Is Medicare A Mystery? Test Your Knowledge

Talk about a historic first: 2008 marked the year the oldest of baby boomers turned age 62 and became eligible to claim Social Security benefits. Yet despite their reputation as the best-educated generation in U.S. history, a recent survey suggests that most boomers are woefully uninformed about their retirement health insurance picture, particularly Medicare eligibility.

According to the survey by the National Association of Insurance Commissioners, only 36% of baby boomers knew the age at which they would become eligible for Medicare benefits. And while 84% of boomers said access to health insurance was an important consideration in choosing when to retire, only 43% cited Medicare eligibility as important. Given that most retirees depend on Medicare to pick up much of their health-care tab, the implied gap in understanding could signal trouble ahead for many boomers.

Also two-thirds of those who responded weren't familiar with options such as Medicare Advantage, a managed care program that offers lower costs and broader coverage in return for restrictions on the choice of doctors and hospitals. And while most boomers didn't know much about the Medicare system, more than eight in 10 expressed concern about its long-term financial viability.

How savvy are you about Medicare? Use this quiz to test your knowledge.

1) Medicare is:
a) The largest health insurance program in the nation
b) Partly funded by the federal government
c) Both of the above
d) Neither of the above

2) You are eligible to receive Medicare coverage at:
a) Age 59½ c) Age 65
b) Age 62 d) Age 67

3) You may qualify at a younger age if:
a) You pay extra.
b) You are disabled or suffer from end-stage renal disease.
c) Your household income is below the poverty level.
d) None of the above

4) Medicare now includes how many coverage options?
a) Two c) Five
b) Four d) Six

5) The newest addition to Medicare coverage is:
a) Preventive care
b) Fitness programs
c) Prescription drugs
d) None of the above

6) Which of the following is true?
a) No Medicare recipients pay premiums.
b) Some Medicare recipients pay premiums.
c) No Medicare recipients pay deductibles.
c) No Medicare recipients pay coinsurance charges.

7) Which of the following is false?
a) Medicare will pay for long-term health-care services.
b) You have to apply for Medicare coverage.
c) You can purchase supplemental insurance.
d) Health discount cards are not insurance products.

If you're confused about Medicare or long-term-care, please give us a call. We'll be glad to help.

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

Best Of Times Follow Worst

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and worst days happen within shouting distance of one another, and some of the best days have been particularly likely to follow hard on the heels of some of the worst. In dramatic turnarounds, eight of the 20 best days occurred within 10 trading days of one of the worst 20 days. On October 29, 1929, the S&P sank by 16.1%; the next day, it soared 12.5%. In 2008, a 7.6% loss on October 9 was followed by an 11.6% gain on October 13.

Post-plunge rebounds often last more than a day, with the market frequently recouping, during the next few weeks, a significant fraction of what it has lost. For example, the worst sell-off in the Vanguard study—on October 19, 1987, when the S&P 500 lost 20.5% of its value—was quickly followed by a lot of buying. Within 20 trading days of Black Monday, the market had rebounded by 9.6%. A similar thing happened during the 1929 crash; after that 16.1% free fall on October 29, the S&P stabilized temporarily, regaining 2.5% during the 20 trading days that followed. And in 2008? Twenty days after December 1, when the market fell 8.9%, it had regained 9.1%. Looking at the S&P's performance following all 20 of the worst days, the market regained an average of 2% during the next 20 trading days.

For would-be market timers, those tendencies make a difficult job virtually impossible.

Few people expected the stock market to surge when it did in the spring of 2009, or to advance as much as it did during the next several months. Investors who had cashed out their portfolios during the market rout almost certainly missed some (if not all) of the rally.

The recent volatility of the S&P 500—from day to day, week to week, and month to month—only reinforces how unlikely it would be for anyone to get in or out at just the right time. Rather than try to time the market, which almost always backfires, most investors would do better to stick with a well-diversified portfolio with regular asset allocation rebalancing to keep volatility in check and increase potential long-term gains. ●

Performance data quoted represents past performance and does not guarantee future results. Indices are unmanaged and do not reflect the payment of fees and other expenses associated with an investment. Investors cannot directly invest in an index.

