

# CREATIVE Wealth Maximization Strategies



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AUGUST 2004

**"Sooner or later everyone sits down to a banquet of consequences."**

*- Robert Louis Stevenson*

## IS YOUR *FUTURE* PART OF YOUR FINANCIAL SPEED-DIAL?

Take this quick, two-question financial quiz that requires no study or preparation. Ready?

**Question 1:** What is the monthly amount of your mortgage payment/rent? (If you own your home free and clear, what was the monthly amount of your last mortgage payment?)

Did it take you more than two seconds to respond? Probably not. Most people are very aware of their regular monthly obligations like the mortgage, car or boat payment, etc. These obligations are so embedded in our consciousness, they are part of a mental "financial overhead" we keep on hand at all times. It's as if these items are on our financial speed-dial; we don't need to write them down, look them up, or use a calculator. Before we get paid, we know how much of the paycheck is already committed to meeting those obligations. When considering discretionary purchases, most of us automatically adjust our spending limit to accommodate these "locked in" portions of our financial lives.

**Question 2:** What is the monthly amount designated for funding your financial plan?

Um, well, let's see... There's the 401(k) contribution, except maybe I should subtract what I borrowed this year to fix the roof. The life insurance premiums – do they count? And what about the savings I accumulate all year for Christmas presents? My tax refund could be part of my financial planning funds, except I used it for my wide-screen TV.

**Why financial plans aren't part of our mental overhead – and why they should be**

For most of us, the amounts designated to funding our financial plans – for retirement, financial security, children's education, business opportunities, etc. – aren't as solidly engraved on our financial overhead list. This fuzziness about the specifics of how dollars are allocated to one's financial plan reflects two shortcomings in many peoples' thought processes. One is the haphazard way many financial plans are constructed, and the other is the relatively low priority financial planning holds in our everyday thinking. And these shortcomings have an effect on the profitability of the financial plans.



### Many pieces and random assembly

Consider all the components that can legitimately be considered as part of your financial plan: savings accounts, stocks and bonds, mutual funds, an IRA or 401(k); all sorts of insurance – life, disability, medical expenses; home, auto, and other property insurance. Add in legal documents, like wills, trusts, business agreements. There's a lot of stuff that comprises a typical financial plan.

Now consider the number of different agents, brokers, attorneys, accountants and companies involved in the purchase of those pieces. Reflect on when and why these items were purchased.

Chances are this superficial review reveals that many financial plans have been assembled almost at random. It's sort of like an improperly assembled jigsaw puzzle. The picture might be recognizable, but it isn't clear or complete, because some pieces have been forced together even though they don't quite fit, and there are a few pieces laying at the edge of the table, unused because no one can find a place for them.

This combination of many pieces and random assembly is a recipe for under-performance, whether it's putting together a child's bicycle or your financial plan. And until you work from a comprehensive set of directions, it's probably not going to get better.

*(Continued on next page)*

## Because financial planning is for the future, it's often out-of-mind in the present

One of the reasons it's easy to remember your mortgage payment is because it is an every-month event. Not only does the mortgage need to be paid, but there are fairly significant and relatively immediate consequences (think foreclosure) for not paying. In addition, paying attention to other aspects of the mortgage (like whether to refinance because of current interest rates), can have an immediate impact on your monthly finances. A lower mortgage payment means more money you could spend on something else – in the present.

In contrast, many of the things in a financial plan are for the future, and register little impact on our present, every-day world. Life insurance is for some unknown moment in time, hopefully far down the road. Some insurance coverages may never result in a claim (which is good, but also tends to minimize our appreciation for the value of it). Even increasing account balances in retirement plans don't impact the present – after all, the only time the money in the account becomes real is when it's spent, and when will that be, 15-20 years from now?

Even “failures” in your financial plan aren't usually felt right now. If you lose money in a stock market account, what's the typical response? “Don't worry about it, over time the market usually goes up. Keep thinking long-term.” Suppose you missed a premium payment and your life insurance lapsed. If you don't die, and if your health is still satisfactory, you can acquire new coverage. What's the big deal, right?

## Taking a present approach to your future

There are good reasons to shift your financial planning issues to your speed-dial in-the-present consciousness. That's because **a better awareness about how you are functioning today can make the difference in effectively preparing for the future.**

If you are a business owner, a good percentage of your waking thought is occupied with making your business successful – in both the short-term and the long-term. You know the profit margin on a particular product, and when it should be closed out. You have a ready list of activities that need to be executed to keep the business in the black, and you keep a mental checklist of what's coming up, both in the way of expenses and opportunities. In all your thinking as a businessperson, there is an awareness that present decisions and future consequences are interconnected.

