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Orchestrating dreams for over 4 decades

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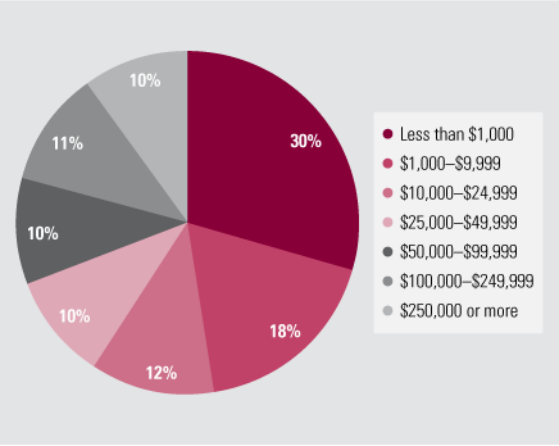
Bleak Picture

The Employee Benefit Research Institute (EBRI) is an organization founded in 1978 with the mission of encouraging and contributing to the development of sound employee-benefit programs. Every year, the EBRI publishes a retirement confidence survey. The 2012 survey interviewed 1,003 workers and 259 retirees in order to find out their confidence in being able to meet retirement financial goals.

Unfortunately, the survey results look pretty bleak this year. For example, as the image illustrates, 30% of workers report having saved less than $1,000, and 18% report retirement savings in the $1,000–$9,999 range. Overall, more than half of workers have less than $25,000 saved, at a time when people start questioning if $1 million will be sufficient for a safe retirement. Take a minute and see if you recognize yourself in this picture.

Total Savings and Investments Reported by Workers



Source: EBRI 2012 Retirement Confidence Survey, No. 369, March 2012. Savings reported not including value of primary residence or defined-benefit plans. Percentages may not add up to 100% because of rounding.

Advisor Corner

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2013 Market Performance
01-01-13 to 1-31-13
DJIA ^DJI Up 5.77%
S&P 500 ^GSPC Up 5.04%
NASDAQ ^IXIC Up 4.06%
Russell 2000 ^ RUT Up 6.21%
* Index performance is gross of fees
Source: http://finance.yahoo.com

Five Key Questions About Long-Term Care Insurance

In addition to typical medical expenses in retirement, you should also consider the cost of long-term care arrangements should you need professional care in your later years, either in-home or in an assisted living facility. There's a good chance you'll need assistance, and it won't be cheap.

According to the 2012 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs, the average annual cost for a private room at a nursing home in 2012 was $90,520. The national average for a semi-private room was $81,030. The national average for an individual living in an assisted living community was $42,600.

In most cases, long-term care health insurance coverage provides benefits for nursing homes, assisted living facilities, and home care. If you can afford the premiums, you may want to consider purchasing long-term care insurance. Here are some of the key questions to keep in mind.

How Likely Are You to Need It? This depends on your general health, family history, and expected longevity. For example, if your family has a history of serious medical conditions, dementia, or Alzheimer's disease, you may have a stronger reason to consider this type of insurance.

What's Your Asset Level? Those who come into retirement with less than $250,000 in assets will probably have better uses for their money than paying premiums for long-term care insurance; they may also be eligible for Medicaid if they should need long-term care. Those with more than $2 million in assets may be able to pay for this type of care out of pocket. If your portfolio falls in the middle of this range, however, you may be a good candidate for this type of coverage.

What Kind of Coverage Do You Need/Want? The key differentiator in the pricing of long-term care insurance policies is the amount of daily benefit you're buying; you'll obviously pay more for a policy that pays $150 of your long-term care costs per day versus one that pays just $100. You'll also be able to specify whether you'd like your daily benefit to step up with inflation; even though such a feature will cost you, it's highly advisable given that health-care inflation rates have been far outstripping inflation as a whole during the past few decades.

Another factor to evaluate is the total lifetime benefit. For example, a policy may cover $250,000 in lifetime long-term care benefits, or the lifetime benefit may be unlimited. Some policies are comprehensive, meaning the patient can obtain care in a variety of settings, from a traditional nursing home to care at home. Cheaper policies, however, will only pay for care in a traditional setting, usually a nursing home. Policy costs can also vary based on the length of your elimination period, which is similar in concept to an insurance deductible. If your policy has an elimination period of 30 days, for example, that means you'll have to pay for any long-term care costs you incur in the first 30 days of your illness; after that period has elapsed, your insurer will pick up all or part of the tab, up to your daily benefit amount.

