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Hi Everyone,

Did the annual tax filing process result in surprises for you? If so, consider taking actions now to help reduce those surprises next year. We'll be glad to help you consider ideas.

Also stay abreast of new details regarding the changes in health insurance coverage beginning next year. Page 4 provides a good summary overview.

Warm regards,
Deidra

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Spring 2013

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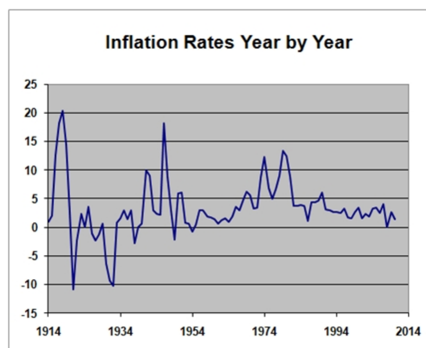
Cost-of-Living Adjustments: What They Are and Why They Matter

The rising costs of food, gas, electricity, and health care can strain anyone's budget. The situation is even worse if your living expenses increase while your income stays the same, because your purchasing power will steadily decline over time. That's why cost-of-living adjustments, or COLAs, are especially valuable to retirees and others living on fixed incomes.

How COLAs work

A COLA is an increase in regular income you receive (such as a Social Security or pension benefit) that is meant to offset rising prices. It's important protection because price inflation has occurred almost every year in the last 40 years.



Data Source: *Bureau of Labor Statistics*

It's easy to think of a COLA as a "raise," but a COLA is meant to help you maintain your standard of living, not improve it. For example, let's say you receive a $2,000 monthly retirement benefit, and the overall cost of the things you need to purchase increases by 3% during the year. The next year, you receive a 3% COLA, or an extra $60 a month, to help you manage rising prices.

That 3% COLA doesn't sound like much, but without a COLA, inflation can seriously erode your retirement income. Assuming a 3% inflation rate, in just 10 years, the purchasing power of your $2,000 benefit would drop to $1,520, and in 25 years, the purchasing power of your benefit would be only $963, less than half of what you started with.

Who receives COLAs?

Social Security is the major source (and in some cases the only source) of inflation-protected retirement income for many Americans. Social Security COLAs are announced each October, based on increases in the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of the last year a COLA was payable to the third quarter of the current year. For example, because the CPI-W rose 1.7% between August 2011 and August 2012, Social Security and SSI beneficiaries received a 1.7% COLA, beginning with December 2012 benefits. However, if there is no rise in the CPI-W, then beneficiaries will not receive a COLA.

COLAs are also commonly paid to retirees who are covered by state or federal pensions. However, most private pensions do not offer COLAs.

Less commonly, employers offer COLA increases as part of compensation packages. You may also purchase riders to certain insurance policies (such as disability income and long-term care policies) that ensure that benefits you receive keep pace with inflation.

Should you count on COLAs?

As important as COLAs are, they are still vulnerable to cutbacks. For example, pension plans that are underfunded may view reducing COLAs as a relatively simple way to cut costs, and some plans have attempted to eliminate COLAs altogether, although there have been legal challenges. Changing the COLA formula that the Social Security Administration uses has also been proposed as a way to save money and strengthen program reserves.

So while you should appreciate the value of COLAs, you should also take other measures to account for the effect of long-term inflation. These include using realistic inflation and investment return assumptions when planning for retirement, maintaining a diversified portfolio that reflects your time horizon and tolerance for risk, and considering investments that have historically held their own against inflation.

See disclaimer on final page

Are You Prepared If a Natural Disaster Strikes?

Handling a dispute with your insurance company

Disagreements may arise with your insurance company about the amount the company paid on a claim, or the nonpayment of a claim. Be aware that the insurance industry is highly regulated. Your state has laws that dictate what insurance companies can and cannot do when it comes to bill collecting, settling claims, and other matters. The law may be called the Unfair Insurance Practices Act, the Unfair Claims Settlement Practices Act, or something similar. To learn about insurance laws in your state, call your state insurance department or check its website.

It seems as though there's always a hurricane, tornado, earthquake, flood, fire, blizzard, or mudslide happening somewhere in the United States. A storm or other natural disaster could destroy your home, business, or workplace and put you in financial straits, but there are things you can do both before and after the event to help you recover quickly.

Pre-disaster

Create a financial emergency kit. Put together a kit that contains some cash and checks, a list of important contacts (e.g., your insurance agent), and copies of important documents, including identification cards, birth and marriage certificates, insurance policies and inventories, wills, trusts, and deeds. Make sure your kit is stored in a safe, secure place in your home, is easy to reach and carry, and is both waterproof and fireproof. You'll want to stash enough cash (or a credit card) to pay for immediate expenses such as gas, food, and lodging.

Tip: *While you're at it, you might also want to keep your most precious items in the kit, such as your special photos and family heirlooms.*

Protect your assets. Take some commonsense precautions to safeguard your home, business, car, boat, and similar assets against damage from wind, water, fire, or other risks. For example, install an emergency generator and paperless drywall, keep loose objects (e.g., grills and patio furniture) secure, cut down overhanging tree limbs, park your car in a garage, and invest in storm windows, doors, and shutters.