Shouldn't you think of your own finances as your “business?” And if that's the case, why wouldn't you give them the same type of attention an owner gives his/her business?

For example, you may have thought life insurance cash values were going to be part of your retirement income (your future), but what if they could be used to finance computer equipment (instead of a credit card or business loan) on better terms? In this circumstance, having a present awareness about the status of your life insurance could make a difference.

The above example may be a situation that isn't relevant to your world. But acknowledging that your day-to-day life isn't exclusively about finances, it should be feasible to see that a greater current awareness of the pieces of your financial plan can add up to better results both now and in the future.

## Making it easier to speed-dial your financial plans

Besides adjusting your mental perspective, there are a few other things you can do to improve the present effectiveness of your financial planning.

## Find someone to help you evaluate your whole picture.

Just because you've assembled things on a random basis doesn't mean they have to stay that way. To revisit the analogy used earlier, a good financial professional can help you put the jigsaw puzzle together the right way, making sure all the pieces are useful and the resulting picture matches the box.

**Schedule regular check-ups or reviews.** When Danko and Stanley compiled the data for their book *The Millionaire Next Door*, one of the statistics they uncovered was that millionaires spent a significantly greater amount of time reviewing and assessing their financial condition compared to non-millionaires.

**Track your progress.** It doesn't have to be elaborate, but find ways to quickly evaluate how well (or not so well) you are doing. Reviewing quarterly or annual statements only makes sense if there's a context in which to place the information.

**IS YOUR FINANCIAL PLAN A PART OF YOUR DAILY LIFE, OR IS IT A FUZZY, FRAGMENTED PART OF AN UNCERTAIN FUTURE? WE CAN HELP YOU FIT THE PIECES TOGETHER AND PUT YOUR PLANS FOR YOUR FINANCIAL FUTURE ON “SPEED-DIAL”.**

## A 25-YEAR PERSPECTIVE

The following comments from a client (slightly paraphrased) were part of the inspiration for the previous article:

*My wife and I are about to celebrate our 25<sup>th</sup> wedding anniversary. To mark the occasion, I'm trying to think of words of wisdom I can pass on to my children regarding the things I've learned about life in the quarter century since I got married and had a family. In looking back, I am very happy with the way most things have turned out, but there are a few things I would have done differently.*

*One of the biggest things on the I-would-have-done-it-differently list? I would have included **regular saving** in my financial plans. When some major financial decision came up – a new job offer, a chance to buy a house, or a new car, or whatever, most of the time I looked at my budget, and said, “Well, here's what I take home, and that's what we can spend.”*

*I wasn't against saving, but saving wasn't a bill I had to pay, like my mortgage or car payment. So when I took on a bigger mortgage payment or bought the nicer car, I rarely took into consideration whether or not this new financial obligation would affect my ability to save. When I was younger, saving wasn't one of my financial “necessities;” if there was money left over (and there rarely was) then I figured I might try to save some of it. But for the most part, my perspective was to just get by until things got better. And somehow, sometime, in the future, I figured I would just find a way to catch up for not saving right now.*

*Well, it's 25 years later, and I still haven't caught up. At least now I save, and it's on purpose, not by accident. I have automatic withdrawals taken from my checking account. And since I know it's gonna happen, I make sure there's money in the checkbook to cover the withdrawal. It's amazing what you can accumulate – and how it improves your life right now – when you save consistently for four or five years. I just wish I'd done it a whole lot sooner.*

*I know there are a lot of expenses and not as much money when you're just starting out. But after 25 years, I tell my kids, “if you aren't saving, you aren't making it.” Either you need to earn more money, or you need to get your spending under control. But you can't go forward, you can't expect to have financial success unless you've structured your life to save money.*

# News Digest

(Snippets from stuff we've read, including differing points of view, not all of which we agree with. Want to know more? Give us a call and we can provide you with the complete article.)

