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THE KELEMEN-WAY FINANCIAL PERSPECTIVE

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Thinking Through The Complexity Of The New Medicare Prescription Coverage

We have been advising clients for a combined total of 36 years. Never have we seen anything so complex and confusing as the new Medicare Prescription Plan—the so-called "Part D." Here is a quick overview and some very basic guidelines for yourself or to assist you with your elderly friends and relatives.

What is it?

Part D is an entitlement program to provide prescription drug coverage to all those eligible for Medicare benefits, regardless of their incomes. In our opinion, it provides subsidized catastrophic coverage for those that currently do not have a prescription drug benefit. The November 15 *Oregonian* calls it a "mammoth subsidy allowing private insurers to market and administer their own drug plans."

Those 65 and older select either the plan offered by Medicare or one offered by a private company, which is subsidized by the government. Medicare estimates that the monthly premiums will be about $32.50 but some plans cost less, and some more. **The complexity and all the available choices can be overwhelming, especially for the elderly. Just in Oregon alone, there are 20 companies with a combined total of 45 choices! And they aren't apples-to-apples comparisons.**

So, how does this pencil out? That really depends upon the full retail price of your current prescriptions, <u>and</u> what they may be in the future. Assuming a $25 per month ($300 annual) Part D premium, the chart on page 2 shows some examples (with rounding).

HOW THE COVERAGE WORKS

Prescription Costs Per Calendar Year	Member Costs Per Calendar Year
First $250 Member pays*	-$250
Next $2,000 Ins. Pays 75% Member pays 25%	-$500
The "Donut Hole"** Member pays next $2,850	-$2,850
$5,100+ Ins. Pays 95% Member pays 5%	———
	TOTAL: $3,600
	+ 5% of all costs beyond $5,100

**Some plans waive the deductible. **Some plans pay all of these expenses*

Of course, your actual benefit depends upon the plan you select and its premiums. Not all plans cover the same prescriptions equally. Each plan will have a formulary of two or three tiers: 1) generic; 2) preferred brand; and 3) non-formulary. In other words, less generous plans will pay for generic prescriptions and some preferred brands, but maybe no payments for the non-formulary medications. You'll need the three-tier plans for this coverage. **We highly recommend that you choose a plan with a 3-tier benefit.** And guess what—the formularies for most plans haven't been published yet! Now do you see why we say it is confusing?

Signing Up

- If you are already 65 or older <u>and want</u> prescription drug coverage you will need to join a plan between now and May 15, 2006.
- For coverage to begin on January 1, 2006, you must sign up by December 31, 2005. Otherwise, coverage starts the month after you sign up. **After May 15, 2006 you must wait until January 2007 to enroll.**
- If you are already on Medicare and do not meet the May 15 deadline, you will have to pay higher premiums when you finally sign up. The longer you wait, the greater the cost—projected to be 1% of Medicare's monthly cost per month of

Continued on page 2.

delay, retroactive to January 1, 2006, and based on the Medicare suggested price of $32.50/mo (thus a $0.325/mo penalty).

- **This penalty does not apply if your current prescription plan is equal to or better than the new Medicare coverage.** (Most of the ones we have seen so far appear to be better.) Insurance companies and employer health plans were required to notify potential beneficiaries by now if their plan is "comparable" or exceeds the Medicare Part D Plan. If you haven't received that notice yet, you can call Medicare at (800) 633-4227 to see if your current coverage is at least as good as Medicare's. If it is, then you can relax and take no further action unless you want to improve your existing coverage. Be sure to save that notification—you may need it as proof in the future!
- You can sign up online at www.medicare.gov; by calling (800) 633-4227; or by dealing directly with the private carrier you choose.

