

## What is Long Term Care (LTC)?

Long Term Care includes a wide range of medical and support services for people with a degenerative condition (e.g. Parkinson's, stroke, etc.), a prolonged illness (cancer) or cognitive disorder (Alzheimer's).

Long Term Care is not necessarily medical care but rather "custodial care." Custodial care involves providing an individual assistance with activities of daily living or supervision of someone who is cognitively impaired.

To better understand Long Term Care, think of the activities that you performed when you woke up this morning. You probably:

- Climbed out of bed
- Walked to the bathroom
- Used the toilet
- Used the bath or shower
- Got dressed
- Ate breakfast

While we are healthy it is easy for us to take for granted the above Activities of Daily Living (ADL's). However, when you or a loved one is stricken with a degenerative condition such as a stroke or Alzheimer's, performing these ADL's becomes impossible without the assistance of another person.

This type of care is Long Term Care. It is the same type of care that a parent must provide for their new baby. This type of care is chronic (full-time) and thus becomes very expensive. Long Term Care can be provided in many settings including nursing homes, your own home, assisted living facilities and adult day care.

**Why is there a need for Long Term Care?** People are living longer. Due to advances in modern medicine and life-style changes, the number of people over the age of 65 is projected to double by the year 2050. Each year the U.S. elderly population continues to grow. In fact, the 80-plus segment represents the fastest growing segment of the population.

As Americans take care of themselves through a healthy diet and exercise, they are increasing their projected longevity. Unfortunately, as people age, they are more likely to suffer from chronic illnesses such as strokes or Alzheimer's. Statistically, Americans over the age of 65 face a 40% risk of entering a nursing home for Long Term Care services.

Another reason for the recent public focus on Long Term Care is the changes impacting families. Years ago, most elderly depended upon their family (*continued on page 3*)



## Interest Rates

*By Jeff Hahn*

Interest is what one pays for the use of another's money. When a person, business, bank or government borrows they pay interest. The interest rate is the amount they pay, on an annual basis, for the money borrowed. Typically, when a corporation or government borrows for long periods of time they issue what are called bonds. A bond is a printed certificate that states the parties involved, the amount borrowed, when it will be paid back and the interest that will be paid in the mean time. It's called a bond because it's a promise from the borrower to the lender - "My word is my bond". Put another way, a bond is an IOU.

As has been widely publicized, interest rates have fallen significantly, especially over the last 2 years. It's important to keep in mind though that there are short term (less than one year), intermediate (one to ten years) and long term rates (ten years or more) and that numerous factors effect them. Money market rates are short term and move very quickly. For instance, money market accounts were paying in the mid to high six percent range only two years ago, now they are around one percent. Those of you who have bank savings accounts have seen the rate come down substantially over the same period.

Long term bond rates tend to move more slowly. Treasury Bonds, issued by the U.S. Government, are in the three to four percent range. But a significant point to realize is that bonds are traded amongst investors on a secondary market, much the same as stocks are. So the price that investors are willing to pay for a bond and thus the effective interest rate of that bond is set by the "bond market". Collectively, this secondary market activity establishes long term interest rates.

If all of this seems rather complex – it's because it is. But the key points are that income producing investments' such as bonds, bond funds and fixed annuity contracts earn money for the investor by collecting interest. These can form the foundation for a capital preservation investment strategy. There are many approaches to this type of investing.

*Quality fixed income investments have a place in most portfolios, especially now. Establishing this investment strategy for you is something we can help with.*

# *A personal letter from Joe*

*Dear Friend,*

*I don't know what it is about this time of year, but it really puts a jump in my step. Thanksgiving through New Years is like a whirl wind tour. Getting to see and be around family is very important to Betsy and I. We have family in and out of town and it feels like it goes on for months - I love it!!!!*

*But there is always work to be done. Servicing our clients is always our number one priority. Balancing and diversifying your portfolio from year to year is always a solid strategy. To do this we are constantly striving to expand our investment options for you. Research of new investment products that fit our clients needs takes a ton of time, but has been one of our most successful actions. It will always be part of our strategy to enhance our clients financial well being.*

*We are currently looking over many of those options right now. We will only look at companies that have the highest level of integrity, excellent management and a proven track record. If you would like to know more about these investment alternatives, call John Clouden, Pat Sgroi, Jeff Hahn or myself.*