## RECORD LEVELS

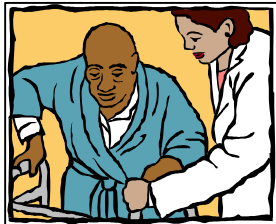
Last year thousands of Americans discovered a pot of gold in their own living rooms. Or so it must have seemed: Spurred by historically low interest rates and sky-high housing prices, homeowners took out \$223 billion in new loans backed by the equity in their homes in 2003. Experts say even the interest-rate hikes that seem to be on the horizon aren't likely to end the home-equity party. A generation ago homeowners dreamed of writing that final mortgage check and retiring with their homes free and clear; today's pre-retirees are more likely to be juggling multiple refis with the click of a mouse. "Shakespeare got it wrong when he said 'Neither a borrower nor a lender be,'" says Ross Levin, a financial planner in Edina, Minn. "The construction of debt is a powerful financial tool."



Cybele Weisser, *Money*, June 2004.

## COMMUNICATION BREAKDOWN OVER LONG-TERM CARE

Adult children may think they know their parents' wishes for long-term medical care, but they overestimate their parents' planning. At the same time older adults seem to think they have the proper health coverage plans in place, but are confused as to what their insurance policies actually cover.



The "Aging in America: Planning for Long-Term Care" survey – sponsored by Bankers Life and Casualty Company – reveals that although families think they are talking about everything, they are not discussing important financial issues that affect both generations. The survey found that 42% of adult Americans believe their parents have long-term care insurance, while only 31% of senior Americans said that they currently have a long-term care policy. Alarming, those numbers are deceiving, considering that less than 10% of senior Americans actually have LTC insurance, according to industry sales data.

*Business Wire*, July 19, 2004.

## IF YOU HAVEN'T RECEIVED A NOTICE, YOU'VE MISSED THE AUDIT

Breathe a sigh of relief if you haven't heard from the IRS lately.

Officials say they have notified all of the approximately 46,000 people, selected largely at random from various income groups, to undergo audits as part of a special IRS research program. "So if you haven't heard by now, you're not part of it," an IRS spokesman says.



The program, the first of its kind in more than a decade, is designed to help the IRS get an updated picture of tax cheating and improve its audit-selection process. About 85% of the research-program audits have already been completed, the spokesman says.

He declines to disclose what, if anything, researchers have learned, or how much money taxpayers owed.

Tom Herman, *Tax Report*, July 1, 2004.

## EARLY RETIREMENT: AN AMERICAN FAIRY TALE

On paper, it sounds great. Baby boomers -- as the theory goes -- will move in and out of the work force as they age. They will retire early to go back to school, or to spend time with family and friends or to pursue the good life. And then they will return to work, only to repeat the cycle at some point in the future. In and out of the work force. In and out of life's other offerings.



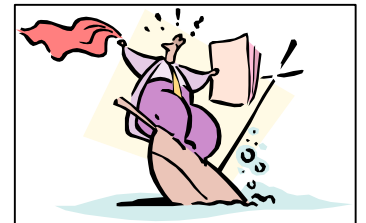
The reality, however, seems quite different. At present, there are only two types of people who retire early: those who have health problems -- the majority -- and those who have the financial wherewithal, thanks to savings or early retirement incentives, to kick back, to pursue the good life and then return to work -- the minority.

And the net result, at least from this vantage point, is that early retirement -- and the notion of weaving in and out of the work force -- is nothing more than yet another American fairy tale.

Robert Powell, *CBSMarketWatch.com*, June 16, 2004.

## AS MORE WORKERS BEGIN PLANNING FOR RETIREMENT, MORE ARE PESSIMISTIC

Nearly half of U.S. workers, 49%, say their standard of living in retirement will be worse than it is now, up from 29% percent who said so a year ago, according to a new survey of workers worldwide.



And just 24% of Americans say they'll have enough money to cover basic expenses during retirement, according to a survey conducted for The Principal Financial Group by market-research firm Matthew Greenwald and Associates.

Given the stock market's rise last year, the study's authors expected workers' optimism to improve. But anecdotal evidence points to a growing penchant for retirement planning – and that's leading to more worry, said Norman Sorensen, president of Principal International, a division of the Principal Group.

"We have a huge amount of Americans being very, very concerned all of a sudden. There's a groundswell of sentiment that indicates to us that we have a worried population either in the accumulating years or nearing retirement years," said Sorensen.

Andrea Coombes, *CBSMarketWatch.com*, June 20, 2004.

## THINGS THAT MAKE YOU GO “HMMM...”

The following ad appeared in the July 19, 2004 issue of the *Wall Street Journal*. Only the company name has been deleted (to protect the guilty from impending ridicule).

