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THE WEALTH MANAGEMENT FIRM

THE KELEMEN, WAY & SHEPPARD
financial PERSPECTIVE

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Seven For '07

Happy New Year! By now, if you are like most people, your have either "fallen off the wagon" with your New Year resolutions, or you have totally forgotten them—assuming you made any at all. So here is your second chance. Studies show that most people can recall no more than seven items in a series. So, instead of a top 10 list, here are seven things to help you get back on track with your financial planning (and maybe your life?) in 2007.

1. Ask yourself two questions: "What would make this a really great year?" & "Where do I want to be five or ten years from now?"

The first question is probably easier because it is more incremental, and within reach. More time with your spouse and family? Less debt? More money in education and retirement accounts? A specific vacation? A home remodel? Earn more money? Lose weight?

The second question is much harder. **Thinking beyond five years forces you out of the incremental mode and to think out of the box.** Do you see yourself doing the same job or recreational activities? Do you see yourself living in the same home? Do you see your children in college without big debt loads? What about the quality of relationships with your spouse and children? Do you see yourself retired or working part time? And if so, what will you do with that extra time?

Write these down, then—most importantly—prioritize them. Some of your goals may be contradictory, such as more money vs. time with your family. Rethink your one-year goals in view of the longer-term ones—let them drive the shorter term ones. What do you need to do this year to get started on your five or 10-year goals?

2. Ask, "What can I do to achieve these goals?"

It's one thing to write them down. It's quite another to develop a plan of action to meet them. Not everything takes money, such as taking the stairs instead of the elevator, a game night with your family, a date night with your spouse, or a commitment to be home by a definite time every evening. But for those financial items, just how much money will it take to reach them? How much do you need to set aside every month to make these important goals a reality? That leads to the next one:

3. Discover your "number."

How much do you need to safely "retire" or to be financially independent? After establishing your goals, this is of the most important questions you can ask. Without this specific knowledge, at least one of five things may happen:

- You keep working out of fear that you won't have enough, never realizing that maybe you already do.
- You spend too much, thinking that you'll have plenty of money later on.
- You are unwilling to spend money and enjoy the fruits of your labor.
- You take unnecessary risks with your money or invest too conservatively because you don't know how much you need.
- You are reluctant to make important charitable gifts or make life insurance and estate planning decisions for your family because you don't know if you can afford to commit any assets to them.

Retirement starts with a vision, followed by careful planning and consistent investing. It's also a confidence game. You really won't be able to fully enjoy retirement if you lack the confidence that you have done all that you needed to do. That's where we can help.

4. Manage your risk.

Financial planning is about protecting what you already have, then building upon it. All too often we tend to think about risk only in terms of malpractice, investment risk, or auto insurance. But you also face risks of loss of health, disability, natural disasters, identity theft, competition, injury, stress, and much more. We can't eliminate all risk from our lives, although we can avoid a few of them such as skydiving. The rest must be either managed or transferred to a third party via insurance.

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Paying For Long-Term Care

Although we are licensed to give advice about it, we no longer sell insurance because we are a fee-only (no commission) firm. And when we did sell insurance, long-term care insurance was the most difficult sale to make. Clients were either in denial that they needed it, confused by the options, disqualified for medical reasons, or scared away by the cost of the premiums.

Lately we have noticed an increase in the number of people asking us about long-term care options. Chalk it up to getting older, caring for aging parents, or seeing what happens to friends and acquaintances that can no longer live independently. The long-term care industry has undergone many favorable changes over the past few years, and the tax code is making it easier to purchase a policy. (More about that in the future.)

Do you need it?

Today's 65-year-olds have a 9 in 10 chance of living to age 81, according to the Department of Health and Human Services.[1] We're all living longer, but not necessarily better in our later years. According to the National Center for Assisted Living, nearly half of all Americans will need long-term care at some point in their lives.[2] This can take place at home or in an assisted living facility, or a nursing home. Unless you're blessed with a relatively quick death, it's just a matter of time, what level of care, and who provides it.

So let's assume that you will need some. **The first decision is whether or not you are going to self-insure or transfer some of the financial risk to an insurance carrier.** You need to know if your portfolio can sustain the extra demands on it and whether or not you want to leave any assets for your heirs. Your health, family history, and a lot of other factors come into play. But getting a handle on the costs is a good first step.