*As all my clients know, I am an old insurance guy. And I can't stress enough for **ALL** clients of H. Joseph Sgroi & Associates to look at their insurance coverage (life, disability, long term care, etc.).*



*Being in the business for over 32 years I've seen my share of cases (young and old) where an individual had great coverage and some where the coverage wasn't so good. Believe me, the amount of stress involved during particularly hard times can be greatly relieved when the family members know that they do not have to worry about finances.*

*We always try to prepare you for the future, whatever it may bring. With a little forward thinking and planning you can remain in control.*

*Finally, the past two and three-quarter years have been the most difficult since the great depression. The S & P 500 index is down 46%, while the NASDAQ has lost over 75%. **HOWEVER**, the US economy is much healthier than that period or the more recent '73-'74 bear market. Interest rates are at 40 year lows, inflation is in check and corporate profits are improving... all positive signs for a market recovery. And, it*

*appears we will shortly have improvements in federal tax policy which could also be a significant added stimulus.*

*Warren Buffet, the smartest investor I've ever studied, once said "most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well." There is a ton of money still on the sidelines and, I believe, sooner or later a bunch of that money will re-enter the market - - - that's why I'm personally fully invested.*

*On behalf of my family and staff, I would like to wish you, your friends and your family the very best during this wonderful time of year. Happy holidays and best wishes for a prosperous New Year!!!*

to care for them as they aged. Family members lived close by or even under the same roof.

Today, many women are in the work force, children have moved away and divorce rates are approaching 50%. All of these factors contribute to the inability of families to meet the needs of their aging parents. Thus the elderly must rely on professional assistance, which comes at a cost.

**What Do Long Term Care Services Cost?** Long term care in a New York State nursing home costs about \$71,000 per year. Costs are higher near urban locations and lower in rural locations (<http://www.state.ny.us>).

Obviously Long Term Care services are very expensive. Quality nursing homes are always filled to capacity and they are consequently able to command a hefty fee for services.

Home care is also expensive. Bringing a home health aide into your home every other day for a 4 hour visit can easily cost \$1800 per month. When the home care approaches 8 hour visits every day, the costs rise to \$7200 per month. At this point, the care recipient begins to receive facility based care simply for economic reasons.

**Who Pays for Long Term Care expenses?** When we consider the basic definition of Long Term Care - ADL's and Custodial care – there are only 3 items that will pay the costs for the average American: 1) Cash, 2) Welfare 3) private Long Term Care insurance.

**What is Long Term Care Insurance?** Long Term Care Insurance has been around in one form or another since the early days of Medicare. The policies during this time bear little resemblance to today's policies. While early Long Term Care policies were similar to a basic Medicare supplement policy, today Long Term Care insurance has evolved and typically covers a broad range of services including nursing home care, in-home care, assisted living facilities and adult day care.

Like any insurance product, Long Term Care insurance allows the insured to pay an affordable premium to protect an unaffordable catastrophic event.

**Who should consider Long Term Care insurance?** We refer to Long Term Care insurance as "asset and income protection." Individuals need to have assets and income worth protecting in order to justify the purchase of a policy. (Medicaid eventually pays for Long Term Care services once an individual becomes impoverished).

In other words, if you are able to pay Long Term Care insurance premiums without having to change your lifestyle – you should transfer that risk to the insurance company.

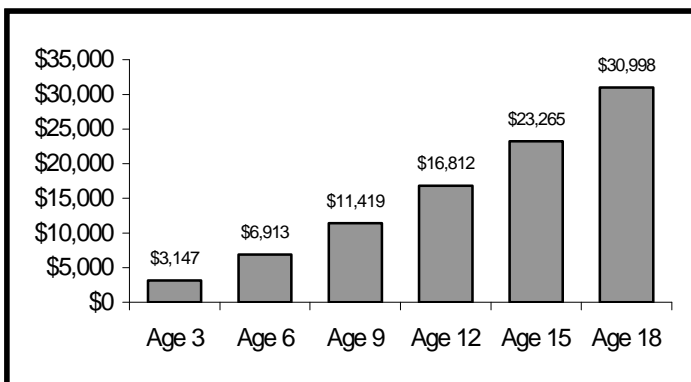
Health is another important consideration. The state of one's health is a determining factor in one's ability to secure Long Term Care protection. This sometimes poses a problem as people don't often consider Long Term Care insurance until an unfortunate event has affected their health or the health of a loved one.

