QUARTER NOTES

Second Quarter 2019

Wayne L. Locke, CFP®

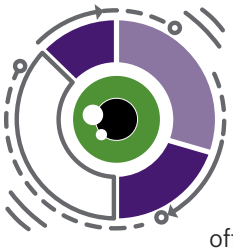
Top six benefits of financial plans

Thanks to the internet and YouTube, doing-it-yourself has taken on a new life. For example, a young person we know was able to diagnose a problem with his clothes dryer, then order the key part and install it, thus saving the cost of an in-home repair. Information that once might have been hard to find outside of specialized publications has become accessible to everyone.

But there are limits to self-empowerment. One area in which some people may be overconfident is financial management. There is more to financial planning than setting some goals and pinching some pennies. Here are six benefits that may come from working with a financial planner on an organized financial plan.

1. Test whether goals are realistic in the stated time frame

Legendary Green Bay Packers coach Vince Lombardi reportedly once said, "We didn't lose, we just ran out of time." That's how it can be with savings plans. How long will it take to accumulate enough for the down payment on the house, or reach the target for college savings? The variables are the savings rate, the rate of return on savings, and time. A financial plan provides perspective on integrating savings strategies.



2. Identify overlooked risks

What are the chances of dying before meeting one's financial goals? What are the odds on becoming disabled during a career? What would happen to meeting the mortgage payments if a spouse dies prematurely? A financial plan will quantify these hazards and provide mitigation strategies, often with insurance plans.

Continued on next page

The best time to create a financial plan

When should you have a formal plan for managing your finances? Today would be the best time, regardless of your age or current financial situation. Financial planning is not just for the wealthy, as our feature article in this issue demonstrates.

On page 3 you'll find "Longevity Planning." As more people live longer in retirement, the need for careful preparation for the final stage of life grows ever larger.

Do you have questions about saving and investing? We would be pleased to be a resource for you.

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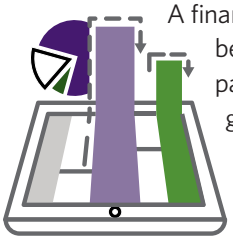
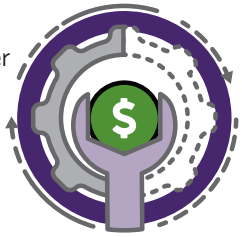
3. Measure progress



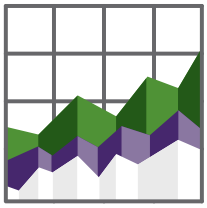
A financial plan includes benchmarks along the path toward the financial goals. If the targets are not being met, a mid-course correction may be required.

4. Fix mistakes



There are a number of routine money management mistakes made by a surprisingly large number of people. Failure to take full advantage of a company retirement plan is one; paying high interest charges on credit card balances is another. A financial plan will identify opportunities to bring greater efficiencies to money management and flag the pitfalls that could undermine the plan.

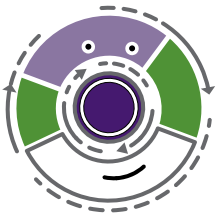
5. Build wealth



The 2012 Hoosonold Financial Planning Survey conducted by the Certified Financial Planner Board of Standards found that families with financial plans generally have more money saved and are more likely to have paid their credit cards in full. This was true even for families in the lowest income bracket. For those with a plan, 41% of those earning less than $25,000 were paying off their credit cards every month. Only 26% of those in the $25,000 to $49,999 income bracket without a financial plan were paying off their cards, even though they had more resources to do so.

6. Achieve greater money management satisfaction

The same survey assessed whether people felt that they were living comfortably on their financial resources. Some 48% of those with a plan were happy, compared with just 22% for those without a plan. Interestingly, having a plan appeared more likely to provide satisfaction than having a higher income. Some 50% of the planners in the $50,000 to $99,999 income bracket reported being financially comfortable, compared to only 46% of those without plans who earned $100,000 or more.



Having a financial plan and following through on it takes some of the uncertainty out of life. It gives people a feeling of greater control over their financial destiny.

Start now

Financial plans are not just for the wealthy—they offer a path for becoming wealthy. They are not just for the young, or for the old, because financial plans address needs throughout one's lifetime.

We can help you with planning your financial future. Call on us today!

Planners and credentials

When seeking the services of a financial planner, one quickly runs into confusing professional designations. Financial professional titles are not endorsed by the SEC. A title is not the same thing as a license. A license affords certain legal protections to the consumers, while a professional designation or title does not.

The Financial Industry Regulatory Authority (FINRA) provides a database of professional designations at http://www.finra.org/investors/professional-designations. You may enter a designation or browse a list of them. Links are supplied to provide the background on each one, such as the organization that grants the designation and the requirements for it.

Below are a few examples from the hundreds in the database.

