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Capital Blueprints for the Future

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505 South Third St.
Suite 300
Louisville, KY 40202
(502) 589-1772
www.lifetimesolution.com

Medicare Part D

Know your drugs, compare benefits, act on time.

The new prescription drug benefit, called Medicare Part D, will begin in 2006.[1] All Medicare recipients are eligible for the program, regardless of income, employment status, medical condition or level of current drug coverage and expense.

But you must do some homework to acquire the benefit. Enrollment for 2006 spans from November 15, 2005 to May 15, 2006. During this period, you will have to choose a provider—and the sooner you do this, the sooner you can start participating in 2006.

Your choices could render major cost savings, especially if you have high monthly prescription drug expenses. But the wrong choice may cost you money, time and convenience.

The basics

There are two ways to obtain Part D coverage as a current Medicare beneficiary:

(1) Purchase a stand-alone prescription drug plan (PDP) to supplement your standard Medicare benefit. The PDPs are run by private companies offering coverage in line with Medicare's minimum standards for Part D. Eight of the major providers have national plans, while others will operate regionally.[2] You also can upgrade to a Medicare Advantage Plan or similar health plan that covers doctor and hospital care within its network of providers (ie, HMOs or PPOs).

(2) Stay with your group health insurance provider if it offers a level of prescription coverage that matches or exceeds Medicare's Part D standards. These providers include Medicare supplement (Medigap) policies with prescription coverage, and group plans offered through unions and former employers. Those in a group plan may also decline their network's drug coverage and acquire a PDP for stand-alone coverage.[3]

In any case, you will pay a monthly premium for prescription drug insurance and be subject to various deductibles, copay schedules, rules and limitations. And if you don't want any Part D coverage, you can opt out.

The plans may offer varying drug types and brand names within the required medical categories, charge different monthly premiums and distribute through their own pharmacy network.[4] Therefore, it is crucial to evaluate the merits of the plans offered in your area before enrolling.

Here's a general approach:

• **Notification and education.** Medicare, approved plan sponsors, group insurance providers and other entities wanting your business began notifying Medicare beneficiaries and/or group health network members in October 2005. The information received is specific to each beneficiary's plan and includes options and available PDPs. Also, group plan members have received notice of whether their coverage will match Part D.

• **Plan evaluation.** Make a list of the prescription drugs you are taking or plan to take. Include the purpose, brand name, generic name, dose and current cost per month. Compare these to what's offered through various plans. Each plan may offer a unique set of drug types, brand names and benefits. Ask your doctor for substitute drugs or brands.

You may have to accept tradeoffs regarding preferred brands, generics, accessible pharmacies,

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(1) The program was established in the Medicare Prescription Drug Improvement and Modernization Act of 2003.

(2) According to the Centers for Medicare & Medicaid Services (CMS), the eight companies offering nationwide coverage are Aetna Life Insurance Company, Connecticut General Life Insurance Company, Memberhealth, Pacificare Life and Health Insurance Company, Silverscript Insurance Company, Unicare, United Health Care Insurance Company and Wellcare Health Plans. All states will have at least 11 plans, with larger states offering about 20 plans.

(3) Beneficiaries with a group health plan offering prescription coverage will receive a letter from the plan administrator that announces whether the group drug coverage will be continued, and if so, whether it is as good as Medicare's standard Part D. If the plan intends to discontinue drug coverage, it may offer subsidies to supplement the cost of Medicare's Part D.

(4) Part D has a government-preferred list of drugs that all plans must carry. This "formulary" includes over 100 different medical categories, and a plan must offer at least two drugs per category. Thus, it's unlikely that a plan will offer every possible drug in each category.

(5) Participant pays:
- The first $250 as deductible
- $500 of the next $2,000 as copay
- All of the next $2,850
- 5% of all costs over $5,100, without limit

Rational Investing

Methodology and discipline can temper doubt.

WHAT FACTORS in the economy and markets pose the greatest risk to your investment portfolio right now? Would a business slowdown, rising interest rates or spiraling inflation be on the list? How might rising federal debt, a weakening dollar, high energy prices or future tax hikes compromise investment returns?