*As your full service financial planning firm, we encourage you to call the office with any questions.*

### **The Importance of Starting a 529 Plan Early**

Because of compounding, forward-thinking parents can be better prepared for their children's higher education costs. By starting early enough, you can reach your goal even with relatively small amounts.

Suppose, when your child is born, you decide to start saving \$80 a month. Let's say you invest that money in an account that earns, on average, 6 percent per year. The graph below shows how that money can grow for your child over an 18 year period.



Source: Investment Company Institute

### **Disability Insurance**

Disability insurance provides you with an income should you become sick or injured and unable to work. It helps protect against family financial catastrophe by giving you an income to meet daily expenses.

**Disability insurance comes in two major forms:**

- A variety of **employer-paid** and **government-sponsored** programs, generally cost-free to the recipient, covering certain categories of workers.

- **Private policies** (paid for by individuals) that protect income when there are no applicable employer or government programs or when those programs do not adequately meet income needs.

Disability coverage can last for different lengths of time. Short-term disability coverage provides benefits for a specified period of time, usually 13, 26, or 52 weeks, and up to a maximum of five years. A long-term policy may provide benefits up to age 65, or normal retirement age.

*For the amount of protection that Disability Insurance (and Long-Term Care) offers, it is vastly under utilized. Many people think that their employer plans have them completely covered, when the opposite is too often the case. Being informed today is the key - - - call the office.*

## Life Insurance

Life insurance helps to ensure that your family and loved ones are protected against financial difficulties in the event of a premature death. Combined with investments, retirement and estate planning, life insurance is a fundamental part of a sound financial plan.

There are many kinds of life insurance, but they generally fall into two categories: **term insurance** and **permanent insurance**.

**Term insurance** provides protection for a specific period of time. It pays a benefit only if you die during the term. Some term insurance policies can be renewed when you reach the end of the term, which can be from one to 30 years. The premium rates increase at each renewal date. Many policies require that you present evidence of insurability at renewal to qualify for the lowest rates.

**Permanent insurance** provides lifelong protection. As long as you pay the premiums, the death benefit will be paid. These policies are designed and priced for you to keep over a long period of time. If you don't intend to keep the policy for the long term, this may be the wrong type of insurance for you.

Permanent policies are known by a variety of names: whole, ordinary, universal, adjustable, and variable life. Most have a feature known as cash value or cash-surrender value. This feature, not found in most term insurance policies, provides you with some options:

- You can cancel or surrender the policy in total or in part and receive the cash value as a lump sum. If you surrender your policy in the early years, there may be little or no cash value.
- If you need to stop paying premiums, you can use the cash value to continue your current insurance protection for a specified time or to provide a lesser amount of protection covering you for your lifetime.
- You usually can borrow from the insurance company, using the cash value in your life insurance as collateral. Unlike loans from most financial institutions, the loan is not dependent on credit checks or other restrictions. You ultimately must repay any loan with interest or your beneficiaries will receive a reduced death benefit.

With all types of permanent policies, the cash value of a policy is different from the policy's face amount. The face amount is the money that will be paid at death or policy maturity. Cash value is the amount available if you surrender a policy before its maturity or your death. *A common mistake is that employer coverage will provide enough stability for your loved ones if something happens. No portfolio is complete without some kind of individual life insurance. Make an appointment with your advisor to see what type fits your financial plan.*

## Client Corner

Iris M. Drzewiecki, a retired teacher and school librarian, wrote the book, "The Ghost and Me, Joey" which was recently published by Western New York Heritage Press, Inc.. Her book is for students around the fourth and fifth grade level, and has a history or social studies viewpoint. Her story was inspired by a house in Lancaster at the corner of Pavement and Genesee. It is a tale of a young boy, Joey, whose father is passionate about preserving the Hull House, a home built by a Revolutionary War soldier, Warren Hull.

The book is available at Borders, Talking Leaves, Buffalo Book in the Northtown Plaza and The Buffalo and Erie County Historical Society gift shop.

Iris is available to visit area schools and present her book to students. Call the office for her contact number.

Iris and her husband Dan have been clients for almost 14 years. Congratulations from your friends at H. Joseph Sgroi & Associates!!!!

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## E X T R A , E X T R A R E A D A L L A B O U T I T ! ! ! !

It's still "unofficial" but expect H. Joseph Sgroi & Associates to return to the radio on Saturday early next year. The new station is believed to be the most prominent station on your AM dial. Keep your ears peeled for the 2003 edition of "The Sgroi Financial Hour"!