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Money Matter\$



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Long-Term Care Insurance: Who Needs It?

by Adam Sommers

In our financial planning process with clients, we perform an insurance needs analysis. We don't sell insurance, so it's not as though we're funneling you to the sale of an insurance "solution". But part of our fiduciary duty to you is ensuring that you're adequately protected against financial risks.

One of the topics we cover is long-term care insurance: insurance that protects your assets in case the need arises for sustained medical or custodial care in a hospital or nursing facility, or equivalent care at home. Generally, LTC insurance plans kick in with impaired cognitive ability, or an inability to perform two or more Activities of Daily Living (ADLs) such as dressing, bathing, eating, etc.

For single, divorced, or widowed clients, we don't normally recommend the purchase of LTC insurance; there's really no one but themselves (and their net worth) that will be affected by paying for long-term care. However, if you have a spouse or other person dependent on your joint assets, a discussion about how you will pay for long-term care is definitely warranted.

The problem I have with the way long-term care insurance is structured is this: You're going to pay unknown amounts of premiums (they can change just like health insurance) over an unknown number of years (maybe until you die), to *possibly* reap a known benefit. A typical policy that would cover care for five years at \$100 per day costs a

60-year old about \$3,000 in annual premium. That is a known benefit of \$182,500. On the surface, if you need care in the next 60 years, you'll come out ahead. But the catch is that the premiums will likely increase at least at the rate of inflation, if not at the same rate as health insurance. If costs increase at 5%, that 60 year-old only comes out ahead if he/she uses all five years of coverage in the next 22 years.

The next blow comes from the fact that if you need coverage for more than the LTC covered term (five years in my example above), you're going to pay for that care out of pocket; and that will likely be the more expensive, later-stage care. The average Alzheimer's stay is seven years. LTC insurance really only helps to defer the pain of dipping into your nest egg to pay for care—not avoid it.

I liken this to sitting at the Let-It-Ride table at the casino and promising to pump chips onto the table until you hit a 4-of-a-kind. It'll pay 50:1 when it hits, but you may have 'invested' far more by that time. Also, what happens after you're dealt those elusive quads? If you continue playing, you're hitting up the ATM again.

Oh, and about those AFLAC-style "supplemental insurance" policies: we need to discuss those, too. Those are basically lottery tickets—but when you win, you lose.

ETF Extra – FlexShares Quality Dividend ETF—(QDF)

QDF seeks to provide exposure to the long-term growth potential of U.S. securities while providing dividend payments. It is intended as a core stock market option that also helps investors try to meet their income needs. The strategy applies a proprietary scoring model approach that determines a "quality factor" and an optimization process that seeks to maximize this factor, match the beta of the Parent Index (Northern Trust 1250) and improve on the Parent Index's dividend yield.

QDF's Notable Statistics

Current price/share:	\$36.20
Wtd. Avg. Dividend Yield:	3.21 %
Total Assets in the Fund:	\$630 mil.
Expense Ratio:	0.38 %
One Year Return (thru 11/2014):	14.9 %

"LTC insurance really only helps to defer the pain..."

2014 Returns

Dow Jones Industrial 30	
Average:	7.5 %
S&P 500 Large Company Stock Index:	11.4 %
Russell 2000 Small Company Stock Index:	3.5 %
SPDR Gold Index (GLD):	- 2.2 %
iShares Aggregate Bond Index (AGG):	5.6 %
US Equity High Volatility Put-Write ETF (HVPW):	0.0 %
SFM's "NAKED ALPHA FUND":	12.7 %



Model STOCK Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
22%	VYM	Vanguard High Dividend Stock ETF	2.83%	17.1%	20.2%	8.5%
19%	VO	Vanguard Mid Cap Stock ETF	1.29%	11.6%	20.3%	10.5%
19%	SDY	SPDRs S&P Dividend ETF	2.13%	12.1%	18.1%	9.0%
20%	VIG	Vanguard Dividend Appreciation ETF	1.87%	8.5%	16.1%	8.8%
20%	IVV	iShares S&P 500 ETF	1.74%	12.2%	20.0%	9.0%

INCOME-oriented portfolio—average current yield: 2.8%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
26%	VT	Vanguard Total World Stock ETF	2.37%	2.9%	13.7%	10.7%
34%	VYM	Vanguard High Dividend Yield Stock ETF	2.83%	17.1%	20.2%	8.5%
18%	QDEF	FlexShares Quality Defensive Dividend Stock ETF	2.81%	12.4%	NA	NA
22%	VEU	Vanguard International Stock ETF	3.38%	-4.4%	8.4%	13.1%



Model BOND Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
20%	BND	Vanguard Total Bond ETF	2.07%	5.7%	2.7%	2.8%
20%	LQD	iShares Investment Grade Corporate Bond ETF	3.42%	7.4%	6.0%	5.2%
21%	BSV	Vanguard Short-Term Bond ETF	0.98%	1.4%	1.2%	1.0%
19%	MUB	iShares National Municipal Bond ETF	1.61%	8.8%	3.8%	4.2%
20%	JNK	SPDRs High-Yield Bond ETF	5.90%	-1.1%	6.6%	5.4%

INCOME-oriented portfolio—average current yield: 6.1%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
20%	SJNK	SPDRs Short-Term High-Yield Bond ETF	5.37%	-2.2%	NA	NA
22%	JNK	SPDRs High-Yield Bond ETF	5.90%	-1.1%	6.6%	5.4%
22%	CSI	Cutwater Select Income Closed-End Fund (CEF)	5.42%	11.3%	6.6%	4.3%
17%	OOSYX	Oppenheimer Senior Floating Rate Note Fund	4.85%	1.0%	5.7%	1.8%
19%	CHY	Calamos Convertible & High Yield Bond CEF	8.71%	14.9%	14.9%	7.2%



Model ALTERNATIVE Portfolios

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
22%	UMRAX	KKM U.S. Equity Armor Fund	1.40%	NA	NA	14.4%
19%	RWO	SPDR Global Real Estate ETF	3.03%	18.1%	15.5%	12.6%
18%	RWX	SPDR International Real Estate ETF	4.53%	4.2%	13.7%	14.1%
20%	MLPEX	Oppenheimer SteelPath Oil & Gas Pipeline Fund	5.63%	2.7%	9.8%	9.1%
21%	VNQ	Vanguard U.S. Real Estate ETF	3.13%	29.5%	17.5%	13.4%

INCOME-oriented portfolio—average current yield: 5.7%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
23%	PFF	iShares Preferred Stock ETF	6.95%	12.9%	9.4%	5.6%
17%	VNQ	Vanguard US Real Estate ETF	3.13%	29.5%	17.5%	13.4%
22%	MDEIX	M.D. Sass Equity Income Plus Fund	7.41%	6.2%	9.7%	6.5%
18%	CVY	Guggenheim Multi-Asset Income ETF	5.17%	-6.1%	8.9%	9.5%
20%	MLPEX	Oppenheimer SteelPath Oil & Gas Pipeline Fund	5.63%	2.7%	9.8%	9.1%