MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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Medicare: A Broad Overview

Navigating the Medicare system can be a daunting task and if you're like most people you could probably use a little help. What follows is a brief background on Medicare.

WHAT IS IT?

Medicare A (Hospital Insurance): covers hospitalization, skilled nursing facilities, hospice and some home healthcare. It is provided at no charge to most enrollees who have 40 quarters of service in the Social Security system.

Medicare B (Medical Insurance): covers fees from doctors and other health care providers and requires a monthly premium. For 2010, the cost is $110.50 a month for single taxpayers earning under $85K or for those filing jointly with Modified Adjusted Gross Income under $170K. There is a sliding scale income-related adjustment with a maximum monthly cost of $353.60 for singles earning more than $214K or $428K for those filing jointly.

Medicare C: Medicare Advantage plans, an alternative to original Medicare, include the services offered in part A, B, and D. Medicare Advantage plans are offered in an HMO, PPO, or PFFS (Private Fee for Service Plan) format which may include extras like dental, vision, wellness coverage, and in some cases lower co-pays or out-of-pocket expenses. You must be eligible for Medicare to join. Medicare Advantage Plans are often less expensive thanks to government subsidies, but typically require the use of approved providers. Going to "out of network" doctors may not be covered or reimbursed by your Medicare Advantage plan.

To reduce costs, simplify the system, and consolidate similar plans through a given insurer, there will be fewer Medicare Advantage Plans offered in 2010. This means those currently enrolled in an Advantage

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Money Market Fund Alternatives

Where should you put cash these days? Money market funds are the traditional solution, but today these funds have yields of nearly 0.0%. For example, Schwab's primary money market fund is currently yielding only 0.01%.

The low yields have two primary causes. The Federal Funds rate currently stands at 0.25%, pushing yields across the board down to this range and below. Additionally, last year, the Reserve Primary Fund, "broke the buck" – i.e., it fell below the standard $1 a share (thanks to losses on IOUs from Lehman Brothers). Since then, Schwab and others have managed their money market funds in an extremely conservative manner, which has led to lower yields.

In hopes of providing clients with other options, we have been researching other stable vehicles that offer a yield greater than money market funds but are still very protective of capital. We sought funds with high quality holdings but with shorter maturities to maximize capital protection and minimize price fluctuations. While these types of funds are not as secure as cash they can produce substantially higher yields.

For example, Federated Government Ultrashort Duration is a fund that holds only short term government bonds with minimal durations. Over the last 7+ years, the fund has experienced only 4 months of

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Plan must determine if the current plan will continue to be offered. If so, you must evaluate whether the existing plan is still the right one. If your plan is being eliminated, you will need to elect a new plan. In either scenario, researching the options can be a time consuming task.

Medigap or Medicare Supplement Insurance: These policies are sold by private insurers and are intended to fill the gaps and deductible co-payments for many or most of the costs Medicare doesn't cover. There are a range of supplemental policies each of which provides a different level of coverage. These policies include letters A through L; M and N will be added in 2010 while E, H, I, and J will be eliminated in June of 2010. While coverage for a given Supplemental Plan will be identical, premiums vary from carrier to carrier. Additionally, premiums can fluctuate from state to state depending how age, gender, and zip code are factored. Medigap offerings are listed on each state department's website. Your monthly cost will vary depending on the Supplemental Plans selected. The average estimate for Supplemental coverage is $150/month.

You should review the Medicare offerings in December of every year to make sure your choice of plans is still the best. Because of changes in plan offerings for 2010, it is especially necessary that you review your options before the end of this year.

Medicare D (Prescription Drug Coverage): This provides prescription drug coverage. Unless you have other creditable drug coverage you should enroll upon eligibility. You are assessed a 1% penalty for every month you delay enrollment. While it varies by region, the state of California will offer 47 Part D Drug Plans in 2010. Different plans will cover different drugs, or classes of drugs, at various co-pays. Some drugs may not be covered at all. Medicare has made available an excellent online tool called the Prescription Drug Plan Finder (http://www.medicare. gov/MPDPF/Public/Include/DataSection/Questions/SearchOptions.asp) that allows for comparison of drug availability and costs for all plans in your geographic area. The Prescription Drug Plan Finder can be used to perform a general or personalized search for plans and will provide a detailed breakdown of the plans' monthly premiums, deductibles, and drug prices. Premiums for Part D range up to $40+/month.

