

Retirement Weekly

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Health-care costs rising

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Plan on these Medicare Advantage plans

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Contact us

Please send your comments, criticism and compliments to Robert Powell at rpowell@marketwatch.com.

December 17, 2004 Vol. 2, No. 51

The impending beneficiary crisis

Looking for the ultimate new year's resolution? How about this one? Gather and file all the important documents that will help your beneficiaries and loved ones figure out what to do should you become disabled or die?

Year's end is the perfect time to organize your papers into one place so your loved ones need not go searching through shoe boxes for documents such as a marriage license or military discharge papers. Widows and widowers need a copy of their marriage license to collect any Social Security, says Mark Kaizerman, author of "Beneficiary Directory." Plus, he says heirs of deceased veterans will need a copy of

(Continued on page 2)

Resources

- **If Something Happens to Me**
<http://www.ifsomethinghappens.com>
- **Beneficiary Directory**
<http://www.beneficiarydirectory.com>

Debates about private accounts rages on

President Bush this week, once again, sought to allay older Americans' fears that Social Security reform would mean a cut in benefits. "On Social Security, it's very important for seniors to understand nothing will change," he said this week at an economic summit. "In other words, nobody is going to take away your check. You'll receive that which has been promised."

President Bush also reiterated his desire not to raise payroll taxes to fix Social Security and his desire to introduce personal-savings accounts. "I do not believe we ought to be raising payroll taxes to achieve the objective of a sound Social Security system," he said. "Younger workers ought to be able to take some of their own payroll taxes and set them up in a personal savings account."

Meanwhile, AARP and CALPERS this week voiced their opposition to personal savings accounts. "Some people have recommended taking some of the money people pay into the system and diverting it into newly created private accounts," AARP says. "Because less money would be flowing into Social Security, the guaranteed and inflation-adjusted lifetime benefits would have to be cut. Maybe the investments in the account would make up the difference, and maybe they wouldn't." Visit http://www.aarp.org/socialsecurity-you/Articles/a2004-10-22-ss_strong.html and <http://www.whitehouse.gov> for more information. **RW**

If something happens to you...

(Continued from page 1)

military discharge papers to get from the federal government a complimentary U.S. flag for the coffin. "The lack of retrievable, practical information everyone needs to deal with most financial and health issues is an impending beneficiary crisis," Kaizerman says. "Conventional financial planning focuses on putting in place legal documents such as wills, durable powers of attorney, health care proxies and trust agreements, all crucial elements in dealing with these 'aging' or 'end-of-life' issues." But these documents, he says, fall painfully short in providing the every day, basic information necessary to guide beneficiaries. Indeed, the search for missing, essential documents such as investment accounts and health plans can overwhelm both well-intentioned care givers and beneficiaries.

For his part, Joseph Hearn, author of "If Something Happens to Me," says, "Many people think that as long as they have life insurance, a will, powers of attorney, that they don't have anything to worry about. Those documents are only useful, however, if they can be easily located when

(Continued on page 3)

Beneficiary Directory — FactFinder checklist

The following are examples of what may be included in your "Beneficiary Directory." Place a checkmark next to those items that should be included. If you are unable to locate an item you have checked, then circle the checkmark. Finally, draw a line through the check to make an "X" when a photocopy of the item has been placed in your "Beneficiary Directory."

Insurance

Declaration/coverage page(s) of:

- Medical and dental insurance
- Health/dental insurance membership cards
- Life insurance
- Disability insurance
- Long-term care insurance
- Home owner's/renter's insurance
- Auto insurance
- Umbrella liability insurance
- Other insurance policies
- Appraisals

Savings/investments

List/copies of savings bonds, stock and bond certificates in your possession

Complete savings/investments locator for:

- Bank accounts
- Investment accounts
- Safe deposit box and safe deposit key

Property

Business buy-sell agreements

Copies of deed/titles for:

- Home(s)
- Automobile(s)
- Other real property
- Mortgage/loan information and discharge paperwork
- Auto lease agreement

("Beneficiary Directory Workbook" continued on page 3)

If something happens to you...

(Continued from page 2)

they are needed."

The consequence of not having your affairs in order can be significant, says Hearn. But by investing a small amount of time and energy into organizing these things, you can accomplish a great savings in time, hassle and expense.