SAMPLE COST AND BENEFITS

Assumes $300 Annual Premium, not adjusted for inflation

Annual Prescription Costs	Total Out of Pocket Costs	Benefit
$ 600	$ 662	$ (62)
$ 1,200	$ 787	$ 412
$ 3,600	$2,400	$1,200
$ 4,800	$3,600	$1,200
$ 6,000	$3,945	$2,055
$12,000	$4,245	$7,755

Other Considerations

- To get better prescription coverage and the government's subsidy of drug coverage premiums, consider dropping Medigap policies that include drug coverage—Plans H, I, and J—and downgrade to a lesser Medigap policy, such as Plan F, with the selection of either Medicare's or a private plan's prescription coverage.
- **Don't analyze your options based entirely on your personal situation today. Yes, you have your health today, but where will you be 10 years from now? Think about inflation. Drug costs will undoubtedly go up each year, and so will the premiums.** The 1% penalty for procrastination may not seem like much now, but 10 years from now you would need to pay an extra $39 per month. Add that to a projected premium of about $71 (which is what $32.50 increases by with 8% annual inflation), and your total premium could be $110. Will you be more able or less able to afford the premium then, on top of all of the other out-of-pocket expenses?
- If you have a Medicare Advantage Plan (the HMO version of Medicare), your Part D plan must also be through your Medicare Advantage Plan carrier.
- These benefits are based on a calendar year, so plan for "The Donut Hole." If the retail costs of your prescriptions are $400 per month, you will need to come up with $400 per month from June through September.
- **When in doubt, sign up for the benefit.** It's better than nothing, and it may save you a lot of money later. The money you save can be given to your heirs who are the ones who will be stuck with the deficit caused by what the Congressional Budget Office estimates to be the $858 billion price tag of the plan over the next 10 years.

Action Steps

- ❑ Check the cost and coverage of your present policy.
- ❑ List what prescriptions you take, and their full retail costs. Your pharmacist can give you a print out. Your doctor can advise you about your long-term prognosis for needing certain medications based on your current health, age, and family history.
- ❑ You can enter your personal data and get estimates at www.medicare.gov to compare plans and narrow choices.
- ❑ Don't make any quick decisions, and seek help from disinterested parties. **Please feel free to give us a call if we can further assist you in this regard. If we don't know the answer, we'll try to find someone who does.**

Does Your Retirement Planning Agree With Your Estate Plan?

Mary delivered a well-received presentation to the Willamette Valley Estate Planning Council in October entitled "When The Estate Planning Rubber Hits The Retirement Planning Road." Using real life examples of what can go wrong, the basic premise is that retirement and estate planning need to be coordinated with each other and that changing circumstances during retirement can quickly make a carefully crafted estate plan outdated. Here are 14 examples of where these situations can occur:

1. Second or subsequent marriages
2. Significant difference in ages between husband and wife
3. Illiquid or personal assets (such as a residence) that are a large part of the total net worth
4. Irrevocable trusts (such as Charitable Remainder Trusts, Insurance Trusts, etc.) that contain securities subject to market risk
5. Irrevocable trusts growing in size faster than living trust/joint assets
6. Changes in retirement goals and spending patterns, especially those that exceed the original planning assumptions
7. Changes in circumstances of adult children
8. Large retirement plan balances that bypass the will or living trust.
9. The use of the stretch IRA beneficiary rules, without regard to the ability or willingness of heirs to actually use them
10. The impatience of stepchildren who want their inheritance while the survivor of that second marriage needs the assets for retirement
11. A desire "not to touch principal" but still have high lifestyle expenditures
12. Risk level in current portfolio does not match current lifestyle expenditures
13. Unrealistic or unrealized assumptions about the growth of the estate's total value
14. Changes to estate tax laws, making a well-designed plan from 10 years ago obsolete, cumbersome, and complex.

Working with your attorney, we can help you minimize, if not eliminate, some of these conflicts. Please call us to schedule a meeting to review your planning to date and potential strategies to keep your retirement and estate planning in synch with each other.

'Tis The Season To Plan Ahead

Let's face it—everybody wants a piece of you at this time of year. Shopping, family, social obligations, or recitals are layered on top of your normal work and regular activities. But tax planning and thinking about your future also deserve your attention before year-end. Here are some things to consider.

Charitable Contributions

Between the tsunami, Katrina, Wilma, and the Pakistan earthquake, we've certainly had our share of disasters and donor fatigue. However, a new law may make some last-minute contributions a little easier to make. The Katrina Emergency Tax Relief Act of 2005 provides you with an opportunity to make fully deductible charitable contributions without being subject to either the 50% limitation or the 3% phase out of charitable contributions within your itemized deductions. This affects you if your Adjusted Gross Income (AGI—the number at the bottom of page 1 of your form 1040), exceeds $145,950. To qualify, the donation must be made between August 28 and December 31, 2005. It must be cash (not in-kind) to a public charity. It cannot go to a donor advised fund or your private foundation.