A plan may change its specific drug coverage from year to year, so reviewing plan coverage annually during open enrollment is <u>always</u> recommended.

WHEN TO ENROLL

For first time enrollees: you have a seven month window in which to enroll in Medicare. This begins three months before your 65th birthday. We recommend that you enroll in Medicare when you are first eligible even if you don't need the coverage. This will avoid incurring higher premiums at a later date or the possibility of being rejected later for health reasons *(note: some parts of Medicare and / or changes to Medicare elections involve health underwriting while others do not).*

Annual open enrollment for Part D: November 15 – December 31. Current participants are eligible to make changes to their Medicare D plan elections during open enrollment. For those making new elections or changes to their existing elections, it is best to sign up early to ensure your request is processed in a timely manner. Open enrollment is also a time when one can switch from the "traditional" Medicare A and B plans to a Medicare C plan (or switch from one Medicare C plan to another). It is very important to understand that while a Medicare enrollee can switch from "traditional" Medicare to a Medicare C plan without restriction, the same is not necessarily true in reverse. Only in specific circumstances can a Medicare C enrollee switch back to the "traditional" Medicare plan without restriction (the restrictions we refer to relate to the availability of Medicare Supplement (Medigap) insurance).

IN CONCLUSION

Whichever plan you choose, you must evaluate cost versus coverage to determine which plan is right for you. If you do not have coverage through an employer plan, many still consider traditional Medicare with a comprehensive medigap policy the "gold standard". Finally, keep in mind, that while Medicare covers some services related to aging, Medicare does not cover the cost of assistance with activities of daily living (eating, dressing, or bathing) which require coverage under a long term care insurance policy.

Dwelling Coverage vs. Extended Coverage

One of the many services we provide is a review of clients' property and casualty insurance. We frequently find clients are confused by the definition of homeowners' Dwelling Coverage and Extended Coverage and how much they need under each limit.

"Dwelling Coverage" is the primary insurance on your home – the amount to rebuild it to its pre-existing state under normal market conditions; **"Extended Coverage"** is an extra layer of insurance to protect against unusual increases in home rebuilding costs. For example, you would need $300,000 of dwelling coverage if your house *currently* costs $300,000 to *replace*. But if there is a large scale event that causes neighborhood rebuilding costs to skyrocket (such as the 1991 Oakland Hills fires), Extended Coverage can help. You could get an additional amount, usually 25% - 50% above your dwelling coverage, depending on your insurance contract.

Sometimes insurance agents advise homeowners to choose lower levels of dwelling coverage with the promise that the insured will be fully covered once their extended coverage limits kick in. This lowers premiums, but is potentially dangerous.

Say for example that your house costs $400,000 to rebuild but you only insure it for $320,000 (with the expectation that your 125% in extended coverage would cover you up to $400,000). Are you fully protected? Well, no – for two reasons:

1) If your neighborhood is hit by a large scale event and local construction costs go through the roof, you would be materially underinsured and would have to make up any shortfall yourself.

2) There is the issue of **"Coinsurance."** Coinsurance is an insurance principle that establishes if you do not have adequate underlying coverage, the insurer can penalize you. For example, if you insure your house for $100,000 in dwelling coverage but it actually costs $300,000 to rebuild, you would save on premiums but, the insurance company would recognize that you are underinsuring your home. In consideration they would reduce your claim payment by an amount that is proportionate to your degree of underinsurance.

For example, if you use the previous amounts noted and assume an $80,000 loss you would get a settlement of just $33,336 (even though you had $100,000 in insurance). Note: the coinsurance provision is the minimum level of insurance you have to maintain to make sure you get a full settlement. These amounts normally range from 80% to 90% (i.e., you must be covered for at least 80-90% of the current home replacement value before the insurance company will honor its full policy limits). In the above situation, if you had an 80% coinsurance requirement and had insured for $240,000 or more you would have received a full settlement for the $80,000 loss.