How much does it cost?

According to a composite of surveys conducted in 2006 by four companies[3], the average daily cost of nursing home care was $191 per day, and more skilled intensive care can cost far more. Assisted living averaged $102 per day. Home health care costs averaged $18 per hour ($432 for 24-hour in-home care).

So, let's split the difference between nursing home care and assisted living and assume today's costs are about $150 per day. That's $54,750 per year in today's dollars, and costs have been inflating by at least 7% per year.[4]

TABLE #1
Duration of Stays on LTC Claims On Patients Over Age 65[6]

DURATION	% OF CLAIMS
< 2 Years	26%
>2 Years	24%
>3 Years	26.2%
>4 Years	15.2%
>5 Years	8.6%

How long will you need it?

The good news is that you may not need it as long as previously thought. The average length of a long-term care stay ranges from is 2.5 to 3.1 years.[5] In many cases, a nursing home stay comes after a period of receiving home health care services. The table shows just averages. Younger, more active people have longer stays due to trauma injuries. Patients with Alzheimer's, stroke, and dementia may also require longer stays.

TABLE #2 THE POTENTIAL COST OF LONG-TERM CARE

DURATION OF CARE	TOTAL CARE COSTS Today	In 10 years	In 15 Years	In 20 Years
1 Year	$54,750	$107,702	$151,057	$211,865
2 Years	$113,335	$222,942	$312,688	$438,561
3 Years	$176,019	$346,256	$485,642	$681,138
4 Years	$247,785	$487,431	$683,647	$958,850
5 Years	$324,575	$638,488	$895,517	$1,256,009

Assumes $150 per day in today's dollars, increasing by 7% per year. Your costs could be less or substantially more.

Most of our clients could easily absorb the cost of one year of care today, and perhaps even in 20 years. Some can also handle five years' worth of care today or 20 years from now. But what if it involved two spouses? Or what if the true costs were way above the "split-it-down-the-middle" estimate of $150 per day we used? And what about the other out-of-pocket expenses for health insurance, prescriptions, Medicare supplements, etc.? As we reported in our December 2004 newsletter, those costs can range from $250,000 to $350,000 per person during retirement, depending upon your retirement age, longevity, and health insurance coverage.

What are your options?

1. **Hope for the best.** That's the American way, but our clients are much more proactive than that.
2. **"Spend down" assets to qualify for Medicaid.** Given our clients' typical income and asset base, this is simply not an option. Besides, they seek us out to achieve and maintain financial independence, the ability to leave a legacy, and freedom of choice—not planned poverty to get on welfare. And the restrictions and penalties for giving them away before needing government assistance have increased.

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1 Source: Prudential e-news and Dept of Health and Human Services 2006
2 "Consumer Information about Long-Term Care: A Guide for Families," National Center for Assisted Living, as of 2003.
3 Master Care, Metropolitan Life, John Hancock, and Genworth
4 Ibid.
5 Ibid.
6 Source: Milliman Consultants and Actuaries April 2005
7 Source: Master Care Solutions, Inc.

Savor The Moment

By now you have received your year-end account statements and will soon receive your February ones. We suggest that you dig out the comparable one from last year and compare the difference. Why? We want you to remind yourself that doom and gloom doesn't last forever, and the talking heads on the tube are often wrong. Remember 2001, 2002, and the first quarter of 2003? Or what about last year? Believe it or not, we received a number of "anxiety" calls between January and September before the market got over its indecisiveness and really took off.

Bad times don't last forever, and neither do the good ones. Save your statements from a year ago and dig them out the next time you feel a little anxious or after a market correction. Chances are, your accounts will still be higher than they were then. And by all means, please feel free to call us!

Seven For '07 . . . continued from page 1.

Think of your risks as part of the big picture and your goals. In other words, what can derail you from your goals? Then focus upon what you can control. You may not be able to control whether or not you have an aneurysm or cancer, but you can control how fast you drive, how much you exercise, how sensibly you eat, and what precautions you take to protect your identity. You cannot control the stock market or a company's quarterly earnings, but you can have a carefully constructed portfolio that better protects you through diversification.