What's in it for you if you complete the "Beneficiary Directory" or "Something Happens to Me?" workbooks?

First, Hearn says you can save your hard earned money. "Attorneys, accountants and financial advisors charge thousands of dollars to organize estates," he says. "A good portion of these expenses involve time spent tracking down records of what we own, what we owe, who is in charge and who should receive the property. Having your affairs organized saves a great deal of that expense."

Second, you can save those you love a lot of grief. "Loss of a loved one is difficult on surviving family and friends," Hearn says. "Sadly, the pain, stress, aggravation, family quarrels, lost time and wasted money that result from poor planning and organization can multiply that sorrow. Putting your affairs in order before a tragedy will not

(Continued on page 4)

Beneficiary Directory — FactFinder checklist (Continued from page 2)

Retirement plan

Primary and contingent beneficiary designation forms for:

- IRAs
- Retirement plans (401(k), 403(b), SEP, etc.)
- Annuities
- Life insurance policies
- Other employer-provided benefits programs

Estate planning

- Will(s)
- Durable power(s) of attorney
- Health care proxies
- Trust documents
- Letter of specific bequests
- Ethical will
- Divorce agreement
- Prenuptial agreement

Personal data

- Adoption agreement
- Citizenship papers
- Passport
- Birth certificate
- Social Security card
- Marriage license
- Complete list of important advisors/contacts
- Critical medical information and/or summary of family medical history
- Cemetery plot deed/information
- Funeral/burial instructions
- Military discharge paperwork
- Organ donor card

Date completed _____

Source: "Beneficiary Directory Workbook" Mark Kaizerman

If something happens to you...

(Continued from page 3)

only simplify things for your family, it will express to them how much you love them."

Third, you'll be able to more efficiently deal with your affairs while living. Having your legal and financial affairs organized not only helps others in the event of your death, but it becomes a resource during your life. In one

place you will have all of your advisor's contact information, and all of your significant

assets and liabilities, all of the details relating to your different insurance policies.

For his part, Kaizerman recommends the following to avoid a crisis:

- Get a complete checklist to work against as you gather your own or your parents' documents.
- Identify items that are incomplete, outdated, incorrect or missing. Use the FactFinder on pages 2 and 3.
- Clearly designate a "first person to call" usually a financial advisor, attorney, or accountant, and make sure they have current copies of your important documents. Make sure your "first person to call" knows where to find document originals and the names of individuals you designate to access this information.
- Make sure you have a current will and other estate documents, and that you have taken steps to implement these documents.
- Consider what additional information you wish to give to your beneficiaries in the form of an explanatory letter or video — an ethical will. **RW**

Documents needed to apply for survivor benefits:

- Proof of death from either funeral home or a death certificate
- Your birth certificate
- Your marriage certificate if you're the widow or widower
- Proof of U.S. citizenship or lawful alien status if you were born outside the U.S.
- Your divorce papers if you're applying as a surviving divorced spouse
- Dependent children's Social Security numbers
- Deceased worker's most recent W-4 forms or Federal self-employment tax return

Source: "If Something Happens to Me" by Joseph Hearn

Items you should keep in your safe-deposit box:

- Originals of birth, marriage and death certificates
- Adoption papers
- Citizenship records
- Military service records
- Vehicle titles
- Real estate deeds
- Mortgage paperwork
- Stock and bond certificates
- Certificates of deposit
- Precious metals
- Valuable collectables
- Jewelry
- Photographs, video and/or written inventory of your home's contents

Items you should not keep in your safe-deposit box:

- Wills or estate plan (you can keep a copy here, but not original)
- Life insurance policies (instead, put a list of your policies)
- Medical or financial powers of attorney
- Burial instructions
- Cemetery deeds
- Funeral arrangements
- Property owned by others

Source: "If Something Happens to Me" by Joseph Hearn

News in brief

Retiree health care benefits rise

Businesses providing retiree health benefits experienced an average 12.7percent increase in costs in 2004, according to a new study by the Kaiser Family Foundation and Hewitt Associates, with the costs being split between the business and retiree.

