Simmons Wealth Advisory

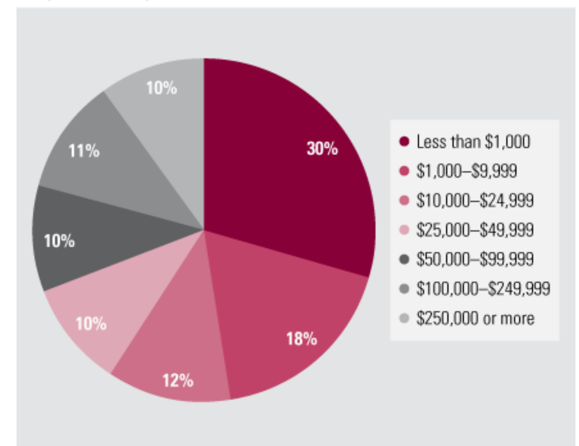
February 2013 | Vol. No. 5 | Insights & Outlook

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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A veteran in the industry, albeit a young one, Mark has developed a distinguished reputation for his approach to financial planning and portfolio management, which have become the foundation of the firm's core philosophy. He has received wide publicity for his investment insight and has been featured in numerous business publications.

A native of Baton Rouge, Mark received a B.S. in Business and Finance from Centenary College of Louisiana. Prior to founding Simmons Asset Management, he maintained positions such as Vice President, Portfolio Manager and Chief Compliance Officer as well as acquiring the Series 7, 24 and 66 licenses.

Mark made the decision to transform a lifelong career into helping people maximize their financial condition by reducing costly mistakes. He formulated Simmons Asset Management, a wealth management firm, whose main goals are to look out for the best interest of investors, while educating them at the same time.

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 Paying Off a Mortgage

The decision to pay off a mortgage or invest in the market is far from black and white. For those who are close to retirement and already have plenty of other liquid financial assets, paying off a mortgage could be a wise use of cash. Such homeowners aren't likely to be saving a lot because of their mortgage-interest deductions, which tend to be more valuable early in the life of the loan than in the later years, and their investment-asset mixes might be skewing toward low-returning cash and bonds, not stocks. Moreover, many retirees concur that reducing their in-retirement overhead by retiring debt reduces worries and frees up cash for travel and other pursuits. For others, however, a mortgage pay down might not be the right answer. Although it might seem comforting to own your home free and clear, there's invariably a trade-off involved. You're reducing your investments in more liquid assets in favor of an asset that's not liquid at all. A happy medium for many households might be to balance modest prepayments of mortgage principal with ongoing contributions to retirement-plan accounts. Here are some questions to think through as you make this important decision for your household.

Is your retirement plan on track? Before paying off a mortgage you may want to spend some time evaluating the viability of your retirement plan. Paying off a mortgage rather than investing in the market may mean having fewer liquid assets for retirement. However, with lower household expenses, you may be able to step up your future retirement-plan contributions; having a paid-off home will also mean that your in-retirement costs may be lower. Time horizon is an important aspect of decision-making here. Those with more years until retirement can better harness the compounding benefits of investment assets, whereas those nearing or in retirement and expecting to begin drawing on their investment assets might not get such a big bang from investing more.

What's your investment mix, and where are you holding it? The composition of your investment assets and where you hold them are also important considerations. The case for investing in the market rather than prepaying the mortgage gets even stronger if you hold your investments within the confines of a tax-sheltered vehicle and/or you're earning matching dollars on your contributions. On the flip side, portfolios that are heavy on cash and fixed-income securities, especially those that are fully taxable from year to year, are less likely to out earn mortgage interest rates.

How diversified are you? Some homeowners think of their houses as a retirement-savings vehicle: When it comes time to retire, they'll cash in their equity and downsize to a smaller place. However, the past several years have taught many homeowners that's easier said than done. Many haven't been able to sell when they wanted, and they also haven't been able to receive anything close to the prices they were expecting. Pairing home equity with more liquid stock and bond assets may give you a lot more flexibility to ride out downturns in the housing market.

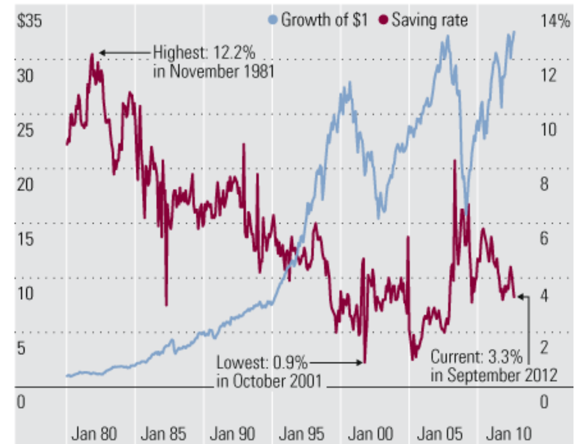
How much is your mortgage-interest deduction saving you? Many homeowners assume that it's wise to hang on to their mortgages because of the tax deduction they can take on their interest. But that deduction shrinks as the years go by because home loans are front -loaded toward interest payments. People who have been able to pay down a mortgage for many years may be overestimating the amount of taxes they're saving by having a mortgage, and itemizing deductions may not be saving them much versus the standard deduction.

Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. Please consult with a financial and tax professional for advice specific to your situation.

The Personal Saving Rate

Saving is an important part of any sound financial plan. In order to measure consumer spending and saving, the Bureau of Economic Analysis publishes personal income, expenditure and saving statistics, including the personal saving rate. This saving rate is calculated by taking disposable income (income after taxes), subtracting personal consumption expenditures, and dividing the result by personal disposable income. The saving rate has been generally trending downward for the past few decades. Recently, the saving rate was 3.3% in September 2012, extremely low when compared with previous levels. As the image illustrates, it would seem that when the market is in trouble, consumers get scared, spending less and saving more; the opposite happens when the market is doing well. However, even if the economy is now on the way to recovery, it's probably not a good idea to stop saving.

Personal Saving Rates and the Market
January 1980–September 2012



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