5. Tune up your estate plan.

If you think it is difficult to deal with your own mortality now, just imagine how more difficult it will be for your loved ones if you aren't around to give them guidance. Estate planning is all about giving what you have to who you want, when you want, under your terms, with the least tax consequences and delay possible. **At a minimum, check the beneficiary designations on your retirement plan accounts and life insurance.** Update (or get!) an advanced directive. And for your loved ones, make a list of your assets and important contacts. We'd be happy to send you a Document Locator to help you with this task.

6. Cut back on financial noise.

We are all bombarded with distracting media noise on many subjects. This noise fills our spare time and distracts us from our goals. In the financial realm, all of this overload and confusion out there can be divided into a spectrum:

DATA → INFORMATION → KNOWLEDGE → WISDOM

Data and information are noise. They crowd out knowledge. And knowledge without a sense of perspective and experience cannot become wisdom. So, before you read that next financial magazine, surf the Web, or tune into that TV financial news show, spare yourself the overload and save some time and peace of mind.

7. Appreciate, Recreate, and Celebrate!

In this fast paced world and the hectic lives we all run, it is more important than ever to take the time to enjoy the life you have now. And it's great practice for retirement. Lee Eisenberg, in his wonderful new book called *The Number*, lays it out for us. The first one—know how to give something back to others—is something that nearly all of our clients know how to do. But try to focus in 2007 on the other two:

- Appreciate the importance of fun, kicking back and laughter.
- Know the value of friendship, camaraderie and support and hang around with people who give you these.

Don't have a happy new year--make it one!

Paying For Long-Term Care . . . continued from page 2.

TABLE #3
Sample Premium Costs For a "Mid-Range" LTC Policy[7]

AGE	PREMIUM
45	$1,148
50	$1, 247
55	$1,433
60	$1 727
65	$2,187
70	$3,230
75	$5,065
80	$7,944
85	Too Late

Assumes $150 daily benefit for 3 years with compound inflation rider, 90-day elimination period, and " both spouses applying" discount.

3. **Self-insure.** Set aside at least $54,750 (the mid-range) to $70,000 (current cost of nursing home care) for each year you anticipate needing it. Make sure it grows by at least 7% per year. Be psychologically prepared to dip into your assets when the time comes. Don't forget to include coverage for your spouse in the calculation.
4. **Long-term care insurance.** If you can qualify, transfer the risk to an insurance company, freeing up other assets for enjoyment or a legacy. Table 3 shows some sample annual premium costs.

Please let us know if we can assist you in this decision-making process. Even though we are fee-only and will not accept any commissions, kickbacks, or other compensation from insurance companies and agents, we will be happy to assist you in finding what is best for you.

Next issue:
Making sense of all the LTC insurance options.

The Team Advantage

Ron Kelemen and Mary Way are independent Certified Financial Planner™ certificants. Together with Alex Sheppard they jointly serve their clients as a team with over 37 years of combined experience. Their fee-only 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 advisory associates of The H Group, Inc., one of the largest independent fee-only registered investment advisory firms in the Northwest with 18 professionals and over $900 million under active management.

About Ron Kelemen, CFP®

In practice since 1981, **Ron Kelemen, CFP®** is a contributing author of three financial planning reference books. *Medical Economics* listed him as one of the 150 best financial advisors for doctors. He is active in Salem Rotary, mentoring and in several local charities, and is frequently quoted in the national press and professional journals.

About Mary Way, CPA, CFP®

Mary Way, CPA, CFP®, 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 sits on the Investment Policy Committee of The H Group, Inc. and is on the board of the Willamette Valley Estate Planning Council. She is active in Salem Rotary and the Financial Planning Section of the Oregon Society of CPAs.

About Alex Sheppard, MBA

Alex Sheppard, MBA joined the practice in March 2005, and has passed his CFP® comprehensive exam. He has a variety of experience in financial services, including four years as an analyst with a major mutual fund company. He is a active in the Salem Area Chamber of Commerce and serves on the board of South Salem Rotary.

TEAM UPDATE

We all managed to wrap up a huge volume of year-end work and take some extra time off for the holidays. We hope you did, too. Now it's tax season, and we're leaving our schedules open to take CPA and client calls, and get retirement plans and IRAs funded.