**“Sometimes the best way to manage your retirement fund is to ignore it.”**

**“No matter your age, it never hurts to plan for the future. But managing a plan often takes time and expertise you don’t have. With \_\_\_\_\_ Retirement Funds, all you have to do is tell us the year you’d like to stop working, and we do all the work for you.**

**First, our \_\_\_\_\_ Retirement Funds balance your money appropriately between stocks, bonds and cash. Then they automatically monitor your investments, rebalancing your assets to reduce your risk as you get closer to retirement. These are \_\_\_\_\_ funds, so you get all the benefits of our persistently low fees and expenses.**

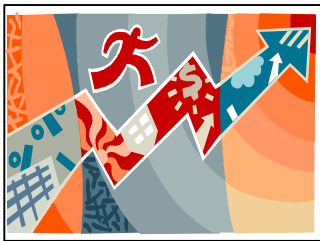
**There is, of course, an element of risk in any investment. To learn how these retirement funds pay personal attention to your money, please call us.”**

*Hmmm...* “Ignore it.” “...we do all the work for you.” “...all you do is tell us the year you’d like to stop working.” Who knew financial planning was so easy?

This is not a small classified ad, but a blown-up, large-font, half-page announcement. The financial company represented by the \_\_\_\_\_ is one of the big players. And while the language at the beginning of the ad reads a lot like an infomercial for a kitchen gadget (“just set it and forget it!”), this simple, worry-free method of handling retirement carefully avoids making any guarantees of success.

## TERM LIFE INSURANCE RATES MAY BE GOING UP

For most of the past decade, ever-lengthening life expectancies and intense industry competition drove life insurance companies to repeatedly lower premiums for term life insurance. But that trend appears to have reached its bottom, as some of the insurance companies specializing in low-cost term insurance are beginning to raise their rates for new policies.



Longer life expectancies means that insurance actuaries could assume premiums would be paid for greater periods, allowing the calculated costs of providing future death benefits to be spread over more years, thus decreasing annual charges. But while life expectancies may still be extending, the statistical change isn’t great enough to offset other business factors affecting insurance companies. According to Greg McBride, a senior financial analyst at Bankrate.com, “rising costs due to

consolidation in the reinsurance market” is making it harder for insurance companies to keep their rates down.

As a result, some companies have already raised their premiums by 5 to 10% in recent months. Other insurers are adjusting by tightening their standards for “preferred” rates, which in some instances can be 25% lower than the company’s “standard” rate for the same insurance.



## WHY THE LONG TERM CARE ISSUE IS EVERYWHERE

When you pick up a financial magazine or the business section of a newspaper, don’t be surprised if there’s an article or two about long term care and long-term care insurance. Within the past decade or so, long term care (LTC) has morphed from a relatively obscure issue to a topic that shares equal space with IRA distributions, Social Security payments, income portfolios and other retirement planning mainstays.

### Defining Long Term Care

According to a brochure provided by one insurance company, Long Term Care is defined as “therapeutic, rehabilitative, maintenance or personal care services, delivered in a setting other than a hospital.” Long Term Care is *not* provided by doctors, surgeons, chiropractors, or other medical professionals whose services are normally covered by medical health insurance. Rather, it is for persons needing assistance with the ordinary activities of daily living because of functional or cognitive impairments – i.e., individuals who can no longer take care of themselves on a daily basis because of physical or mental deficiencies.

The medical and insurance communities provide some definitions for conditions in which long-term care is required. One set of criteria is the measurement of physical functioning called Activities of Daily Living (ADLs). These activities are used to determine if an individual is capable of living independently. Another criteria is Instrumental Activities of Daily Living (IADLs), which assess the ability of the individual to manage the tools in their environment to accomplish their ADLs. Below is a list of ADLs and IADLs: *(See next page)*

### ADLs

Bathing  
 Dressing  
 Toileting  
 Continenence  
 Ambulating  
 Transferring  
 Eating

### IADLs

Managing medications  
 Moving about outside  
 Shopping for essentials  
 Preparing meals  
 Laundry  
 Light housekeeping

As people age, they generally lose their ability to complete ADLs in the reverse order that they were learned as children. For those over 65, arthritis, coronary heart disease, visual impairments, stroke and respiratory conditions are the top five reasons for individuals suffering decreased ADL function.