Retirement Plan Contributions

If you have a retirement plan with voluntary contributions, you need to make your voluntary contribution before year-end. For 401(k)s, if you are under age 50, that amount is $14,000; $18,000 if you are 50 and above. For SIMPLE IRAs the amounts are $10,000 and $12,000 respectively. Start thinking about next year—the 401(k) amounts increase to $15,000 for the youngsters and $20,000 for those of us over 50. The SIMPLE only increases by $500 for those over 50. If you don't already have one, maybe it's time to think about switching to a 401-k in early 2006.

Dividends and Capital Gains

The Federal income tax on dividends and long-term capital gains is 15%, and only 5% for low-income taxpayers. This suggests a college funding strategy for older children in college or knocking on its door. Give the shares to them as an income tax-free gift. They could turn around and sell them at their lower tax rates. Their cost basis would be yours.

If you have dividend-paying stocks in a margin account and even if you never margined any stocks, you still may not qualify for the lower Federal 15% dividend tax rate if the brokerage firm loaned your stocks to another customer for short sales—a very common practice. Thus, it's best not to have a margin account unless you really use it to margin stocks.

Annual Exclusion Gifts

If you wish to take advantage of the $11,000 annual gift tax exclusion, you need to do so by December 31. This is the amount you can give tax-free each year over and above your $1,000,000 lifetime gift tax exclusion. You and your spouse could give, say, your child and his spouse, a total of $44,000 in 2005. The annual exclusion amount increases to $12,000 per donor per recipient in 2006.

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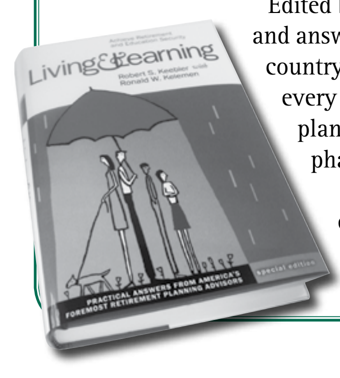
Looking For A Last Minute Gift Idea?

Do you know somebody saving for college or retirement? How about giving the gift of knowledge with a copy of *Living and Learning: Achieve Retirement And Education Security – Practical Answers from America's Foremost Retirement Planning Advisors*?



Edited by national IRA expert Bob Keebler, CPA, and written in question and answer format by Ron and 41 other financial advisors from across the country, this 544 page special edition reference book addresses just about every question you could have pertaining to retirement and education planning. It's perfect for someone starting out on life or trying to phase into retirement.

We still have a few copies available. If you would like a copy, please make at least a $25 donation to the charity of your choice, then contact Lani at office at 503-371-3333 to arrange for the delivery.

THE KELEMEN-WAY ADVANTAGE

Ron Kelemen and Mary Way are independent Certified Financial Planner™ certificants and jointly serve their clients as a team with over 35 years of combined experience. Their fee-based practice focuses on wealth planning and management for professionals, business owners, and retirees. Together, they have developed The Planning Vision Process® and several other unique processes. They are both advisory associates of The H Group, Inc., one of the largest independent fee-based registered investment advisory firms in the Northwest with 18 professionals and over $600 million under active management. They and their new associate, Alex, are also registered with Financial Network Investment Corporation, (unaffiliated with the H Group, Inc.) a national broker-dealer with offices throughout the United States, Member SIPC.

About Ron Kelemen, CFP®

In practice since 1981, **Ron Kelemen, CFP®** is a contributing author of three financial planning reference books. His latest one, *Living and Learning—Achieve Retirement and Education Security* was just published by Quantum Press in July. He is Past President of the Willamette Valley Estate Planning Council, active in mentoring and in several local charities, and is frequently quoted in the national press.

About Mary Way, CFP®, CPA

Mary Way, CFP®, CPA is a professional team member on Ron's team for 11 years. She is also a non-practicing CPA with 16 years experience in banking, business, and finance. She is active in Salem Rotary, the Financial Planning Section of the Oregon Society of CPAs, The Oregon Financial Planning Association, and The Willamette Valley Estate Planning Council.

