

## July 2014 Monthly Commentary

August 1, 2014

### Stock Market & Portfolio Performance

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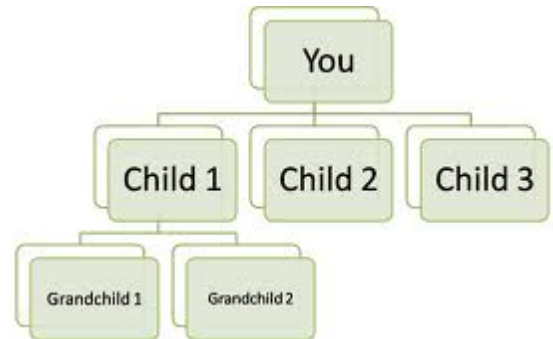
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# Reviewing Beneficiaries for Tax-Deferred Accounts; Discussion of “Per Stirpes”

**Verifying Beneficiaries:** During August, Marilyn will be sending a letter to clients listing the primary and contingent beneficiaries for their tax-deferred Schwab accounts, and asking whether any changes should be made. We last did this four years ago. Please indicate any changes you wish to make on the form Marilyn provides, and she will mail you a completed Beneficiary Designation Form for signature.

**Verification Form to Be Added to Your MAM Portal:** Once you complete and return the Verifying Beneficiaries form, we will add it to your MAM Portal.

**Significance of “Per Stirpes”:** Since we are not a law firm nor do we have attorneys on staff, I first recommend that you discuss this with your estate planning attorney. Many of our clients have more than one primary or contingent beneficiary listed for their tax deferred accounts (e.g. they have more than one child). *My understanding is that if multiple primary or contingent beneficiaries are listed and “per stirpes” is not indicated, if one of the beneficiaries is not alive when the account holder dies, the account will be split among the surviving beneficiaries that are listed on the account.*



**Example:** Mary is a widow with three grown children (“A”, “B” & “C”). She has a large IRA with her three children listed as the primary beneficiaries. At the time that Mary dies, “A” had predeceased her. Unless Mary had listed “per stirpes” for the three beneficiaries, the account will pass 50% each to “B” and “C”. If child “A” had kids, they will not be entitled to any portion of the account. On the other hand, if Mary had listed “per stirpes” for her three children, then “A’s” kids will receive 1/3 of the IRA account.

**New Schwab Form to Provide “Per Stirpes” Option:** Studies have shown that the majority of the public think that per stirpes has always been the norm, when, in fact, it is not. I am pleased that Schwab has said they will release a new Beneficiary Form in August that will provide a box to indicate “per stirpes”.

**If you have multiple primary or contingent beneficiaries and you want “per stirpes”, please check the box “yes” for “Per Stirpes” on the Verifying Beneficiary Form that Marilyn will be sending to you.**

## Economic Update— Good 2nd Quarter for GDP; Job Growth Accelerates

**Good 2nd Quarter of 2014:** On July 30<sup>th</sup>, the Commerce Department released its initial estimate of second quarter gross domestic product (GDP), reporting that the economy advanced at a seasonally adjusted annual rate of 4.0%. Economists had forecast growth at a 3.0% pace for the quarter. The solid improvement comes after a dismal first quarter when the economy shrank at a 2.1% pace. While still the worst quarter of the recovery that began in mid-2009, the first-quarter figure reflects an upward revision from a previously estimated 2.9% contraction.



**Strong June Employment Report:** On July 3<sup>rd</sup>, the Bureau of Labor Statistics released a surprisingly strong jobs report. Employers added 288,000 jobs in June, significantly more than the 215,000 economists were anticipating. The unemployment rate dropped from 6.3% to 6.1%, the lowest rate since September 2008.

## Econ. Update— Good 2nd Quarter for GDP; Job Growth Accelerates— Con't

**Liz Ann Sonders Article- Impact of Rising Interest Rates:** On July 30<sup>th</sup>, Liz Ann Sonders, Chief Investment Strategist at Charles Schwab & Co., released an article “Getting Closer: Fed Continues its Tapering & Moving Toward Rate Hikes”. We have included the article as an attachment to the email of the July Monthly Commentary. The article makes the following points:

- The Fed has continued to trim \$10 billion per month from its bond purchases (“Quantitative Easing”). This puts “tapering” on track to end in late October. The Fed is expected to start raising short-term interest rates six months after the end of tapering, or sometime by the middle of 2015.
- The article focuses on the impact of rate hikes on the stock market. There are four phases of monetary policy. Once the Fed starts raising rates, Phase IV (easy money, cutting rates) ends and Phase I (easy money, hiking rates) starts. While the stock market performs best in Phase IV, **historically the stock market has performed pretty well six months before and six months after the first rate hike (i.e. Phase I).**

## Medicare’s Financial Picture Improves

**Congressional Budget Office Projection:** On July 15<sup>th</sup>, the nonpartisan Congressional Budget Office released a report that said Medicare’s financial picture has improved such that it is expected to remain financially solvent through 2030, five years longer than previously estimated. The reason for the improvement is that healthcare costs are now anticipated to grow more slowly than previously believed.

Medicare is one of the government’s largest programs, expected to spend more than \$500 billion on benefits for 54 million Americans this year. Close to 70 million people are estimated to qualify for benefits in 2030, with the program’s cost continuing to rise as America’s elderly population grows.



