UPCOMING SEMINARS

March 22 -9:00 a.m.
Estate Planning and Trusts - How to leave your children treasure—not taxes!
Sheraton Rockville Hotel
920 King Farm Blvd., Rockville, MD

May 1—6:00 pm.
Investing in Real Estate - High and Low Risk ways to Invest in Real Estate
Sheraton Rockville Hotel
920 King Farm Blvd., Rockville, MD

To register, call
301-990-4395
or email wsg@natplan.com
Seminar locations and dates are subject to change, always check with our office for the most up-to-date information.

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Ph. 301-990-4395 | wsgmd.com

WSG Staff Spotlight

Meet our Staff:

David Shober
Senior Financial Planner

Dave enjoys playing competitive sports in his free time. He plays indoor soccer and basketball in the winter and softball and outdoor soccer during the summer months.

Julie Carroll
Office Manager

Julie enjoys traveling with her family but her favorite hobby is making quilts. She started making quilts when her daughter Holly was a toddler and has completed about 10 quilts

Wealth Strategies Group
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Will There Be A Bond Bubble in 2014?

How Will Rising Interest Rates Affect Bonds and Bond Funds?

Is the bond bubble about to burst? Is there a bond bubble? According to many financial experts, the prediction is that interest rates will continue to rise in 2014. The experts might differ as to exactly how much the interest rate will go up, but they all agree that as it happens, the value of bonds will fall.

Spooked by volatile stock markets since the 2008 financial crisis, investors moved more money into bonds. EPFR Global reports that investors sent over $90 billion into bonds and withdrew over $150 billion from stocks in 2012.

It will not come as a surprise that 2013 was a down year for bond funds. Assuming that the appetite for risk lasts, the Fed keeps tapering and the economy keeps improving, what will happen to bond investors when inflation and interest rates rise and bond values decrease? How many bond owners will want to hang on to a 10-year Treasury bond until maturity? Who wants a 3% return if stocks offer a much greater potential?

A recent study done by Fitch Ratings, warns about potential volatility in U.S. corporate bonds. In one scenario, a typical 10-year investment-grade corporate bond may lose 15 percent of its market value if interest rates rise 2 percent, while a 30-year bond could lose 25 percent of its value.

What do you get when you sell a bond before its maturity? The market value. If the federal funds rate reaches 3 percent, a longer-term Treasury might lose as much as a third of its market value as a consequence. This risk aside, what if you want or need to stay in fixed income? The near future might not be as bad as some warn. The Fed has pledged to keep the key interest rate at historic lows.

Some bond market analysts believe that now might be the time to exploit short-term bonds with laddered maturity dates.

What's the catch? You accept lower interest rates in exchange for a potentially smaller drop in the market value of these securities, if rates rise. If you want a higher rate of return from short-term bonds, you may want to look at bonds that are investment-grade, but without AAA or AA ratings.

In this bull market, why would people put money into 10-year Treasuries? The answer is fear: fear of volatility and fear of a correction. But, should interest rates rise significantly in the next few years, owners of long-term bonds might find themselves losing out in terms of their portfolio's potential. Bonds are an important part of most investor's portfolio but must be managed correctly. If you have any questions about your bonds, please feel free to call us for a consultation.

**In general the bond market is volatile, and fixed income securities carry interest rate, inflation, credit and default risk. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.*
** High-yielding, non-investment grade bonds are considered to have speculative elements and involve higher risk that investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.*
**This material contains forward-looking statements including, but not limited to , predictions or indications of future events, trends, plans or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties.*
** Examples used are for illustration only and are not indicative of any particular investment, actual results will vary.*

Saturday, March 22—9:00 a.m.

ESTATE PLANNING AND TRUSTS: How To Leave Your Children Treasure, Not Taxes!