These and other factors can surely affect business profits and stock prices over the short-term. But one hazard threatens returns more directly: Poor investment decisions arising from fear, greed, doubt, overconfidence or ignorance.

Market cycles tend to balance out over time. But when people abandon a prudent strategy for impulse, the decisions can inflict long-term damage on their wealth. Worse yet, investors who let emotions trump judgment can make poor choices in every type of market environment—and repeat their mistakes many times in the future.

Resisting temptation

Having a documented plan and diversified portfolio can help investors stay on track. A methodical approach can help you manage risks and provide reassurance during uncertain times. But following a plan through the market's ups and downs isn't always easy.

For one, the abundance of irrelevant or misinterpreted news can introduce doubt and bring the temptation to abandon the plan. With so many media sources and commercial interests competing for your attention, it's easy to be swayed by surprise events, forecasts, opinions, warnings, reports and other information that form the noise that accompanies daily market swings.

An investor should expect optimists and pessimists to argue over the outlook for the investment markets—and to overweight the significance of a few macro issues to make their point. An investor must stay focused on the big picture while discounting their arguments. One effective approach is to know that markets are too complex and unpredictable to be explained by a handful of events, statistics or theories. There are too many variables and unexpected causes.

Market history also offers many lessons in failed expectations. Consider, for example, the unbridled optimism dominating the U.S. stock market in the early 1970s and late 1990s. In both eras, unexpected events ultimately exposed questionable stock valuations, leading to a severe correction as investors fled stocks.(1) The same is true of bearish sentiment that failed to pan out in the late 1970s, after the 1987 stock crash, in the early 1990s and in 2003.(2)

Proof in the numbers

Investors also can avoid the pitfalls of human emotion by understanding the tangible risk of chasing returns and trading excessively. A few years ago, DALBAR, Inc. studied the movement of investor cash in and out of managed portfolios.(3) The analysis showed that while stock managers reported an average 9.3% annualized return from 1984 to 2002, investors using these managers realized only a 2.6% dollar weighted average return per year.

Why was their return so much lower than the reported performance? Obviously, the typical investor did not stick with a professional manager long enough to participate in most of the returns. DALBAR concluded that the excessive trading resulted from investors pursuing the latest hot performer.

Morningstar, Inc., a well known money manager reporting service, recently completed a similar study for the 10 years ending April 2005. Although the investor-manager performance differential was half of DALBAR's, the pattern confirms the same behavior. Interestingly, the Morningstar research showed that the largest gaps between manager and investor returns occurred in the categories and market sectors that were subject to the greatest booms and busts over the period measured.

Performance chasing rarely pays off because investors hire a successful manager too late to capture the superior past returns—then leave in frustration when the manager characteristically fails to repeat the performance in future periods. This underscores the importance of creating a diversified portfolio that reflects your risk tolerance, return objective and time horizon—and sticking with it through market cycles.

With a methodology in place, an investor can rationally implement changes that are needed, absent the emotion. A plan also helps you avoid the daily market roller coaster, which raises the odds of successfully building wealth over time. ■

(1) The 1973-74 bear market arose as investors reacted to events that were largely unpredictable. These included the Watergate scandal, the energy crisis, the period of stagflation and sluggish economy resulting from, among other things, high taxes, excessive regulation, low worker productivity and lack of innovation in U.S. business.

The tech stock bust in 2000 spread throughout the broader market as investors began to question high stock valuations. The emerging corporate scandals, huge overcapacity in manufacturing and digital communications infrastructure, and the Fed's tightening of the money supply following Y2K, all contributed to the downturn.

(2) The pessimism in these cycles was proved wrong:

- Runaway inflation and an anemic stock market led many pundits to declare the U.S. stock market dead by the late 1970s. Stocks soon began a 20-year bull market, due mostly to the tax and regulatory reforms during the Reagan era.
- The 1987 stock crash led many to predict imminent recession. Stocks climbed 50% over the next two years.
- By the early 1990s, economists claimed that U.S. business could not compete with the emerging Japanese superpower. American companies restructured and the economy expanded while Japan suffered a decade of stagnation and massive loss of stock market wealth.
- In early 2003, investors struggled with the economic effects of terrorism and the impending Iraq war. As it turned out, the economy was rebounding and the stock market had one of its best 12-month returns on record.