**Social Security Disability Insurance Program:** The July 15<sup>th</sup> Medicare report did have alarming news that the Social Security Disability Insurance Program (“DI”), which currently helps support 11 million Americans, will run short of money by 2016 with a projected deficit of \$30 billion. Since the modus operandi in Congress seems to be to address major problems through last-minute showdowns (remember the “fiscal cliff?”), the “disability cliff” could lead to the biggest fight over entitlement programs in years.

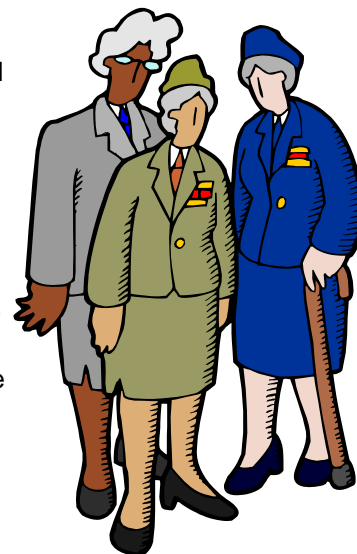
**A Thorough Overhaul is Needed:** At some point, Congress is going to have to undertake a thorough overhaul of both Medicare and Social Security because both programs promise benefits far beyond what current tax levels will support. Waiting until the last minute would put that deadline at 2030 or so, which is when Medicare will start to run dry. However, the pressure to act will intensify long before that, and the DI shortfall in 2016 will force Congress to at least address that deficit.

## Long Term Care: VA Benefits (written by Lauree Murphy)

### *Veterans Administration Benefits –Aid and Attendance and Housebound*

Over the past year, my mother and mother-in-law both have had failing health issues and are in nursing homes. This experience has opened my eyes to the incredible costs involved and the hoops that must be jumped through in order to get help. This all occurs when someone is ill and decisions are not just about money, but also quality of care, proximity of family, and the length of care required.

This month I am going to address Veterans' benefits, specifically, Aid and Attendance and Housebound Benefits. Veterans, who served during war time, or their spouses, may qualify for these benefits. They include helping pay for assistance at home, in a daycare facility, or in a nursing home. Typically you cannot have much in assets and your income needs to be below a certain threshold. Although I am by no means an expert, I helped my mother receive these benefits and can share my experience.



My mother is 86 and has dementia. It has been progressing now for about 8 years. While the decline was slow at first, after a few years we sold her home and moved her to an independent living facility. Although this worked great for 4 years, the facility was expensive and her money was running out. At the same time she was starting to need more help. With little resources left, we moved her into our home. Even though she had been financially responsible her whole life, my mom could not foot the bill for the supervised living she required. We had her in a local daycare center. It was a wonderful place and very cost-effective.

At the suggestion of the staff at the daycare facility, I decided to check into getting VA aid and attendance benefits since my father was a WWII vet. To qualify you must be paying for assistance, which could include paying a family member to care for you, daycare, nursing care, or someone coming into your home. I found an attorney in Southern CA who specializes in processing these claims. The attorney did a free screening to give me an idea if my mother would qualify. It seemed she would. There were documents needed by the VA. These included: my father's navy discharge papers, a marriage certificate, and his death certificate. We also had to provide financial information, including how much she was spending for care and other expenses, her income, and copies of current bank and investment statements. The assets and income need to be below a threshold amount, not as low as for Medicaid, but you cannot have much. Once we gave the attorney's office the information, they filled out all the paperwork and sent it to us for review and signature. All together there were 5 forms that needed to be completed for the VA.

Once the forms were submitted to the VA, then the waiting began. Besides the daunting amount of paperwork, the biggest issue is the length of time it takes to get the money. It took 8 months before the application was processed and she received her first monthly payment. Since she qualified for 8 months prior to the first payment, they gave her a lump sum for the back payment, but this did not come for 18 months.

Don't let the process discourage you from exploring this option if you or your family member qualifies. The extra monthly benefits can really help a cash-strapped senior who needs assistance. The cost of the attorney was less than the first month's benefits, making it well worth it. I did find there was a financial advisory firm who will help with the paperwork for free. But, of course nothing is really free. Their true motivation was to sell the Veteran an annuity. The annuity apparently helps shelter some of their assets, so they can qualify financially. In some cases, maybe this is useful, but be wary if offered free advice.

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## Long Term Care: VA Benefits (written by Lauree Murphy)– Con't

It helps to be prepared. Keep important documents in a safe place like a safe deposit box. Here's a partial list of some of the things you should be able to put your hands on: death, birth and marriage certificates, veteran's discharge papers, social security numbers, wills, trust documents, and powers of attorney, life insurance policies, long term care policies, and names and account numbers of financial institutions where you have accounts. Make sure to share the whereabouts of information with family members so they can step in and help if needed. It does not matter how well organized you are if no one can find the information when needed.

For more information on Veterans Aid and Attendance Benefits go to:

[http://www.benefits.va.gov/PENSION/aid\\_attendance\\_housebound.asp](http://www.benefits.va.gov/PENSION/aid_attendance_housebound.asp)

Sincerely,

*Stephen P McCarthy, CPA, CFP®*,

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## Our Services

McCarthy Asset Management, Inc. (MAM) is an independent, privately owned Registered Investment Advisor firm. We provide clients with the peace of mind that comes from knowing professionals are managing their financial affairs. The services we offer include:

### Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

### Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

**Other Services:** MAM has retained several outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.
- Medicare Advisory Program (MAP) - Allen Hamm
- The Savvy Life® Classes, Workshops , and One-on-One Consultations

## Reminders

*Please let us know if you would like to have us prepare or update a Net Worth Analysis or Retirement Analysis for you, or for Allen Hamm to prepare a Long Term Care Plan for you.*



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