Location: Sheraton Rockville Hotel
SPEAKERS: Patrick Carroll, CFP® and Francis Kreysa, Esq.*
Call 301-990-4395 or email wsg@natplan.com to reserve a seat!
*Francis Kreysa is not a representative of NPC

Planning For Long Term Care…

How can we address these expenses without breaking the bank?

By Stephen Zelcer

In my previous article I addressed Medicaid planning, which essentially is the strategic method of self-impoverishment to qualify for Medicaid assistance. Here's part two of the two-part article on Long Term Care (LTC) Planning, dealing with LTC insurance. Enjoy!

Many people plan for retirement and they plan for death, but most people forget to plan for the transition period between retirement and death. In this transition period, a person may lose their ability to service themselves (the technical term is "perform the activities of daily living, ADL's for short) and will require "custodial care," a.k.a. long term care.

Here's a quote from the LTCFEDS website: "According to the U.S. Department of Health and Human Services (HHS), at least 70 percent of people over age 65 will require some long term care services at some point in their lives. And, contrary to what many people believe, Medicare and private health insurance programs do not pay for the majority of long term care services that most people need . . . Planning is essential for you to be able to get the care you might need."

Currently the national average cost for home care (the cheapest form of LTC) is $31,200 per year. But who cares about current rates? We should worry about the future costs of LTC. If you inflate that national average by 3% you'll be paying over $65,000 per year in 25 years. Remember, these costs are on top of your regular costs of living – just imagine what those figures are going to be in 25 years. Also remember that nursing home costs are MUCH higher than home health care.

How can we address these likely expenses without breaking the bank? Either via Medicaid Planning (previous article), or LTC insurance.

LTC Insurance:

How much coverage?: When someone has Alzheimer's or dementia or another form of cognitive impairment, or when someone loses two of their ADLs, they become eligible to collect a LTC insurance claim. These health conditions can last for many years so you'll want to make sure you have enough coverage that will last. How much coverage is sufficient? There's no "one-size-fits-all" LTC policy. People with different means, in different parts of the country will need different coverage. However, as a starting point, one should investigate the costs of Nursing homes or assisted living facilities, or home health care services in their area. Someone living in the DC metro area will see some of the highest LTC related expenses in the country. If the cost of a nursing home in 2013 runs $250 a day and the average nursing home stay is 2.5 years, that means you'll need a policy that covers at least $228,125 in LTC expenses ($250 x 365 x 2.5) with inflation. Also remember that before a person ends up in a Nursing home, they receive some form of care at their own home for a year or more.

So to customize a policy you'll need to choose the ***Daily Benefit Amount (DBA)*** as well as the ***Benefit Period (BP)*** as well as ***Inflation Protection.***

Daily Benefit Amount (DBA): LTCFEDS, the LTC insurance program offered by John Hancock Life & Health Insurance Company through OPM, offers DBAs that range from $100-$450 (in $50 increments). The DBA is the maximum amount of money you can be reimbursed for a given day's LTC expenses. Should you choose $250 as a daily amount, that means you will have $250 of daily LTC expenses covered. What happens if you have more than $250 of LTC expenses on a given day? You will receive only $250. The rest comes out of your pocket. What happens if you only need $200 of LTC coverage, and not $250? The unused $50 will be available for future use. It does NOT boost your LTC daily amount up by $50.

Two DBA benefits not offered in the Federal LTC program are:

1. **Cash policies** which don't work on a reimbursement basis, but rather as an upfront cash advance.
2. **Weekly or Monthly benefit** which provide more flexible reimbursement terms than Daily benefits.

Benefit Periods (BP): LTCFEDS offers four possible BP's: 2, 3, 5, or unlimited years of coverage. BP's are terribly misleading. For example, if a policy has a BP of three years, you would think that it only provides LTC coverage for three years, right? But the truth is a BP of three years means you have a *minimum* of three years coverage. It is possible, however, to receive more than three years coverage with a three-year BP. This is possible if you have used less than your maximum ***daily benefit amount*** over the course of three years. As illustrated above, should you choose $250 as a daily amount and you only use $200 of LTC coverage and not $250, the unused $50 will be available for future use beyond your BP.

