

In terms of liability exposure, one way to avoid dire consequences is to supplement your current coverage with an umbrella liability policy. As the name implies, the umbrella policy sits on top of your homeowner's and auto insurance policies to provide additional protection. For instance, if a neighbor slips and is injured on your icy sidewalk or a tree topples onto a car parked in front of your home, an umbrella policy may pick up the slack.


Just like other forms of insurance, you'll need to shop around for the best umbrella policy. And keep in mind that umbrella coverage kicks in only after other insurance is exhausted, and umbrella policies usually carry deductibles equal to the required underlying limits for the auto and homeowners policies. Still, the cost of umbrella coverage usually isn't prohibitively expensive. You may be able to obtain $1 million in liability coverage for $200 to $300 a year. And you may get a discount for using the same carrier. That could prove a small price to pay for plugging the gaps in policies. ●

# Veil Lifted From Municipal Bond Market

Municipal bonds have long been prized for their tax-exempt status and because they aren't as likely to default as are corporate bonds. However, the default rate has skyrocketed amid the global economic crisis, increasing the need for transparency in this specialized market.

Regulators have responded with three new measures designed to help investors navigate the complex world of municipal bonds, which are debt instruments issued by cities, counties, and local agencies such as school districts, publicly owned airports, and development agencies. Munis pay for projects such as hospitals, schools, public buildings, roads, and utilities. Bonds that fund programs for the public good are usually exempt from most taxes, including federal. While mutual funds, banks, hedge funds, and corporations all invest in the $2.7 trillion municipal bond market, 64% of muni investors are individuals.

In 2008, 140 issuers defaulted on $7.6 billion in muni bonds as states and cities across the nation faced massive budget deficits. That compared with just $226 million in defaults during 2007. This trend, which is likely to continue, makes munis a bigger risk, and means investors need timely information more than ever. Here are three ways the federal government is bringing more transparency to the muni market.

**Putting it all online.** Over the summer, a new website called Electronic Municipal Market Access (EMMA, at http://emma.msrb.org) began offering free information, from financial filings to trading records, on most of the 1.2 million outstanding municipal bonds. Operated by the Municipal Securities Rulemaking Board (MSRB), the site allows investors to research municipal bond issues and keep track of new filings. In the past, investors often were not aware if an issuer had failed to file statements or had taken some action affecting a bond or its rating. The site also offers educational materials.

**Into the open, and quickly.** The Securities and Exchange Commission has proposed a new rule that would force issuers to disclose on EMMA any change in their financial status within 10 days. That would include changes in an issuer's credit rating, withdrawals from reserve funds, and late payments of principal or interest. In the past, investors have complained about delays in receiving this information and issuers' failure to file required disclosures.

**Turning up the heat.** The Financial Industry Regulatory Authority (FINRA) is looking into the sales practices of brokerage firms that sell municipal securities and has asked for detailed information on business conducted during 2009.

All of these actions should make for a more transparent municipal bond market. If you have questions about municipal bond investing or your muni holdings, please give us a call. ●

## Retirees With Higher Costs

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all could help you build a bigger nest egg that may be able to cover the rising cost of long-term care. Or you could work a few years longer than planned, thus adding to your savings and reducing the length of your retirement. Even then, however, a nursing home stay soon after you leave work could be devastating, draining your savings when income from your job has ended.

**Live a Healthy Lifestyle.** Exercise, eat right, avoid alcohol and tobacco, and keep stress at bay if you want to increase the odds of remaining healthy during your retirement years. Paying attention to your health can pay big dividends during retirement, helping you spend less money on health care in the early years. The funds you save will earn interest for several years and will grow to help defray the eventual costs of long-term care. And if you're fortunate enough never to need extended nursing care, you'll have more to pass along to your heirs.

The ever-increasing cost of long-term health care is one of the biggest threats to your financial security during your retirement years. Not having LTC insurance or sufficient funds set aside to pay for care can force you and your family into making no-win financial choices, which could include officially impoverishing yourself in order to qualify for Medicaid, the joint federal-state health program for the poor that pays for most long-term care. Facing all of these issues can be daunting and complex. We can help you consider your options as part of creating a sound, effective retirement plan. ●


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