Mary attended an all-day tax update in late December, and she and **Ron** attended the annual Portland Estate Planning Council conference in January. **Ron, Mary,** and **Alex** attended the annual two-day Financial Planning Association conference in February in Vancouver, WA. Sitting still all day, taking notes and trying to stay awake is harder than a day at the office!

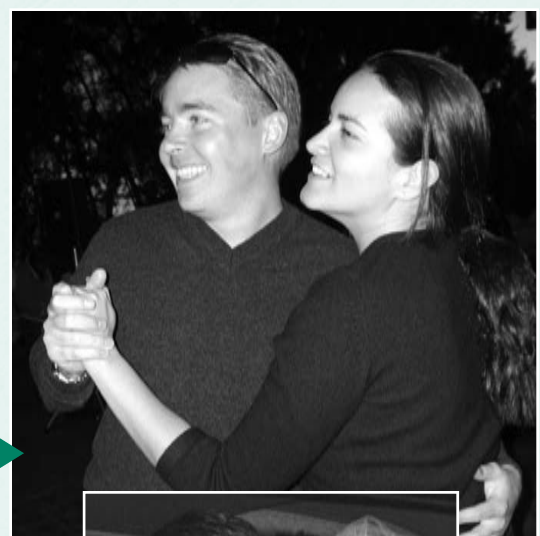
Lani consolidated and renovated all of our office contact information, which had been spread between two databases. She enjoyed having six of her eight grandchildren (and their parents) visit for Christmas. She already has tomatoes and other seedlings started for her spring garden.

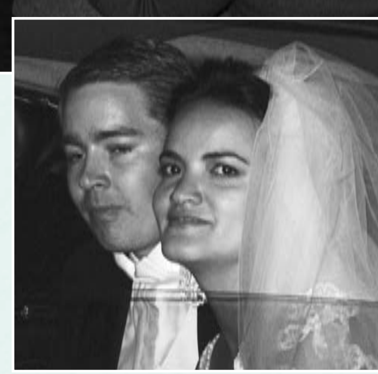
Debbie is the workhorse behind all of the IRA minimum distribution and tax information sent to our clients, plus a mountain of paperwork on some 401-k plans we are taking over. She and Bob enjoyed their traditional January weekend in Seattle with friends.

Mary and husband Steve have completed the purchase of their home in Silverton, and their Salem home is still for sale. They will wait to complete their packing and moving until the current home is sold. Already, though, the community of Silverton has welcomed them warmly as "locals," and Mary has started finding her way around town. She and Ron presented a well-received talk to the Salem Rotary based on the lead article of this newsletter.

Ron was quoted in *Financial Planning* magazine on the topic of increased Medicare premiums, and he attended his quarterly Strategic Coach conference in Chicago, luckily dodging the winter weather. Kathy had shoulder rotator cuff surgery January 2 and is still in a sling but making progress. They hosted a couple of Ukrainians from Salem's sister city delegation from Simferopol, took the train to Seattle with friends to hear the Seattle Symphony, and spent a long weekend with friends at Sunriver, where Ron got in a couple of great days on his snowboard at Mt. Bachelor.

Alex celebrates his 2nd anniversary with us on March 1. He and his new bride Virginia had their formal church wedding in Caracas,Venezuela January 5. He said the party afterwards was the best of his life, lasting until 4:00 a.m., with many guests, lots of food, and fun music. They honeymooned on the Caribbean island of St. John. Holding a post-baccalaureate and masters in art history, Virginia is currently doing an internship with the Portland Art Museum.





Alex and Virginia.

They're Big, We're Huge and Free

According to the US commerce Department, the US economy grew by $2.3 trillion over the last 3 years (2004-06), reaching $13.5 trillion as of 12/31/06. China's economy, now the 4th largest in the world, is worth $2.3 trillion—the same amount of our growth. Even if the Chinese economy grew by an unlikely 20% per year over the next 10 years and ours grew by only 3%, they still could not catch up to us. And any country that censors Internet pages and suppresses creativity and political freedom cannot sustain robust economic growth in the long run.

ADDRESS REMINDER

Our address has changed. Please remember that we no longer use a post office box. Simply use our street address: 960 Liberty Street SE, Suite #210, Salem OR 97302. *Thanks!*

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