The last note of caution is that many homeowners typically get their insurance and then forget it. They do not remember to factor in inflation (the National Assoc of Home Builders/Engineering News-Record Construction Cost Indices estimates construction costs increased by more than 50% between 2002 and 2008). Many homeowners are well below the 80% coinsurance limits (Marshall and Swift/Boeckh estimated that approximately 58% of US homes are underinsured by more than 20%).

If you have any concerns about the level of coverage that you have, please call us.

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negative returns. During the worst of those months, the fund lost 0.69%. As of the end of the quarter the fund yielded 0.70% but had a total return (including price appreciation) of 1.95% over the last quarter.

If you are thinking about using this type of fund, some issues need to be considered:

- How long do you need to hold this cash? A longer period improves the probability that the fund will perform better than a money market fund.
- Can you afford to lose any of this money? **These funds offer higher yields because they are not risk free.** Historically, these have declined in value during some time periods and they could do so again.

We will continue to monitor money market yields. When they return to more normal levels, we will most likely recommend a move back into traditional money market funds. However in the current market it may be appropriate to consider using these alternatives.

AROUND THE OFFICE

At the Podium… In October, **Holly Gillian Kindel** enlightened members of California Certified Public Accountants on the in and outs of Property Casualty Insurance at the San Joaquin Chapter's all day financial planning workshop. **Norm** and **Linda Boone** have travelled around the country lately encouraging the use of investment policy statements—San Diego, Anaheim, Birmingham and Atlanta. They also gave a similar webinar presentation for a community of financial advisors sponsored by Money Quotient.

Furthering the Profession…**Norm** and **Linda** spent a few days in Dallas in October with their study group, getting updated on practice management issues and interesting alternative investment vehicles.

Giving Back to the Community… **The Mosaic staff** took a day off in November and worked on a group of Habitat for Humanity homes in Hunters Point, San Francisco. Mosaic employees were assigned to different tasks such as framing exterior walls on the second floor of a home, constructing the sidewalk, inserting crown molding and painting. The day gave all of us a different way to connect with each other while at the same time giving something back to the community. We recognize the blessings we have received and annually donate to causes that promote financial independence. **Geoff Zimmerman** was invited to join the Board of Directors for the Lafayette Town Hall Theater, and will be serving on the Finance Committee. **Andrew Boone** continues to tutor local high school students through the Boys and Girls Club of San Francisco.

Education a Continuing Affair… In October, **Norm Boone**, **Kevin Gahagan** and **Sabrina Lowell** all attended the Financial Planning Association's national conference in Anaheim. **Susan Morse** and **Dave Cowles** travelled to the University of Chicago's Booth School of Business for a mini Executive MBA program. iShares partnered with some of the Booth School's excellent professors for a very informative 2.5 days of classes in finance, marketing, behavioral finance, and organizational development. **Susan** also attended an all day Investment Management Training seminar that focused on issues of compliance taught by professionals at the law firm of K&L/Gates. **Benson Choy** completed two graduate tax courses: Tax Research and Advanced Federal Income Taxation. Over the past month **Carmen Turner** has undertaken a comprehensive curriculum in client-centered financial planning through The Kinder Institute. She participated in both the 2-day Seven Stages of Money Maturity® Workshop, as well as the 5-day Advanced Training in Fundamental Life Planning course. The essence of this curriculum is a focus on the client, not their portfolio. Only after a client's deepest aspirations are understood (by both the client and planner), can a financial plan be truly fashioned.

Exotic Travel… **Susan** and her husband, Frank, leave during the holidays for travel in Cuba including New Year's Eve in Havana. **Holly** traveled to the wilds of New York City where she visited friends, museums and traversed the High Line. She highly recommends a trip to the Chelsea Market to sample lobster rolls at the Lobster Place and the cupcakes at Elenis. **Norm** and **Linda** travel to France after Thanksgiving and will spend New Year's Day in Tennessee with close friends.