But LTC is not exclusively an old-age issue. According to recent statistics, 40% of the Americans who need long-term care are between ages 18 and 64. (For this group, the top five conditions are back problems, mental retardation, mental illness, heart disease and respiratory conditions.)

The Health Insurance Association of America states that the odds are greater than 50% that an individual will need some type of non-medical assistance in their lifetime. This sounds like a dramatic statistic, until you realize that long-term care means any type of assistance, including irregular home health care visits (by someone coming to administer medication or perform physical therapy, for example). According to the same research, less than 20% of long-term care takes place in a nursing home.

Given these parameters, the typical home care program duration is 4.5 years. The average stay in a nursing home is 2.4 years.

### **The reasons why LTC has become prominent**

Several demographic and societal factors have conspired to move long term care into a position of planning prominence.

First, people are living longer, but not necessarily remaining as healthy until the day they die. It sounds a little crass, but people just don't "drop dead" as often. Today, people live longer, but also face a longer period of diminished physical capacity. Because of bypass surgery, they survive heart attacks – but need in-home physical therapy. Insulin can help people manage their diabetes, but diabetics may also be more likely to suffer from degenerative conditions like arthritis. 100 years ago, most people died before the degenerative conditions showed up.

Second, the baby-boomer demographics magnify the longer life expectancy issues. There are more people living longer in diminished physical condition. According to recent figures, by the year 2030, the number of persons age 65 and over will approximately double, and those age 85 and over will triple. In 2030, one out of every five people in the U.S. will be age 65 or over.

Third, the advances in therapeutic, rehabilitative, and long-term care require more expertise and attention. A century ago, those with long term conditions often faded into a "twilight" existence. They were either at home or institutionalized, and the "care" often wasn't much more than waiting for death, as unattended or undiagnosed conditions led to strokes, seizures,

etc. Today, the diagnostic abilities are dramatically improved, as are the treatments, but with an attendant increase in costs.

In combination, these factors have resulted in a new level of possible expenses for retirees. And the expenses are of such magnitude that a single long term care incident can erase a lifetime of accumulation in a very short period. A recent *Consumer Reports* article stated that "half of all women and a third of all men who are now 65 will spend their last years in a nursing home." With daily nursing home costs averaging over \$150 per day, this represents an annual expense of almost \$55,000, and doesn't include any ancillary medical expenses.

The full recognition by consumers of these factors is just beginning to sink in. Currently, the average age of an individual purchasing long term care insurance is 66. That means a bunch of people are reaching retirement, assessing their physical and financial health and saying, "Whoa, if our health fails, we're in trouble!"

**"Half of all women and a third of all men who are now 65 will spend their last years in a nursing home."  
 - Consumer Reports**

### **WAYS TO ADDRESS LTC COSTS**

#### **Medicaid**

Medicaid, a government-sponsored program that is part of Social Security, does provide some long-term care benefits, but on a very restricted basis. Medicaid provides minimal assistance for home care, and limits the choices for nursing home care. You can't have a private room, and are assigned to whichever government-authorized facility has a bed – it could be hours away from your home.

Further, Medicaid requires the individual to "use up" personal financial assets first in order to qualify for long term care assistance. With a few exceptions (a residence, automobile, etc.), all personal accounts must be liquidated. If you want to keep your independence, Medicaid is the program of last resort.

#### **Long Term Care Insurance**

In response to the burgeoning Long Term Care issue, the insurance industry is attempting to deliver a range of products that can alleviate the financial havoc by spreading the risk. These policies have continued to evolve along with LTC procedures. Early versions of Long Term Care insurance often limited their payments to services provided by nursing home facilities. But recently most companies have expanded their coverage to include payments for services provided by adult day care centers, assisted living facilities, and even home health care.

#### **LTC policy features**

From a consumer perspective, Long Term Care insurance involves many of the same variables found in disability income replacement insurance. When deciding on coverage, purchasers must select the following parameters:

**The benefit amount** is how much the insurance company will pay care providers on your behalf. This amount is usually expressed as a daily figure, i.e., \$100/day, \$150/day, etc. Current surveys indicate average daily nursing home costs average between \$130-170/day.

Since the cost of care could be expected to increase in the future, many insurance companies offer an inflation-indexed benefit amount. With this feature, each year that premiums are

paid, the benefit increases by a specified percentage. This benefit can be accrued on a simple or compound basis. (Continued)

**The benefit period** determines how long benefits will be paid. Benefit periods can range from one year to a lifetime, with most people currently choosing 3- to 10-year benefit periods.