As a result, the survey found that 8 percent of employers said they eliminated subsidized health benefits for future retirees. Only 1 percent of polled firms said they are likely to terminate subsidized

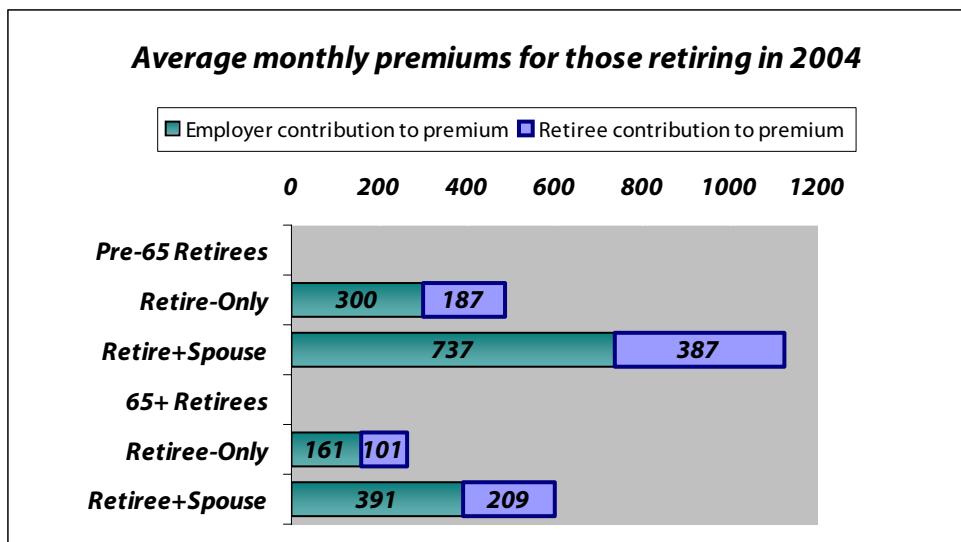
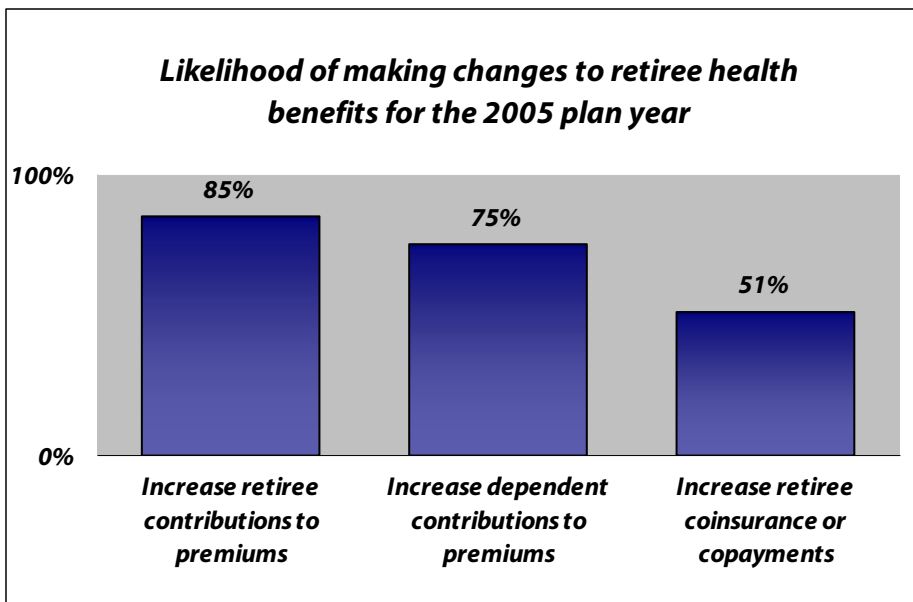
coverage for current retirees, but 11 percent said they are likely to terminate coverage for future retirees, with most of these terminations expected to affect new hires only.

The report comes as many companies plan for the affects of the Medicare drug benefit which was created under the Medicare Modernization Act of 2003, and will go into effect in

2006. Under the new law, firms that provide coverage similar to what is available through Medicare will be eligible for tax-free subsidies equal to 28 percent of drug costs

between \$250 and \$5000 per retiree. The entire report is available at:

<http://www.kff.org/medicare/med121404pkg.cfm>. **RW**



News in brief

CalPERS says no to Social Security privatization

The California Public Employees' Retirement System (CalPERS) Board of Administration voted this week to officially oppose privatizing the U.S. Social Security System.