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Best Of Times Often Have Followed Worst Of Times

These have been tough times for strategic long term investors. While it may seem logical to stay the course through the market's inevitable ups and downs—taking advantage of stocks' tendency to deliver strong returns over very long periods—that logic was little comfort during the bear market, when some portfolios lost more than half their value. Wouldn't it have been better to bail out in, say, late 2007, replacing stocks with cash or with bonds, which have outperformed equities during most of this decade?

Of course it would have been better, but myriad problems stand in the way of executing a successful market timing strategy, which calls for getting out of investments before they swoon and getting back in when they're ready to rise. To investigate market timing's feasibility, Donald Bennyhoff and Yan Zilbering at the Vanguard Group recently examined the performance of the Standard & Poor's 500 stock index from 1928 through 2008 and reported their results in a research note, "Market-Timing: A Two-Sided Coin." Looking only at prices—they left aside dividends because of a lack of data on daily total returns before 1980—Bennyhoff and Zilbering found that the index had returned an average of 5% a year during that 81-year stretch. A clairvoyant investor who had managed to be out of the market on just the 20 worst trading days—avoiding an average loss on those dark days of 9.2%—would have gained 7.5% annually. Anyone who had missed the 20 best days, on the other hand, would have gained only 2.6% a year. That amounts to a 50% swing, up or down, in portfolio performance.

10 Worst Days for S&P 500 Index and Returns for Five and 20 Trading Days Following

Date	Return	Next 5 days	Next 20 days
10/19/1987	-20.5%	1.2%	9.6%
10/29/1929	-16.1%	4.6%	2.5%
5/14/1940	-10.3%	-11.1%	-3.8%
11/6/1929	-9.9%	-14.3%	8.9%
10/15/2008	-9.0%	-1.2%	-6.1%
12/1/2008	-8.9%	11.5%	9.1%
7/20/1933	-8.9%	1.0%	1.8%
9/29/2008	-8.8%	-4.5%	-23.3%
7/21/1933	-8.7%	8.1%	9.6%
10/26/1987	-8.3%	12.3 %	6.7%
Average	-10.9%	0.8%	1.5%

Source: Vanguard

No one could ever hope to forecast all of the market's best and worst days. But given that infinitesimally small changes—being out of the market on just 20 of 20,340 trading days during the 81 years the researchers considered—can have a profound impact, it may seem worthwhile to try to identify some of them. What if, for example, you got out of the market after it had a particularly bad day, or got in after a really good one? Wouldn't more of the same be likely to follow?

Often that's not the case, according to Bennyhoff and Zilbering. Frequently the best

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Searching The Web Improves Memory For Older Adults

"Take your meds, get plenty of rest, and keep surfing the 'Net."

The last part isn't usually part of the medical advice for older people, but maybe it should be. According to a study by UCLA scientists, using the Internet—particularly its search functions—can lead to improved reasoning and decision-making late in life.

As brains age, changes such as atrophy and reduction in cell activity may affect cognitive function. The new research shows that the mental stimulation provided by frequent Internet use may be beneficial. "For older people with minimal experience on the Internet, performing searches for even a relatively short period of time can change brain activity patterns and enhance function," says Gary Small, a UCLA professor and author of the new study.

The study involved 24 volunteers age 55 through 78. Previously, half the participants had used the Internet daily, while the other half had minimal experience. There were no significant differences in age, educational level, and gender between the two groups. After Internet training at home, the participants with little online experience quickly displayed brain activation patterns very similar to experienced users—in some cases, in a matter of days.

Please note, changes in tax and estate planning laws may occur at any time and could have a substantial impact upon each person's situation.
While we are familiar with the tax and estate planning provisions of the issues presented herein, as Financial Advisors of Cambridge Investment Research, Inc we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

Take Out Umbrella Insurance For A Rainy Day

Into each life some rain must fall. That's why it makes sense to acquire "umbrella" insurance.

