

ALPINE PERSPECTIVES

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Long Term Care Insurance (LTC)—Is It In Your Plan?

If you or your significant other should need home-based or nursing home care, how will you pay for it? Many people are surprised that the government provides only a few weeks of financial support. A 2009 Genworth Insurance Survey found the national average for the following services: private room rate in a nursing home \$74,095 annually, in-home health services \$18.50/hour, assisted living-one bedroom \$33,900 annually. LTC insurance may be needed as a supplement to savings or as a complete coverage for these potential costs. Here are several questions to consider before investing in LTC insurance. **What resources do you have?** Not only money but family friends and community. **What is your**

age and health history? People in their mid fifties with good health usually get the most affordable premiums. **What types of services are covered?** Most people are choosing home-based vs. nursing home. A basic LTC policy pays for assistance daily living activities and some services can be chosen over others. **What triggers coverage?** Typically an LTC policy will not go into effect until the covered person cannot perform two tasks of daily living for a specified period of time, usually 90 days. It is important to read and understand these conditions as some policies will be more restrictive than others, and more affordable policies with have a longer period before benefits start. **What if I do not want to**

go to a nursing home? LTC policies can be designed to pay the same benefit amount whether care is received in a long term care facility, and assisted living facility, an adult day care center, or in the insured's home. **How do I determine a good LTC insurance company?** With millions of baby boomers heading into their retirement years more companies are participating in the LTC insurance market. As with making any significant financial commitment, it makes sense to shop around and compare policies. Check the financial health of these companies, contact the insurance regulator in the state which the company is domiciled, and enlist the help of your financial planner.

The Components of Long Term Equity Returns

The purpose of investment or wealth management is to preserve and enhance the one level of financial well-being. Or to phrase it differently, to earn a positive net return on an invested amount over a desired time horizon. Theoretically this appears simple when considering the S&P 500 index (and its predecessors prior to 1950) have earned a nominal return of 8.7% per year from January 1871 to

June 2008. Considering the 2.2% inflation rate over the same period, the real return was 6.5% per year. Some will argue that greater returns can be generated by attempting to capture capital appreciation through active trading, but let us examine the components of equity returns over time. If we consider the previously documented nominal return of 8.7% per year we already know that 2.2% resulted from

inflation. Real capital appreciation (price increases net of inflation) added an additional 1.8% per year. Where did the rest of the annual return come from? Dividends...that is correct, boring old dividends reinvested year after year contributed 4.7% per year in total returns. This represents more than half of the returns generated over time (continued on next page).

Source: Plexus Asset Management and Robert Shiller

The Components of Long Term Equity Returns (cont.)

What we hope we have illustrated are the importance of cash flow and compounding to the returns of an investment portfolio. Along with a prudent amount of equities, an efficiently balanced portfolio

will also have exposure to interest paying assets such as bonds to add to cash flows, protect principal, and hedge equity volatility. Our focus as always is to manage your investment portfolios in

accordance to your unique goals and attributes and to optimize capital preservation and returns by actively monitoring economic and market risks.

**Common
Sense Corner:
General
Topics For
Your Every
Day Living**

Bank Over Draft Protection-Scam or Convenience?

Many banks encourage their clients with low balances to overdraw their accounts. If the customer writes a check or uses their debit card and has insufficient funds, the bank clears the transaction by allowing a temporary overdraft up to a specific limit. The perceived benefit to the customer is the avoidance of bounced checks and an uninterrupted shopping experience. Banks claim this is to be a value-added convenience to their customers, but is this a good deal? For a regular line of credit a bank will charge a stated percentage rate, but for over drafts many banks charge a flat fee. A fee that does not take into account the value of the transaction. Over draft fees may be as high as \$35 per check, but for our example we will assume a \$20 fee per check. If you have four checks totaling \$200 that have insufficient funds against them, the bank automatically activates the overdraft protection and assess an \$80 fee

in overdraft charges. Unlike revolving lines of credit in which you can pay at your convenience, an overdraft must be settled in a few days. For our example let's assume the bank allows you fourteen days to make good on the overdraft amount and fees. A loan of \$80 on a \$200 balance for fourteen days is an annual percentage rate of 1043%! One would have to question the "convenience at these rates. Check with your banks and see if you have the choice to turn off this "protection."