"Privatizing Social Security is a bad idea," said Sean Harrigan, President of CalPERS Board of Administration. "It is bad from a fiscal perspective because it will contribute \$2 trillion to our national budget deficit. It is bad from an investment perspective because defined benefit plans are more prudently managed, produce higher risk-adjusted rates of return and are less costly to administer. And it is bad for retirees because privatized accounts will transfer all of the risk to the participant while jeopardizing their retirement security."

"Privatizing Social Security is a bad idea. ... it is bad for retirees because privatized accounts will transfer all of the risk to the participant while jeopardizing their retirement security."

— Sean Harrigan, President of CalPERS Board of Administration

President Bush's current proposal is to allow workers to invest a portion of their Social Security payroll tax in personal retirement accounts such as IRAs or 401(k)s in an effort to save the program from going bankrupt.

CalPERS is the nation's largest public pension fund with assets of \$178 billion. The System provides retirement and health benefits to 1.4 million State and local public employees and their families. For more on CalPERS, visit <http://www.calpers.ca.gov>.

NASD issues warning on systematic investment plans

NASD this week warned investors about the costs and risks of investment vehicles that require monthly payments and carry high, up-front costs. NASD's Investor Alert, Systematic Investment Plans - Educate Yourself Before You Enlist, follows an NASD enforcement action against a brokerage firm selling these plans to military personnel. The warning can be found at <http://www.nasd.com>. **RW**

American Express to offer 401(k) investors one-on-one education

American Express Retirement Services this week announced that it has beefed up its financial education and planning services program to include new workplace seminars and one-on-one sessions that educate employees planning for the pre-retirement and retirement years. The one-on-one sessions, which are free to participants, include a 401(k) Statement Review, a Pre-Retirement Check-up and a benefits review.

Visit American Express Retirement Services' Web site <http://www.americanexpress.com/> sponsors for more information. **RW**

Tips of the week

Sprint to retirement? Think long life

Baby boomers nearing retirement age may need to rethink their strategies, and the new year is the ideal time to do it, says the Philadelphia-based Lincoln Financial Group. A recent study by its Lincoln Long Life Institute says retirees list independence as their number one source of retirement satisfaction. Here are the group's top tips for those "sprinting" to retirement:

- Plan for a long life. Most people underestimate the potential length of retirement. It's actuarially sound to expect that, for a 65-year-old couple in good health, there is a high probability that one of the two will live to be 95-years old. Do the math - that's a long time. Research shows that most people need to plan for a 25-35 year retirement.
- Think about your second act. Retirement is being redefined every day, and may involve more than golf, knitting and shuffleboard. Many boomers may end up working in some capacity during their retirement years. In fact, a Lincoln Long Life Survey found that one in six respondents who initially went into retirement ended up returning to the work force. And not necessarily because of monetary needs. Most said they enjoyed the intellectual stimulation and social aspects of their jobs.
- Don't count on inheriting money from your parents. You've seen the bumper stickers, now hear this. Your parents may be generous with love and financial advice, but they're focused on enjoying the fruits of their labor during their own retirement years. Surveys show that leaving an inheritance or legacy is a relatively low priority for them. While Social Security will be available at some level, in the end, you can only count on yourself for funding retirement.
- Retain a professional financial adviser. Retirement is more complex than you can imagine and you don't get a do-over on your decisions. For this very reason, a recent national survey shows that almost 60 percent of affluent seventy year-olds hired financial advisors during their retirement years. Listen to your elders.
- Don't neglect your long-term care and insurance needs. A long life is a true gift, but it can be an expensive one. With healthcare costs on the rise, you don't want to end up in a position that unexpected illness or skilled nursing care may have catastrophic financial implications. Nor would you want to be a financial burden on your children or family members. Consult a financial expert about the best insurance options for your individual needs.



More women expect to inherit money – though men expect bigger gifts

Both women (36 percent) and men (33 percent) said they expect to inherit some amount of money, according to Allstate's 2004 "Retirement Reality Check" survey. However, 46 percent of men believe they will receive \$100,000 or more, while 58 percent of women expect \$100,000 or less. **RW**

HealthWatch

Top Medicare, Medicaid health plans

Several Massachusetts and New York Medicare Advantage providers were among the top Medicare and Medicaid health plans in the country according to the National Committee for Quality Assurance (NCQA).