Designation decoder

Designation	What it means	Who issues it
CFP	Certified Financial Planner	Certified Financial Planner Board of Standards, Inc.
AFC	Accredited Financial Counselor	Association for Financial Counseling and Planning Education
CTFA	Certified Trust and Financial Advisor	ABA Institute of Certified Bankers
CSA	Certified Senior Advisor	Society of Certified Senior Advisors
CFWE	Certified Financial Wellness Educator	Foundation for Financial Wellness
FSS	Financial Services Specialist	The American College
CWS	Certified Wealth Strategist	Cannon Financial Institute

Source: FINRA

Longevity planning

Americans are living longer in retirement. That happy development must be tempered with the realization that retirement is going to cost more, and so more preparation will be needed to remain financially secure. Some disquieting data recently published at Leimberg Information Systems [Einhorn and Leimberg, "Long-Term Care 2019," Elder Care Law Planning Newsletter #22 (March 4, 2019)]:

- There is a 70% probability that an individual over age 65 will become cognitively impaired or unable to complete at least two activities of daily living—including dressing, bathing, or eating over his or her lifetime.
- Alzheimer's cases among people 65 and over are projected to triple by 2050.
- On the aggregate, of those who enter a nursing home, 50% will stay an average of 2.5 years; 10% will stay there five years or longer.
- 1 out of 2 Americans turning 65 today will need long-term care during their lifetime.
- 70% of single people who enter a nursing home are impoverished within one year.
- 50% of all couples are impoverished within one year of one spouse's entering a nursing home.

Contrary to popular belief, Medicare does not pay for long-term nursing home care. The requirements for even limited Medicare coverage of nursing home stays are quite stringent.

Medicaid

Medicaid now covers about 40% of all nursing home expenses in the U.S. (Medicare covers only about 2%.) According to the Einhorn study, even in relatively wealthy Massachusetts about 70% of nursing home residents receive Medicaid assistance. Medicaid was designed for the poor, and it also may kick in when a non-poor nursing home resident has exhausted all other financial resources. Some people have attempted to impoverish themselves so as to qualify for Medicaid when they enter a nursing home. However, under current rules all gifts made within the previous five years are taken into account in qualifying for Medicaid.

There are other disadvantages to the deliberate impoverishment strategy. Perhaps the most significant for some will be the loss of choice in deciding upon a nursing home facility. Some nursing homes will require that an applicant have sufficient resources to pay for six months, a year, or longer before they will consider an application.

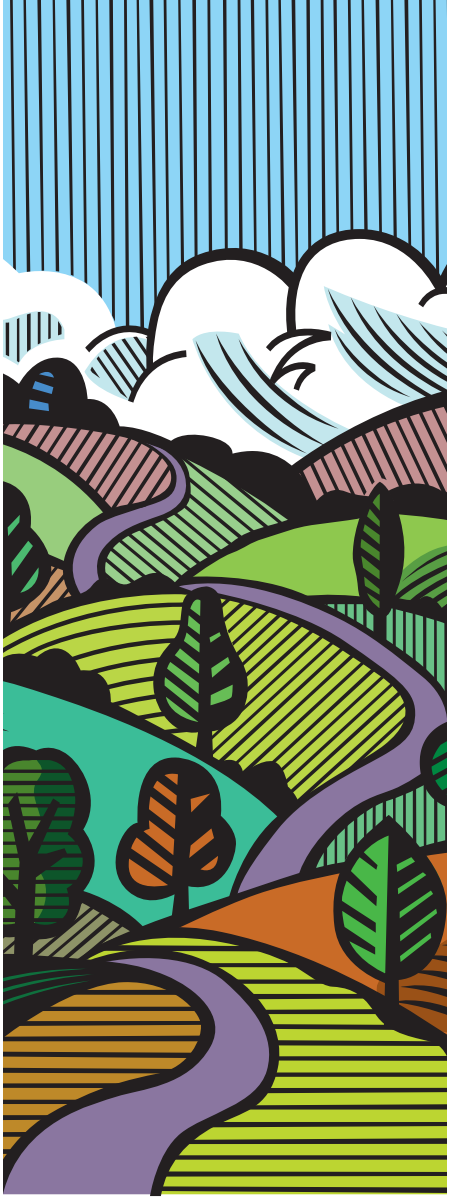
Long-term care insurance

The better alternative for many families will be an insurance policy to help cover costs of advanced age. These policies can be tricky to decipher. Among the considerations:

- Adequacy of the benefit.
- Duration of the benefit.
- Coverage of care in the home, as well as in a skilled nursing facility.
- Deductible days, which may range from zero to 365.
- Waiver of premium.
- Inflation protection.
- Pre-existing conditions.
- Company rating.

Premium costs will vary as these variables are adjusted. Higher benefits, longer durations, and lower deductibles all come with increased premium costs.

With car insurance, one hopes to never make a claim. Buyers of long-term care insurance do not feel that



way about this kind of insurance. They consider it more like a savings plan that they hope to cash in on. Accordingly, some are reluctant to buy a long-term care policy if they are not convinced that a nursing home stay is in their future. Hybrid insurance policies may overcome this reluctance, in which a life insurance component is added to a long-term care policy. With a hybrid policy, there will be a payout if the nursing home benefit never is claimed. Some plans offer full or partial refunds of premiums paid if the policy is surrendered.

In this complicated area, professional assistance is a must.

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Just Ask Us

What are the most popular baby names?

According to the Social Security Administration, in 2017 (latest available data) the most popular name for boys was Liam, most popular for girls was Emma. See https://www.ssa.gov/OACT/babynames/ for the full list of most popular baby names by year and by state. The data are available back to 1880!

"Liam" entered the top-five list at number 3 in 2013 and spent the next three years at number 2 before snaring the top spot. "Emma" appeared at the number 3 spot in 2002, and it has been among the top five names ever since, being number 1 five different years.

In 1880 the most popular name for boys was John, with William a close second. Mary led the pack for the girls, with Anna far behind.

The Social Security Administration's website has a wealth of solid information available for retirees. The tabulation of baby names is an entertaining sideline derived from their required data collection.