Homeowner's insurance covers a multitude of ills involving your principal residence. Similarly, auto insurance will pay to fix a damaged bumper—and the dent in the car you ran into—after you've kicked in a deductible. But each of these policies is usually limited to no more than $500,000 in coverage for losses that you suffer or cause.

An umbrella insurance policy, also known as excess liability coverage, extends your personal liability coverage beyond normal policy limits. It's really protection against worst-case scenarios, unlikely but possible events that could wipe you out financially. Here are answers to common questions about this insurance.

Who needs excess liability coverage? An umbrella policy is a good idea for most affluent individuals, especially those who own a home, frequently drive a vehicle or have teenage children who are driving; operate a home-based business or serve on boards of nonprofit organizations; employ domestic staff; or maintain a high public profile.

How much coverage do you need? Though this depends on your personal circumstances, an umbrella policy of at least $1 million is probably a good idea. Consider the following when determining how much coverage you need: 1) physical assets 2) investable assets 3) future earnings 4) potential inheritance 5) the legal environment 6) risk profile and 7) potential for loss.

Most top property and casualty (P&C) insurers will provide coverage of up to $5 million, and if you're particularly worried about personal liability claims, you can get higher policy limits (up to $100 million) from a handful of firms.

What does it cost? Umbrella insurance is relatively inexpensive. Typically, you'll pay between $250 and $500 a year for coverage of $1 million. Every extra million may run you about $150. That means, at the high end, you can probably figure on spending around $1,100 a year to maintain a $5 million policy.

What's covered? This differs from policy to policy, but umbrella insurance usually can fill in the cracks around other insurance. For example, your auto policy might not cover you for an accident overseas, but an umbrella insurance policy probably will. The policy might also provide protection against sexual harassment claims and personal injury "torts" such as discrimination, libel, and slander. And if your car skids into a Rockefeller and you're hit with a $5 million judgment? Having this insurance could save your house, your savings, and your financial future.

Why isn't it more prevalent? Unlike homeowner's or auto insurance, umbrella insurance traditionally has been viewed as a luxury, and it's not mandated by law. But it is fast becoming essential in this litigious society. For an annual personal liability review, please call our office. ●

Seven Moves To Make 2010 Less Taxing

For most people, tax planning comes down to an end-of-year scramble. You make a few charitable donations, do some tax-loss selling of disappointing investments, and maybe send in an early mortgage payment to increase your itemized deductions. Yet while such moves can reduce what you owe on April 15, you could save much more by taking a year-round approach. Here are seven tax-saving opportunities you might consider as the months roll along.

1. Lock up the homebuyer's credit. Under the recently revised rules for this tax break, a long-time homeowner can claim a credit of up to $6,500 for a purchasing a new home before May 1, 2010. To qualify, you must have owned your principal residence at least five out of the eight previous years. Are you running out of time? As long as there's a binding contract in place by the end of April, you have until July 1 to close the deal. (This credit is phased out for high-income taxpayers.)

2. Avoid wash sales. Normally, you can use capital losses from stock sales to offset capital gains plus up to $3,000 of ordinary income. But that doesn't mean you can sell a stock to book a loss, then immediately replace the shares if you still like the investment. "Wash sale" rules say you can't deduct a loss if you acquire a substantially identical stock within 30 days of a sale. One way around the problem is to "double up," buying a new block of shares and then waiting more than 30 days to sell your original holding. (Any loss that's disallowed can be added to your basis in the stock, reducing any future gain or increasing the loss.)

3. Check your AMT status. The alternative minimum tax (AMT) can sneak up on unsuspecting taxpayers. Each year, you must calculate your taxes under both normal and special AMT rules—and then pay whichever bill is higher. If your tax advisor estimates your AMT liability midway through the year, you may have time to make adjustments, postponing "tax preference" items that increase your AMT levy—or, conversely, accelerating income to be taxed at AMT rates of 26% or 28% if you expect to be in a higher bracket in 2011, when income rates are scheduled to rise.