The Centers for Medicare and Medicaid Services (CMS) requires all Medicare Advantage plans to publicly report their results, and more than 100 Medicaid plans do the same. The traditional fee-for-service system offers no such data.

The ranking health plans were chosen as top performers on a range of performance measures related to cancer, diabetes, asthma, heart disease and immunizations.

Of the top 10 Medicaid plans, six are from states where Medicaid plans earn reimbursement incentives if they deliver higher quality care — a strategy called “pay for performance,” that is gaining widespread acceptance.

More than 80 pay-for performance projects are underway, with CMS as a big supporter of the strategy. Experts urge Medicare and Medicaid beneficiaries to consider quality in addition to cost and benefits when making health plan choices. For more information, go to <http://www.ncqa.org/>. **RW**



Web site of the week

Consumers Union, the publishers of *Consumer Reports* magazines has recently launched a new website that will compare a variety of prescription drugs on price, effectiveness and safety. The site will enable people to download the reports and take it to their doctors and pharmacists to discuss the most cost-effective treatment options.

Each month, the site will report on a different category of drugs. Some of the first reports released covered cholesterol-lowering medications, heartburn and acid reflux treatments, and anti-inflammatories used to treat arthritis.

For example, its cholesterol-lowering drugs report showed that consumers could purchase generic drugs for \$1 a day, compared with more expensive drugs costing up to \$4 a day that were not necessarily safer or more effective. When justified by the evidence, the organization will choose a “Best Buy Drug” in any given category.

“One of the most serious problems in health care today is that tens of millions of Americans aren’t taking the medicines they need, in large part because they can’t afford them,” says Joel Gurin, executive vice president of Consumers Union. “By identifying lower-cost medicines that are every bit as effective, we hope to change that. We also hope the drug industry will compete more aggressively on price when consumers begin to migrate to effective and safe drugs that are also more affordable.” For more information, go to <http://www.CRBestBuyDrugs.com>. **RW**



Ask Mike

Fine-tuning retirement portfolios

Third in a series

Over the last few weeks, we have discussed the topic of asset allocation and how one might go about creating an allocation of investment assets into different categories. We started by examining asset allocation conceptually, and last week we reviewed different investment techniques for implementing asset allocation strategies. Since there are so many possibilities with respect to investment vehicles, I will lay out some different methodologies starting with the most general and then getting more specific.

This week, let's talk about some specific investments

for two potential portfolios that we have discussed before:

- Pre-retirement Portfolio – 5 years before you retire and
- Post-retirement Portfolio – 5 years after you retire

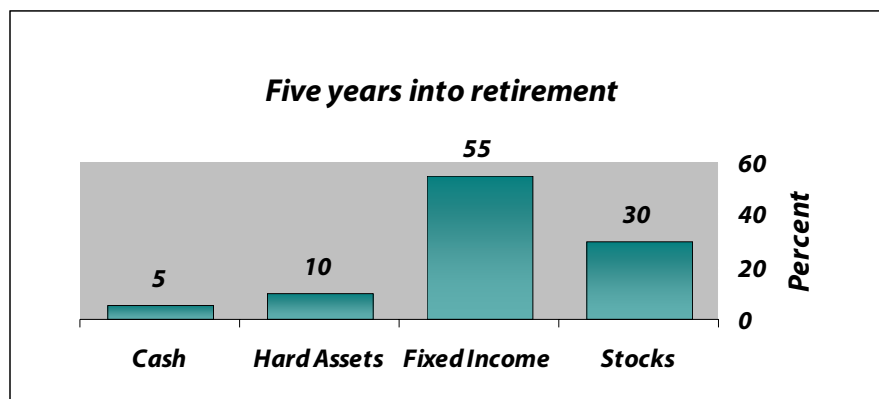
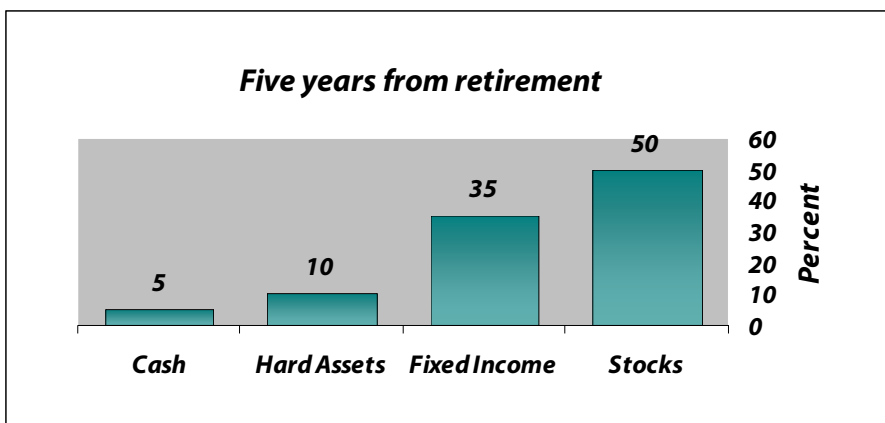
We will use the asset allocation that we discussed in the Nov. 19, 2004 issue (See graphs.)