(3) These cash movements reflected investors timing their purchases and sales of the portfolio. By weighting the timing of these movements, the researchers calculated an average return realized by investors. Then, DALBAR compared this average performance to the average returns reported by the money managers. This was the return realized by anyone who stayed invested. ("Quantitative Analysis of Investor Behavior, DALBAR, Inc., 2003.)

REAL

FINANCIAL WELL BEING

Money Quotient® (M.Q.®) is a measure of your financial well-being and represents a composite of your practical knowledge and emotional awareness in regard to money.

This more holistic approach to assessing "true wealth" examines five key factors:

1. Recognition
2. Resilience
3. Resourcefulness
4. Relationships
5. Wisdom

Let's briefly discuss each of these:

• **Recognition** involves your awareness of both the fact and feeling aspects of your money matters. This fundamental component of your M.Q. requires introspection and honesty regarding the elements that have shaped your current relationship with money. Recognition is a powerful catalyst for personal growth in your financial life.

• **Resilience** gives you the ability to successfully navigate life transitions and to bounce back from financial setbacks.

From a practical perspective, financial resilience involves laying a foundation of economic protection. From an emotional perspective, financial resilience involves increasing your confidence in your ability to prepare for and deal with financial challenges.

• **Resourcefulness** is the desire and ability to maximize your resources. In other words, it is the process of making the most of what you have. Resourcefulness also involves looking for effective and creative ways to reach your goals.

A resourceful individual recognizes that "money" in and of itself is not a goal, but rather a tool to achieving goals and increasing life satisfaction.

• **Relationships** involve connections with others that affect your financial well-being and life satisfaction. This fundamental component of M.Q. includes the kind of communication you have, on both a practical and emotional level, with your family, friends, colleagues, and financial service providers.

The complex dynamics of each relationship can have a profound influence on how you feel about your money and the big and little financial decisions you make on a daily basis.

• **Wisdom** involves linking your financial goals to your values and priorities in all areas of life. This key to your financial well-being represents your "money maturity" and a growing understanding of both the fact and feeling aspects of your financial life.

When you earn, spend, and invest your money in ways that are "smart" and also compatible with your underlying values and priorities, you will experience a sense of success, satisfaction, and purpose in your financial life. ■

MONEY & Relationships

Nowhere is the influence of emotion on financial behavior more clearly illustrated than in interpersonal relationships. Consider these examples:

• Nick has a need to be viewed as "successful" in the eyes of his friends and colleagues. To him, the proof of one's success is material possessions. Therefore, Nick has purchased a custom built home, luxury cars, expensive clothes, and a prestigious golf club membership—all of which he really cannot afford. Unfortunately, the real price tag for meeting his emotional need is pretense and mounting debt.

• Emily is a saver and Brad is a spender. Emily wants to save for a rainy day and Brad wants to live for the day. There was a time when their differences in perspective were a source for good-natured teasing, but recently the "humor" has disappeared. Tension in their relationship is mounting, and they each feel the other is the obstacle to achieving financial satisfaction.

• Single and 50 years old, Linda finds financial matters boring and confusing. Her father, retired and with time on his hands, is all too eager to relieve Linda of any task she finds onerous. He oversees all of her accounts and makes all her investment decisions for her.

As illustrated by these scenarios, relationships can affect one's financial well-being and life satisfaction. More specifically, it is the complex dynamics of each relationship that can have profound influence on how you feel about money and the financial decisions you make on a daily basis.

As you reflect on your past, ask yourself what relationships have significantly influenced your financial well-being in either a positive or negative way. Can you identify how the dynamics of that relationship shaped your money attitudes and behavior?

This reflection exercise will give you insight into to the power of money in your relationships and the power of relationships in your money matters. ■

Medicare Part D

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monthly premium costs and other benefits and features. You can compare plans with the Medicare Prescription Drug Plan Finder available at www.medicare.gov, or by calling 1-800-MEDICARE, or through your insurer.

If you have group insurance, review your package benefits and proposed changes to the prescription plan. Then compare this to the local PDP coverage to determine which offers the best value. You can stay with your current group plan if it meets Part D standards and delay the decision.