New from accounting, sir. Two and two is four again.

Gifting to Children: Equal or Not?

Over the past year, several clients have come to us with a query – is it right or fair to gift to one child who might be in need but not provide the same support to their other children? These clients might be in a situation where they can provide a certain level of gifting to one child from time to time but they don't have enough to give similar gifts to all their children.

So what to do? One option would be to say no to the child in need because it would not be equitable to the others. Notwithstanding one's philosophy on the whole issue of gifting to adult children, many parents struggle with this balancing act but still want to help the children when a need arises.

The best way we know to deal with this, or any other often sensitive family situations, is to establish, *before the need ever arises*, a **Financial Policy** that guides family decisions on gifts. A financial policy is a formal guideline that you establish – usually in writing – that is agreed upon by all parties and sets defined limits around any of a number of financial matters (e.g., gift giving, education funding, discretionary spending, allowances, etc.). A policy that is set up in advance makes it clear what can and cannot be done. For example, you could establish the following: "In the event of a one time financial emergency we will make a gift to one child but not necessarily make an equal gift to our other children. Our current financial situation is not sufficiently strong that we can make a repeated number of gifts to all of our children. We will not gift more than $X to any one child at any time".

Make your policy known to all family members so that there are no future surprises. You could also set up a policy that says you "will not gift at any time to any children" or that whenever a gift is made to one child but not another then any potential inheritance is reduced for the gift recipient by the gifted amount so that gifts all come out even in the end.

There is no right or wrong way to do this. Our advice is to be consistent in your approach and to make your policies or wishes known to all parties ahead of time. It is easier to make decisions when there is a known policy and before one is forced to make a decision in a time of emotional duress. We at Mosaic have had experience in dealing with these situations and would encourage you to talk to us about either setting up effective financial policies or how you might cope with specific financial dynamics within your families.

How We Deal with Referrals

From time to time, clients who have enjoyed working with us tell their friends about Mosaic. We very much appreciate the confidence displayed and the opportunity to possibly be of help to those you know.

Over the last year and a half, many financial advisors have dropped out of the business. Others have failed to meet with or communicate with their clients. Some advisors have simply failed to perform, in both their investments and in the quality of their advice. Some people have been trying to be their own advisor and this last year has shown them how difficult that can be. Should you hear from someone who has had this kind of experience, please tell them about Mosaic and let us know so that we can be prepared if they call. Or, if it would be appropriate, we'd be happy to call or write to introduce ourselves.

It can be awkward to ask even a close friend questions that have to do with money. In any of the situations described above, you don't need to know any more than that your friend has been unhappy. Leave the rest to us.

We can best be of help if we have a chance to talk to your friend. We want to answer their immediate questions. If it is appropriate, we'll tell them about our services and the kinds of clients with whom we work best. If they aren't a good fit for us, we'll take extra care to offer them guidance and perhaps be able to identify another advisor or other resources available to them. We want to be of help.

With that in mind, it is best if we get a direct introduction from you to your friend. A three-way initial phone call or lunch would be ideal, but more often, our clients call or email us and let us know they have mentioned us to their friend. It's best if they get permission from the friend to give us the friend's contact information so that we have the ability to follow-up and actually provide some help.

However it happens, we appreciate your support.

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FINANCIAL PARTNERS, INC.
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140 Geary St., 6th floor
San Francisco, CA 94108
www.MosaicFP.com

Thoughts to Live By

"This is the miracle that happens every time to those who really love; the more they give, the more they possess." - Rainer Maria Rilke

"Every day holds the possibility of a miracle." - Elizabeth David

"Always bear in mind that your own resolution to succeed is more important than any other one thing." - Abraham Lincoln

"Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity." - George Patton, Jr.

"You can't build a reputation on what you are going to do." - Henry Ford

"Do you really want to look back on your life and see how wonderful it could have been had you not been afraid to live it?" - Caroline Myss