The idea behind these asset allocations for both the pre-retirement and post-retirement conservative portfolios is to provide some diversification to your retirement portfolio. By owning

a mix of stocks, bonds and hard assets, a portfolio can generally withstand severe gyrations and fluctuations in the markets. In order to provide this diversification, there are some investments that can inherently provide diversification within these asset classes. The purpose of this approach is to follow the markets in a passive, "follow the indexes" approach.

In the Nov. 19th, 2004 issue we proposed a 50 percent stock, 35 percent fixed income, 10 percent hard asset and 5 percent cash portfolio for people who are five years

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Ask Mike

Fine-tuning retirement portfolios

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from retirement. Here is one way to accomplish that result.

First, leave the cash in a money market fund.

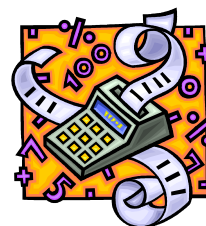
Second, for the 50 percent share of equities in your portfolio, consider purchasing the iShare for the Dow Jones US Total Market Index (IYY). This ETF is designed to represent approximately 95 percent of the investable assets with respect to the US equity market. It represents large capitalization, medium capitalization and small capitalization equities. It is a broad-based proxy for the entire US market, and it generally has low expense ratios and trades like an equity but tracks the broad based Dow Jones Total Market Index.

Third, consider purchasing an index fund for an aggregate bond index such as the iShare Lehman Aggregate (AGG). This ETF seeks investment results that generally correspond to the US Investment Grade Bond Market as defined by the Lehman Brothers Aggregate Index. It has a low expense ratio and trades like an equity.

Finally, with respect to the 10 percent allocation to hard assets, consider purchasing the Oppenheimer Real Asset mutual fund (QRAAX). This fund is a mutual fund and does have loads and higher fees than index type funds. However, it has historically provided good performance against commodities measures, which is difficult to obtain without trading futures. Hard assets are typically a tougher asset class to emulate than traditional stocks and bonds.

The aforementioned allocation is fairly straightforward and its cost of implementation are minimal. It provides a reasonable way of diversifying a portfolio across large parts of the US bond, stock, and commodities markets. Of course, it does not cover ever single asset class. For example, one might argue that more international exposure might further diversify this portfolio. One could also argue that there are enough large capitalization stocks which are multinational corporations that, in turn, provide this exposure, which balances the lack of direct international exposure.

Of course, there are different ways to further explore asset allocation and portfolio diversification, and we will explore that in coming issues. Of course, the more complex the allocation, the more complicated and potentially costly, so the above allocation is proposed as a reasonable approach from a cost and diversification perspective. **RW**



About Mike Finer

Michael S. Finer, a certified public accountant, a certified financial planner®, and a chartered life underwriter, is president of Salem, Mass.-based Major League Investments Inc. Robert Powell is a minority shareholder in the firm. **Email “Ask Mike” questions to michael.finer@majorleagueinvest.com or call 978-740-1011.**

And the surveys say...