Inflation Protection: It should be obvious that you want your LTC coverage to address not just current LTC costs but also future LTC costs: costs deep into retirement. As such you can take one of three approaches:

1. **Future Purchase Option (FPO):** With FPO, your benefit does not grow automatically; instead it will only grow if you purchase an increase in coverage. For example: someone who buys a $250 DBA policy at age 65 will continue to have $250 DBA at age 66, 67, 68 and so on, unless in any given year they choose to increase their coverage. Should they chose the increase at age 68, they will not need to reapply for the coverage. However the increased amount will be priced for a 68-year-old, not a 65-year-old, and as such your LTC insurance premiums will increase as well.
2. **Automatic Compound Inflation Option (ACIO):** This feature provided automatic increases to your benefit without increasing your premium. LTCFEDS offers 4% or 5% ACIOs. This feature is the most commonly used, but it comes with a hefty price tag.
3. **Buy a very high DBA with no Inflation protection:** This approach needs to be priced out case by case. Essentially, you can beat the system by avoiding the hefty price tag of ACIO simply by buying an already inflated policy. The downside with this tactic, however, is that almost all Medicaid partnership LTC policies require ACIO.
(It's Important to note that LTCFEDS policies do not qualify for Medicaid partnership anyhow.)

Aside from DBA, BP and Inflation protection, there are other factors that go into the design (and cost) of an LTC policy such as deductible (a.k.a. "Elimination Period"), shared cared benefit for spouses, return of premium or life insurance rider death benefit. These options are not available through LTCFEDS.

Perhaps the major influencer of LTC insurance price is age. The older the insured, the more expensive. The price you can get now is the cheapest you'll find LTC rates. Typically, the price you get when you purchase your policy is locked in for the life of the policy. However the Federal LTC program isn't so typical. When John Hancock took over the Federal LTC program in 2009, premiums rose by 20%. John Hancock has a 7-year contract with OPM, and when that contract expires, the Federal LTC program may again see rate increases.

In closing, LTC planning is a critical component of your overall financial plan. For those who are pursuing the LTC insurance route - shop wisely as there are many moving parts and details within details. If you would like help determining which LTC policy is right for you, please call us to schedule a no-obligation appointment.

Stephen Zelcer is an advisor who specializes in benefits for federal employees. He is also an accomplished lecturer presenting seminars on a variety of topics. Stephen can be reached at stephen.zelcer@natplan.com or at 301.990.4395.

Patrick Carroll

David Shober

Stephen Zelcer

Quarterly Commentary

The winter of 2014 is turning out to be one of the snowiest we have had in many years. Despite a harsh and stormy beginning, 2014 may actually be a very good year—for the economy, that is.

2013 turned out better than many analysts expected and the optimism is high that the recovery will gain additional momentum in 2014. Hours after the Federal Reserve announced it would scale back its asset purchases in 2014, the Dow closed at a new all-time high of 16,167.97! December 18 was the index's best day in more than two months.

Instead of being disappointed when the taper occurred, investors were encouraged. The Feds have pledged to hold interest rates down "well past the time" unemployment declines to 6.5%. The Fed's monetary policy has been instrumental to the stock market's record-setting performance, and it isn't going away—which is good news for 2014.

The global outlook may also improve. Economists at China's National Academy of Economic Strategy feel that the PRC will maintain GDP of about 7.5% this year and potentially see as much as 7.8% growth in 2014. Other sources report that the Eurozone economy is projected to grow about 1.4% per year for the next 3 to 5 years.

No one is saying there won't be challenges or surprises this year, and stock market gains in 2014 may not come close to those we have seen in 2013. But it is encouraging that many indicators are signaling this year could hold considerable promise for both Wall Street and Main Street.

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