The benefit amount can be multiplied by the benefit period to calculate a **total benefit**. If someone selected \$100/day for 10 years, the total benefit would be \$365,000 (\$100 x 365 x 10). In this example, most policies would allow the benefits to be paid over a period longer than 10 years, as long as the total amount did not exceed \$365,000.

**The elimination period**, or waiting period, states how long the insured must be in a Long Term Care condition before qualifying for benefits. Elimination periods can be fulfilled after one week, or last as long as one year. This feature allows the insured to determine how much risk he/she will carry before the insurance company takes over. The shorter the elimination period, the higher the premium.

**The rate class** is a way for the insurance company to price the coverage according to the proposed insured's age, gender and health history. In a nutshell, younger females with better health histories have lower premiums. The rate class is determined by medical information received on the application, and usually includes examination of medical records. In general, most insurers say the examination criteria for LTC makes coverage easier to obtain than life insurance.

**The definition** of Long Term Care specifies which types of care qualify for benefits. As mentioned previously, some early LTC contracts only covered nursing home expenses. But most new policies have definitions based on one's ability to handle six activities of daily living (ADLs): bathing, dressing, eating, toileting, continence and transferring. If the individual cannot perform two or more of these ADLs, they become eligible for benefits. The onset of cognitive impairments, such as Alzheimer's Disease, also usually results in eligibility for benefits.

The premiums for LTC are determined based on the combination of features that are selected. In general, higher benefit amounts, longer benefit periods, shorter elimination periods, and higher ages make for bigger premiums.

## Other ways to handle the Long Term Care challenge

Medicaid or Long Term Care insurance aren't the only choices for dealing with the possibility of a Long Term Care situation. Like most financial issues, the ultimate answer is money, no matter what the source.

A first option is to forgo insurance, save, and plan to pay any expenses, if they occur, out-of-pocket – to self-insure. After all, you may never require Long Term Care. If that turns out to be true in your situation, premiums paid for a LTC policy might never yield any benefit. This is the essence of any insurance decision: Are you better off assuming the risk yourself, or paying someone else to assume it with you?

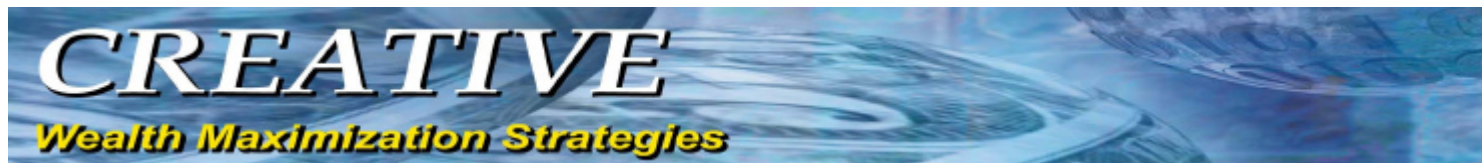
A second possibility is to properly structure your life insurance coverage. A collateral assignment, viatical settlement, or accelerated benefits rider (now offered by many insurance companies and financial institutions) can provide a pre-death, tax-free payment of a portion of the life insurance face amount for certain long-term care conditions.

And, of course, you can always ignore the situation, and address the situation only when, or if, it occurs. If it doesn't, no problem. If it does, then maybe you will find out how much your children and family really care for you.

Which leads to a final thought: even though most Long Term Care issues can be solved with money, a big issue in LTC is not a financial one, but an emotional one. Most children want to see their parents taken care of, and most parents don't want to be a burden to their children. Doing nothing about Long Term Care may make it hard for both children and parents to address those desires.

One of the best ways to meet the Long Term Care challenge may be through a process that involves both the parents and children. For example, it may be in the children's best interest to help pay the cost of LTC coverage, not only because it addresses the care issue, but also preserves inheritance assets. But in order for both parents and their adult children to be part of a positive solution, there must be dialog, and a workable plan.

**WHICH IS THE BEST CHOICE FOR YOU AND YOUR FAMILY? LET A FINANCIAL PROFESSIONAL HELP ANSWER YOUR QUESTIONS. THEN CONSIDER STARTING A DISCUSSION WITH THOSE YOU LOVE.**



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