Take inventory. Create and maintain an inventory of your valuables, including appliances, electronics, furniture, clothing, jewelry, and artwork. Record models and serial numbers, and take pictures or a video of the items. This will help when it comes time to file insurance claims and purchase replacements.

Check your insurance coverage. Make sure your insurance policies (e.g., homeowners, auto) include all the coverage you need, and understand that damage caused by natural disasters may not be covered under general types of policies. You may need to consider buying separate coverage for hurricanes, floods, earthquakes, or other disasters. Consult your insurance agent to determine whether you have adequate coverage given the likelihood of such events occurring in your area.

Post-disaster

In the immediate aftermath, proceed with caution. While the disaster may have passed, health and safety hazards still may exist. Be aware that any building you're in, including your home, may not be structurally sound, so carefully look for any apparent damage. Also, report contamination from spills of oil, gas, chemicals, or any hazardous substance.

Assess your property for damage. Take pictures of damaged areas both inside and outside your home, including trees, landscaping, and yard structures such as sheds.

File insurance claims immediately. Contact your insurance agent and file claims as soon as possible. The quicker you do so, the sooner you can get back on your feet.

Protect your income. If you end up out of work, take advantage of any employee assistance programs that your employer may offer. Seek unemployment compensation from your state and ask about special job considerations for disaster victims. Find out if special unemployment benefits are available through the Department of Labor.

Get help from emergency sources. If you need immediate financial help, disaster relief funds and special programs (for example, housing assistance) may be available through the Federal Emergency Management Agency (FEMA) or your state and local governments, as well as the American Red Cross, United Way, Salvation Army, social services, and local churches.

Consider available tax breaks. Tax law allows taxpayers to deduct certain unreimbursed casualty losses in the year in which they are incurred, subject to certain limitations. In certain presidentially declared disaster areas, individuals can claim the loss (again, subject to certain limitations) in the prior tax year by filing an amended return. Moreover, special relief (for example, bonus depreciation for business property) may be granted in the case of specific disaster events. Be sure to consult your tax professional about any tax relief that may be available to you.

Get legal help, if necessary. If you experience legal difficulties, you may want to consider hiring an attorney who specializes in the complex area of natural disaster law.

Don't ignore the stress. Surviving a natural disaster can be a very stressful situation. Don't hesitate to ask for help from family and friends. If you have young children, they may be upset about damage to their home and belongings. Be patient and try to explain what's happened and how you're going to try to get back to normal as soon as possible.

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At every stage of your life, there will be competing financial needs. Don't make the mistake of thinking it will be easier to save for retirement in just a few years. It won't.

Before investing in a mutual fund, consider its investment objectives, risks, charges, and expenses, which can be found in the prospectus available from the fund. Read it carefully before investing.

Four Retirement Saving Myths

No matter how many years you are from retirement, it's essential to have some kind of game plan in place for financing it. With today's longer life expectancies, retirement can last 25 years or more, and counting on Social Security or a company pension to cover all your retirement income needs isn't a strategy you really want to rely on. As you put a plan together, watch out for these common myths.

Myth No. 1: I can postpone saving now and make it up later

Reality: This is very hard to do. If you wait until--fill in the blank--you buy a new car, the kids are in college, you've paid off your own student loans, your business is off the ground, or you've remodeled your kitchen, you might never have the money to save for retirement. Bottom line--at every stage of your life, there will be competing financial needs. Don't make the mistake of thinking it will be easier to save for retirement in just a few years. It won't.

Consider this: A 25 year old who saves $400 per month for retirement until age 65 in a tax-deferred account earning 4% a year would have $472,785 by age 65. By comparison, a 35 year old would have $277,620 by age 65, a 45 year old would have $146,710, and a 55 year old would have $58,900.

Note: *This is a hypothetical example and is not intended to reflect the actual performance of any specific investment.*

Why such a difference? Compounding. Compounding is the process by which earnings are reinvested back into a portfolio, and those earnings may themselves earn returns, then those returns may earn returns, and so on. The key is to allow enough time for compounding to go to work--thus the importance of starting to save early.

Now, is it likely that a 25 year old will be able to save for retirement month after month for 40 straight years? Probably not. There are times when saving for retirement will likely need to take a back seat--for example, if you're between jobs, at home caring for children, or amassing funds for a down payment on a home. However, by starting to save for retirement early, not only do you put yourself in the best possible position to take advantage of compounding, but you get into the retirement mindset, which hopefully makes you more likely to resume contributions as soon as you can.

Myth No. 2: A retirement target date fund puts me on investment autopilot

Reality: Not necessarily. Retirement target date mutual funds--funds that automatically adjust to a more conservative asset mix as you approach retirement and the fund's target date--are appealing to retirement investors because the fund assumes the job of reallocating the asset mix over time. But these funds can vary quite a bit. Even funds with the same target date can vary in their exposure to stocks.