About Alex Sheppard, MBA

Alex Sheppard, MBA is the newest member to the team. He has a variety of experience in financial services, including four years as an analyst with a major mutual fund company.

Team Update

We're busy wrapping up year-end business for our clients, trying to adjust to some new technology, learning what we can about the new Medicare plan, and trying to get into the holiday spirit. We are working on an exciting change in our business model, which we will announce in 2006.

Lani and husband Jim took a quick road trip with their middle son, Eli to visit their oldest son and his family who are serving with the Navy near Monterey Bay. A couple of weeks later they sent Eli off to spend the next two years serving as a church missionary in the Houston, Texas area.

Debbie just quietly slaves away processing paperwork and client service requests. She and husband Bob enjoyed their annual long weekend trip to Long Beach, WA with friends.

Alex passed his CFP exam on taxation. Only two more units to go before the final exam! He may set a record at his current pace. He visited his girlfriend in New York and attended a friend's wedding in San Francisco.

Mary made a well-received presentation to the Willamette Valley Estate Planning Council about the conflicts between retirement and estate planning. She is now buried in data as an active member of The H Group, Inc. Investment Policy Committee. Her newest activity is reading weekly to two Hoover Elementary school children as part of the SMART reading program. She and husband Steve enjoyed a quick family reunion to Minnesota in October.

Ron completed his term as President of the Willamette Valley Estate Planning Council. He was quoted in several professional journals. One of the articles profiled *Kelemen-Way Perspectives*—how we do it and the topics of our articles. Ron's big accomplishment was pedaling 480 miles in one week from eastern Oregon to Astoria as part of Cycle Oregon. It gets better by the day, he reports. In addition to his quarterly Chicago conference, Ron and Kathy traveled to Philadelphia and Boston to visit their three daughters in college. **Kathy** completed her co-chairmanship of the Assistance League's annual Cooks Tour fundraiser in September. It was a big success, but Ron says it's nice to have her back.

'Tis The Season To Plan Ahead . . . continued from page 3

Alternative Minimum Tax

This is way too complicated to explain in even an entire issue of *Kelemen-Way Perspectives*. But more and more taxpayers are caught in the AMT net each year. **As with many other year end tax-planning items plus the ones mentioned above, the best possible tax advice we can give you is to meet with your tax professional just as soon as possible before year-end.**

Minimum IRA Distributions

If you are over 70 ½, you must take your annual distribution by December 31, 2005. The amount is based on your joint life expectancy and the January 1, 2005 account value from all your retirement plans. We believe that all of our clients have either taken theirs or will have received their distribution by year-end. If you have retirement plan accounts elsewhere, you should verify that you have taken the correct amount. Otherwise, the penalty is 50% of the amount you should have taken.

THE H GROUP, INC.
The Independent Wealth Management Firm™
The Kelemen-Way Financial Perspective
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New Rules Affect The Practice of Financial Planning

Starting January 1, 2006, new rules from the Securities and Exchange Commission (SEC) will dramatically affect advisory relationships. Anyone practicing as a financial planner or investment advisor (or holding oneself out as one) must be registered as an investment advisory associate and must act as a fiduciary where your best interests always come first. **For some brokerage and insurance firms this is huge. For us this is no change from our normal business practices.** We are registered with the SEC as advisory associates and operate under fiduciary standards. We walk the talk when it comes to financial planning and full disclosure. We don't sell proprietary products or deal out of inventory.

Under most interpretations of the rules, no longer can anyone in a brokerage firm show you retirement projections or offer financial planning advice– except purely "incidental" advice—unless that person and firm are SEC registered fiduciaries and you have signed an advisory agreement that clearly spells out all potential conflicts of interest. Therefore, if you are working with another "advisor" or financial consultant, you may want to make inquiry into your existing relationships before year end and make appropriate changes if necessary to get advice that is more than "incidental" to your future.

Financial planning isn't any one specific investment, tax strategy, or an end product. Rather, it is a process, and a structured way of thinking about important issues that have financial implications. The questions it asks and helps answer are all about the rest of your life, which clearly are not "incidental" to a brokerage account. They deserve at least as much of your attention as planning your holiday dinners. So take ownership of your future by taking action to create a written financial plan under fiduciary standards in early 2006.