How Would You Like to Pay for That? Under a traditional long-term care policy, you make regular payments during the life of that policy. But you can also customize your payment program, paying for your policy in a single payment, over 10 or 20 years, or until you hit age 65. Such payment options allow you to front-load your payments and reduce your fixed costs in retirement.

How Likely Is the Company to Pay? It probably is a good idea to check up on the insurer's financial strength. Also ask your agent about the insurer's history of raising client long-term care premiums. Although such maneuvers can improve a firm's financial health, they can also present a financial hardship to the insured, a lesson many long-term care policyholders learned the hard way during the past few years.

Questions to Ask Before Venturing Into a Self-Directed IRA

A self-directed IRA enables investors to buy into asset classes that are often outside of the purview of fund companies and brokerage firms. These investments may include non-publicly traded real estate, private equity, and partnerships and joint ventures that may exhibit radically different performance patterns than stocks and bonds, a quality that bear-market-battered investors could be craving. In some respects, all IRAs are self-directed, in that as the account owner, you're entirely in control of what you put inside of your account. And on the surface, self-directed IRAs have features that are comfortably similar to conventional IRAs that hold stocks, bonds, or mutual funds. The contribution limits are the same, rollovers from other IRAs are permitted, and you can opt for a traditional or Roth version. However, investing in a self-directed IRA isn't as simple as sending a check and tuning out; far from it. In addition to analyzing the merits of a prospective self-directed IRA investment, it's also important to consider how the inclusion of a single, possibly large, and undiversified investment interacts with your other holdings. You also need to be aware of the different rules governing these accounts because you could run into serious trouble if you run afoul of them. Here are some of the key questions to consider before taking the plunge into the world of self-directed IRAs.

What will it cost? If you hold stocks or mutual funds in an IRA, your costs will be pretty transparent: mutual fund management fees and any commissions you might pay to buy and sell. Self-directed IRAs charge another layer of fees because you must go through a custodian, who in turn will invest in the assets on your behalf. As a result, there's typically a setup fee for a self-directed IRA as well as ongoing administrative costs; these costs can vary widely by custodian, so you really need to do your homework. Of course, investing in mutual funds or individual stocks isn't free, but taken together, the extra costs associated with self-directed IRAs mean that your investments will need to perform that much better than traditional stocks and funds just to pull ahead.

How does it fit with the rest of your portfolio? Even if you're sold on the merits of an investment you'd like to put inside of a self-directed IRA, such as a rental property, it's still important to consider how it fits with your overall portfolio. Are you sinking a disproportionate amount of your money into a single asset?

Do you thoroughly understand the rules? Self-directed IRAs come with a separate set of rules, the majority of which are designed to prohibit self-dealing, which is, essentially, obtaining use from an asset even though you're receiving a tax deferral on it. If the Internal Revenue Service learns of self-dealing, the entire sum in that IRA could be considered taxable and subject to the 10% early withdrawal penalty.

Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation. Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while returns and principal invested in stocks, commodities and real estate are not guaranteed. Real estate investment options are subject to certain risks, such as risks associated with general and local economic conditions, interest rate fluctuation, credit risks, liquidity risks and corporate structure. Investors should read the prospectus and carefully consider a fund's investment objectives, risks, fees, and expenses before investing.

What's the Number?

"The 2012 Retirement Confidence Survey: Job Insecurity, Debt Weigh on Retirement Confidence, Savings," published by the Employee Benefit Research Institute in March 2012, includes the following highlights.

1) Only 14% of Americans are very confident they will have enough money to live comfortably in retirement. 42% of Americans identify job uncertainty as the most pressing financial issue facing Americans today.

2) 60% of workers report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000.

3) 37% of workers in 2012 said they expected to retire after age 65, up from 11% in 1991. 62% of workers and 37% of retirees consider their current level of debt to be a problem.

4) 56% of workers report they and/or their spouse have not tried to calculate how much money they will need to have saved by the time they retire so that they can live comfortably in retirement.

5) 16% of workers and 11% of retirees are very confident that their investments will grow in value. But 67% of workers state that they are a little or a lot behind schedule when asked to evaluate their progress in planning and saving for retirement.

6) 24% of retirees are very confident about having enough money to cover medical expenses in retirement, and 18% of retirees are very confident about having enough money to pay for long-term care in retirement.

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