4. Generate an energy credit. You can claim a credit equal to 30% of the cost of making qualified energy-saving improvements to your home. Those can range from installing central air conditioning to adding new skylights or more insulation. But the maximum credit allowed for the period spanning 2009 and 2010 is $1,500. If you haven't hit the maximum yet, consider the possibilities for cutting energy bills along with your taxes.

5. Position your investments. Most investment decisions have consequences come tax time, and you could save money with tax-aware moves. For example, if you acquire six-month Treasury Bills after June 30, 2010, you won't be taxed on the income until 2011. Also, keep a running count of capital gains and losses that could offset each other. If you've already realized substantial gains, look for underperforming assets you might unload to limit your tax liability. Or, if you're showing a net loss for 2010, that may give you leeway to sell some appreciated positions.

6. Keep your dependents. Is this the year your family celebrates a high school or college graduation? Even if your child gets a full-time job, you can generally still claim an exemption if you provide more than half of the child's annual support. For 2010, the exemption amount (the same as your personal exemption) is $3,650. One idea is to give a generous graduation gift that is sure to put you over the half-support mark. But keep in mind that hiring your kids won't work—that money counts as support children provide for themselves.

7. Send your kids to day camp. If you pay someone to watch your children (under age 13) while you and your spouse work, you may be eligible for a dependent care credit. You can usually claim a credit equal to 20% of the first $3,000 of qualified expenses for one child, or of $6,000 for two or more children. This tax break isn't limited to babysitters and day care centers—you may also get a credit for the cost of sending kids to summer day camp. But sleepaway camp doesn't count.

These are just seven of many ways you may be able to minimize your taxes with careful planning. What's important is to start looking around now, not later, for moves that could save you money. You can always make additional adjustments at year's end, but by then you may have missed out on larger opportunities. ●

A Welcome Spike In Personal Savings

Are you looking for something good that may have come out of the recession? As a result of the economic downturn, Americans have generally been spending less and saving more. The savings rate in U.S. households in 2009 reached a high point of 6.9% of after-tax personal income in May. Even though the savings rate has slipped since then, the watershed mark was the highest rate since 1992, when savings peaked at 7.7%.

While it's not an exact measure of fiscal health, the savings rate is the percentage of household disposable income that is put into savings rather than consumed. Mortgage payments are not considered savings, but retirement plan allocations (not capital gains) are. Although a sub-7% savings rate isn't much to brag about in most parts of the world—the annual percentage in other countries routinely hits double digits—it marks a dramatic shift in our personal financial habits. During recent years, the percentage of savings actually dipped below 1%, bottoming out at 0.4% in both 2006 and 2007. In 2008, the saving rate was still only 1.8%.

What's behind the trend towards more savings? During the preceding two decades, rising stock market values and home prices had enticed consumers into thinking they had money to burn, and they became less and less inclined to save for retirement and other needs. Even retirees were encouraged to spend like there was no tomorrow.

But the recent precipitous decline in household wealth ended the wild spending spree. Real estate values around the country have dropped by an estimated 35%, and during the past two years, U.S. household wealth has been reduced by a whopping 140% of annual disposable income. That's a total of $14 trillion.

Faced with daunting economic news, people have been forced to rein in spending, while increasing their efforts to prepare for a secure retirement. For instance, instead of buying goods with their checks from the economic stimulus package or taking advantage of other tax incentives, many people have chosen to hold on to the money. And it doesn't look as if things will change radically anytime soon.

How long will the latest trend last? Most economists predict a slow, steady climb back to better times rather than a quick return to another financial boom. But cutbacks in domestic consumption will also slow down the economic recovery. In the meantime, the savings rate is expected to rise gradually until it hits the 10% mark at some point during the next 10 years. Other financial experts believe the recovery period could last even longer.

Of course, an increased savings rate is to be applauded, especially after it had plummeted dangerously close to zero. Americans will have to adjust to a lower standard of living compared with the heyday of 2007. But if forgoing a few luxuries is the price you have to pay for protecting your financial future, that's probably a trade-off you'd be willing to make. ●