Survey: The rich are underinsured

The super-rich are underinsured, says a new report by AIG American General's Independent Advisor Network. The study suggests that 35 percent of the super-rich, those with \$100,000 to \$1 million in assets, relied on average on \$250,000 term insurance policies.

Not surprisingly, Dick Miller, president and CEO of the AIG American General's IAN, says that's hardly enough, for the wealthy to protect and grow their assets.

Other findings about super-rich: 20 percent own businesses; 75 percent have children; 38 percent are

willing to scale back as much as 10 percent to ensure an adequate next egg at the time of retirement, while 27 percent are willing to scale back 20 percent. For a copy of the report, go to <http://www.aigag.com/ian>.

Pre-retirees nervous about 2005 income

Many Americans, especially pre-retirees, are nervous about the U.S. economy and their income. The percentage of Americans who expect the economy to do better in the coming year has dropped to 33 percent this year from 47 percent last year, says Thrivent Financial for Lutherans, Minneapolis.

Also, only one in two (47 percent) Americans thought their finances would improve in the coming year. That's down from 57 percent.

The researchers also found that 20 percent of Americans are expecting their family income to drop in 2005. That percentage has increased from 10 percent a year ago.

Those most apt to feel their 2005 financial well-being will diminish include those separated, divorced or widowed (56 percent), those who never attend religious services (53 percent), pre-retirees age 50-64 (49 percent), those with income of less than \$35,000 (49 percent), females (47 percent) and Northeasterners (47 percent).

Thrivent analysts are blaming the growing pessimism on rising consumer debt levels, rising health care costs, expectations that interest rates will rise and the falling value of the U.S. dollar. The study can be found at <http://www.thrivent.com>. **RW**

Survey: 92 percent of small business employees like 401(k) plans

About two-thirds of small business employers provide a company-sponsored retirement plans vs. 95 percent of large companies, says a new survey released by the Transamerica Center for Retirement Studies. Larger firms are also more likely to offer a company match, provide more investment choices, and have more staff resources to review and monitor plans, the group said.

The report showed that 54 percent of small business employees would choose an average paying job that provides excellent retirement benefits over a high paying job with fewer retirement benefits. Of small business workers without a plan, more than half would leave their current company to take an identical job with a company that offers a plan. And while 92 percent of these workers view a 401(k) or similar plan as important, only 75 percent of employers believed their employees felt this way. Read the survey <http://www.ta-retirement.com/thecenter>.

Best of CBS MarketWatch

- **Retiree health benefits safe — for now: survey**
<http://cbs.marketwatch.com/news/story.asp?guid={62CF1422%2DA36B%2D42DB%2DAED5%2DC7AAF085777E}>
- **Ten questions test retirement preparedness**
<http://cbs.marketwatch.com/news/story.asp?guid={DF7C5B0A%2DB4B9%2D4391%2DAC08%2D427DE46DC96E}>
- **Critics: Borrowing for Social Security a bad idea**
<http://cbs.marketwatch.com/news/story.asp?guid={48716388%2DA969%2D46EB%2DAFCE%2D8826AE68694A}>
- **When retirees work for their kids, ground rules are key**
<http://cbs.marketwatch.com/news/story.asp?guid={97DC41FA%2D8D61%2D4AE5%2DA3C8%2DB31BCF37F13A}>
- **10 dividend-paying stocks for the long term**
<http://cbs.marketwatch.com/news/story.asp?guid={5FA89CA8%2D293B%2D48C7%2DB24B%2D2B0A3D65497B}>

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For reprints of a story within *Retirement Weekly*, or the entire issue, please e-mail marketwatch@reprintbuyer.com or call (717) 399-1900 x104. Samantha Soga, newsletters assistant, contributed to this week's issue. Thanks, as always, for spending time with *Retirement Weekly*.




Robert J. Powell III is President of Unison Associates LLC, a Salem, Mass.-based financial education, communication and consulting firm. Powell, who has more than 20 years of experience in the financial services industry, is also co-author of "Decoding Wall Street" and executive producer of PBS' "More Than Money." Previously, Powell served as editor in chief of DALBAR's *Mutual Fund Market News* and columnist for *The Boston Herald*. Powell owns no shares of any investment mentioned in this week's issue. He currently provides consulting services to the Financial Planning Association and Major League Investments, in which he also holds a minority interest.

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