If you decide to invest in a retirement target date fund, make sure you understand the fund's "glide path," which refers to how the asset allocation will change over time, including when it turns the most conservative. You should also compare fees among similar target date funds.

Myth No. 3: I should invest primarily in bonds rather than stocks as I get older

Reality: Not necessarily. A common guideline is to subtract your age from 100 to determine the percentage of stocks you should have in your portfolio, with the remainder in bonds and cash alternatives. But this strategy may need some updating for two reasons. One, with more retirements lasting 25 years or longer, your savings could be threatened by years of inflation. Though inflation is relatively low right now, it's possible that it may get worse in coming years, and historically, stocks have had a better chance than bonds of beating inflation over the long term (though keep in mind that past performance is no guarantee of future results). And two, because interest rates are bound to rise eventually, bond prices could be threatened since they tend to move in the opposite direction from interest rates.

Myth No. 4: I will need much less income in retirement

Reality: Maybe, but it might be a mistake to count on it. In fact, in the early years of retirement, you may find that you spend just as much money, or maybe more, than when you were working, especially if you are still paying a mortgage and possibly other loans like auto or college-related loans.

Even if you pay off your mortgage and other loans, you'll still be on the hook for utilities, property maintenance and insurance, property taxes, federal (and maybe state) income taxes, and other insurance costs, along with food, transportation, and miscellaneous personal items. Wild card expenses during retirement--meaning they can vary dramatically from person to person--include travel/leisure costs, health-care costs, financial help for adult children, and expenses related to grandchildren. Because spending habits in retirement can vary widely, it's a good idea as you approach retirement to analyze what expenses you expect to have when you retire.

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This newsletter strives to provide factual and up-to-date information on the topics discussed, but it should not be regarded as a complete discussion of these issues. The reader is advised to engage the services of a competent professional before taking action on any subject matter discussed.

What are health Exchanges and do I have to buy health insurance through them?

A health insurance Exchange is essentially a one-stop health insurance marketplace. Exchanges are not issuers of health insurance. Rather, they contract with insurance companies who then make their insurance coverage available for examination and purchase through the Exchange. In essence, Exchanges are designed to bring buyers and sellers of health insurance together, with the goal of increasing access to affordable coverage.

The Patient Protection and Affordable Care Act does not require that anyone buy coverage through an Exchange. However, beginning in 2014, each state will have one Exchange for individuals and one for small businesses (or they may combine them). States have the option of running their own state-based Exchange or partnering with the federal government to operate a federally facilitated Exchange. States not making a choice default to a federally run Exchange.

Through an Exchange, you can compare private health plans based on coverage options, deductibles, and cost; get direct answers to questions about coverage options and eligibility for tax credits, cost-sharing reductions, or subsidies; and obtain information on a provider's claims payment policies and practices, denied claims history, and payment policy for out-of-network benefits.

Policies sold through an Exchange must meet certain requirements. Exchange policies can't impose lifetime limits on the dollar value of coverage, nor may plans place annual limits on the dollar value of coverage. Insurance must also be "guaranteed renewable" and can only be cancelled in cases of fraud. And Exchanges can only offer qualified health plans that cover essential benefits.

In order to be eligible to participate in an individual Exchange:

- You must be a U.S. citizen, national, or noncitizen lawfully present in the United States
- You cannot be incarcerated
- You must meet applicable state residency standards

I already have health insurance. Will I have to change my plan because of the new health-care reform law?

For the most part, no. The Patient Protection and Affordable Care Act (ACA) does not require you to change insurance plans, as long as your plan, whether issued privately or through your employer, meets certain minimum requirements. In fact, the ACA may add benefits to your existing plan that you have not had before.

Your present insurance plan may be considered a grandfathered plan under the ACA if your plan has been continually in existence since March 23, 2010 (the date of enactment of the ACA), and has not significantly cut or reduced benefits, raised co-insurance charges, significantly raised co-payments or deductibles, and your employer contribution toward the cost of the plan hasn't significantly decreased. However, if a grandfathered plan significantly reduces your benefits, decreases the annual dollar limit of coverage, or increases your out-of-pocket spending above what it was on March 23, 2010, then the plan will lose its grandfathered status.

Some provisions of the ACA apply to all plans, including grandfathered plans. These provisions include:

- No lifetime limits on the dollar cost of coverage provided by the plan
- Coverage can't be rescinded or cancelled due to illness or medical condition
- Coverage must be extended to adult dependents up to age 26

The ACA doesn't apply to all types of insurance. For example, the law doesn't apply to property and casualty insurance such as automobile insurance, homeowners insurance, and umbrella liability coverage. The ACA also doesn't affect life, accident, disability, and workers' compensation insurance. Nor does the law apply to long-term care insurance, nursing home insurance, and home health-care plans, as long as they're sold as stand-alone plans and are not part of a health plan. Medicare supplement insurance (Medigap) is generally not covered by the ACA if it's sold as a separate plan and not as part of a health insurance policy.

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