• **Analyzing scenarios.** Figure the cost and coverage at different monthly expense levels. For example, Medicare estimates the Part D premium will average $37 per month in 2006. The beneficiary's *maximum* deductible and copay is $3,600 plus 5% of costs over $5,100.(5) At this premium level, someone with $1,000 in monthly drug expenses ($12,000 per year) would pay about $4,389. This equals $3,600 deductible/copay + $444 premium + 5% of $6,900 (amount over $5,100).

• **Selection and enrollment.** The sponsoring plan will lead you through the signup procedure. Keep in mind that the initial enrollment period for 2006 ends May 15, 2006. If you miss this deadline, you must wait until the next enrollment cycle begins in November 2006. Worse yet, for every month you delay enrollment as an eligible Medicare beneficiary, the premium increases 1%.(6)

Part D is designed to provide some relief for people with moderate drug bills—and major assistance for those with high annual drug costs. It may be well worth the effort to investigate plans and get coverage—or to monitor your group insurance to make sure it offers comparable benefits. Please contact us if you need assistance. ■

(6) This penalty does not apply to those who already have prescription drug benefits through an employer or union retiree plan, as long as the benefits are "creditable", meaning they are at least as good as Part D.

In My Opinion…

Robert J. Cole, Jr., CLU, ChFC, CFP®

All You Need Is Love (and Consistent Savings)

When I met my wife I was suffering the financial effects of a divorce. Basically, I had no assets. It was Sandy who showed the faith in my idea to leave the employment of a major insurance company that I had been with for fourteen years and to open one of the first fee-based advisory services in Louisville. As with all businesses, we struggled to find our formula for many years. During much of that time, money was tight. She left her career as a medical technologist to help out at the office and that made it even tighter.

During all this time, we made a commitment to save as much as we could. We never broke that commitment. During all of the tough times, we still paid for a substantial life and disability insurance program, funded a mutual fund investment plan, and maximized our retirement program contributions. Each year, as things improved, we increased these savings. Not exactly rocket science, but since we were consistent about it, twenty five years later, we are financially independent. Or are we?

Today my wife and I celebrate our twenty-fifth wedding anniversary. WOW !!! It hardly seems possible that we have covered so much ground. One of the great moments in my life was when Sandy and I agreed to "tie the knot". It has been a great partnership, both personally and professionally, and I am thankful that life has allowed me to find my soul mate.

Don't read this the wrong way. It hasn't been a smooth ride. (You're not surprised are you?). In our journey, we have had to face challenges from both the inside and the outside. There were the inevitable, relationship moments; some tougher than others. Our professional careers have taken a toll on our liaison as well. But somehow, we made it through each drama and kept looking to the future as our final destination. I am happy to say that we are doing that now more than ever.

We both exercise faithfully and are in good shape. In fact, as I write this, we are on our way to Rocky Mountain National Park for our anniversary celebration. We will be hiking the Rockies as part of the fun. We love the work we do and the people we do it with. We have a wonderful support team, who are also personal friends. We are blessed with many relationships of family and friends and are on good terms with all of them. All of these things came from years of dedicated activity. How else can you describe "the good life"?

But cracks are starting to appear. We both have had a few "episodes" of health issues; nothing major, but they've gotten our attention. Some of our friends are sick or have died. The future seems to promise more of the same. I worry about the ability of our culture to care for the aging population. Many of the programs we now take for granted seem unlikely to continue. I have grandchildren that have yet to be educated. How much will we need to meet our goals? How will our goals have to change to accommodate broken governmental and corporate promises? Does this sound familiar to you?

The one thing I am sure of is that the biggest resource of all is love. Sure it's an ideal and sometimes it gets kicked around pretty well; but, ounce for ounce, it's the best thing to fall back on when things get bumpy. Thanks, Sandy, for your love for the past quarter of a century. I hope that I can continue to be worthy of it.

My strategy as we enter the next twenty five years? Continue saving money (for possible rainy days ahead), invest time and energy in the relationships that matter, keep pursuing an active lifestyle, and give back the wisdom that helped me make it this far. All of this with a healthy dose of love for good measure.

Until next time, that's my opinion….

Robert J. Cole, Jr., CLU, ChFC
CERTIFIED FINANCIAL PLANNER®
President