



PLANNING STRATEGIES INC

Registered Investment Advisor

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Changes in Long-Term Care- Are you Adequately Prepared?

By Steve Schlissel

I'm sure by now, most of you have received the PA brochure on "Owning Your Future" produced and promoted by Pennsylvania and Governor Rendell. This push by PA to prod its citizens to proactively prepare financially for their care is because the state can no longer afford to. The message is clear: if you can afford to self-insure or purchase insurance to do so-applying and receiving Medicaid (Medical Assistance, Welfare) for those who can afford either care or insurance will no longer be an option.

President Bush in February, 2006 signed a bill aimed directly at closing the Medicaid eligibility loopholes. If you decide to apply for benefits, you must meet the following criteria:

- 1. No transferring of assets during 5 year look back period. Pre- 2006, 3 year look back.**
- 2. No transferring of assets during 5 year look back period within an irrevocable trust. Pre- 2006, the same.**
- 3. Annuities purchased during the 5 year look back period must name PA as the beneficiary. Pre- 2006, annuity treatment varied by state.**
- 4. Ineligibility period begins when one applies for benefits, is receiving LTC and is approved for care. In the pre-2006 law, ineligibility period began on date assets transferred.**
- 5. You must spend down to \$2,800.**
- 6. Home equity above \$500,000 not exempt for purposes of qualifying. Pre- 2006, home was not a countable asset.**

If you meet the criteria above, then you must also meet the following requirements:

- 1. Income and Functional thresholds.**
- 2. Monthly Income cannot exceed \$1,809 or monthly nursing home costs that Medicaid pays.**
- 3. Income includes Pensions, Social Security etc. and must be used to pay for care.**
- 4. Resources not Income are protected by the Partnership Program.**

Those are the sticks and now for the carrot. In July, 2007, Pennsylvania signed onto the Partnership for Long-Term Care Program, a program developed in the 1980's to encourage people to finance their own care and not rely on Medicaid. This allows for individuals to protect dollar for dollar a specified amount of assets and still qualify for Medicaid. This is accomplished through the purchase of private long-term care insurance. For example, say you purchase a plan which entitles you to \$300,000 of benefit dollars but your subsequent care eats through your long-term care benefit and then through your other assets to the point you meet Medicaid eligibility criteria. The \$300,000 benefit you originally purchased is then not considered fair game for Medicaid - it is protected.

While often overlooked, this may be an extremely important part of your overall financial plan. A single untoward event left uncovered could undo all of the careful planning you have accomplished over the years. ❌

Never Been Like This Before...

By Scott Smith

There is no doubt that we have all been witnessing history these past few weeks. Coincidentally, the arrival of this newsletter will most likely be very near when most of you will be getting your October month end statements, which means that everyone will again be confronted with the painful reality of this particular history lesson. There is no denying that the recent market events, whether you want to

call them a "subprime meltdown", a "credit crisis" or simply "financial Armageddon" have been very scary. As you may imagine it has been keeping us very busy as well, trying to manage the unfolding events and communicate with clients the best we can. In one recent conversation with a client, I was asked a question that went something like this..."Scott, if nothing like this has ever happened before, then how do we know that the things that got us through past market crashes will work again this time?" That is a very good question. I believe that to properly answer that question, we should first take a close look at the market cycles that have come before. The following table shows all of

**Historical Stock Market Cycles for the S&P 500 Index
(1942 – 2002)**

Dates of Peaks & Troughs	Peaks/ Troughs	S & P Price	Length of Bull Market (years)	Bull Market Rise (%)	Length of Bear Market (years)	Bear Market Decline (%)	Full Cycle Years
4/42	Trough	7.47					
5/46	Peak	19.25	4.08	158%			
10/46	Trough	14.12			.36	-27%	4.45
6/48	Peak	17.06	1.68	20%			
6/49	Trough	13.55			.99	-21	2.68
1/53	Peak	26.66	3.56	97%			
9/53	Trough	22.71			.69	-15%	4.25
8/56	Peak	49.74	2.88	119%			
10/57	Trough	38.98			1.22	-22%	4.10
12/61	Peak	72.64	4.14	86%			
6/62	Trough	52.32			.54	-28%	4.68
2/66	Peak	94.06	3.62	80%			
10/66	Trough	73.20			.66	-22%	4.28
11/68	Peak	108.37	2.15	48%			
5/70	Trough	69.29			1.49	-36%	3.63
1/73	Peak	120.24	2.63	74%			
10/74	Trough	62.28			1.72	-48%	4.36
9/76	Peak	107.83	1.97	73%			
3/78	Trough	86.90			1.45	-19%	3.42
11/80	Peak	140.52	2.73	62%			
8/82	Trough	102.42			1.70	-27%	4.44
8/87	Peak	336.77	5.03	229%			
12/87	Trough	223.93			.28	-34%	5.31
7/90	Peak	368.95	2.61	65%			
10/90	Trough	295.46			.24	-20%	2.85
2/94	Peak	482.00	3.31				
4/94	Trough	438.92			.17	-9	3.48
7/98	Peak	1186.74	4.25	170%			
8/98	Trough	957.28			.08	-19%	4.30
3/00	Peak	1527.45	1.58	60%			
10/02	Trough	776.75			2.5	-26%	4.02
Averages			3.08 yrs	93%	0.94 yrs	-26.4%	4.02

the bull and bear market cycles from 1942 to 2002. There is a lot of data, but also some very important statistics that are worth looking at.

The first thing that I found interesting about this table was the length of the Bear markets. As you will see they vary greatly, but the average is right around one year. I know it probably seems like our recent market problems have been going on forever... but really they began last November, which puts us right at the average time horizon of the Bear market. The next interesting stat is the average decline of the down times... -26.4%. As bad as this crisis is, most of the major indexes are now pretty close to that average. The next statistic that I find most comforting is the length of full cycle. You can see that the average full market cycle is 4.02 years, and although the length varies some it

Table taken from the Graziado Business Report, 2004, Volume 7, Issue 3, published by Pepperdine University.

I Don't Live in a Flood Zone, Why Would I Need Flood Insurance?

By Pam Stoneroad

This is the statement and question that I most commonly hear when I ask clients about flood insurance coverage. The reality of it is this, however, **everyone** lives in a flood zone. Flood zones indicate areas of low, moderate, and high risk areas. The properties located in low or moderate risk areas can still experience flooding. The risk is reduced for these areas but not removed. The truth is that anywhere it can rain, it can flood. Floods and flash floods occur in all 50 states. Other causes of flooding are winter storms, melting snow, inadequate drainage systems, tropical storms, and hurricanes. In addition, most homeowner's insurance policies do **not** cover flood damage. As a matter of fact, most homeowner's policies specifically exclude flood damage. Federal disaster assistance is sometimes available but is usually a loan that must be paid back with interest. If you live in a low to moderate risk area, you may qualify for the Preferred Risk Policy which offers very competitive premiums starting as low as \$120/year. Here are just a few very interesting facts about flood damage & insurance:

- ◆ As little as **one inch** of water can cause

costly damage to your property.

- Your home has a 26% chance of being damaged by a flood during the course of a 30 year mortgage, compared to a 9% chance of fire.
- Last year, **one third of all claims paid by National Flood Insurance Policies were in low-risk areas.**
- It takes **30 days** after purchase for a flood insurance policy to take effect so it's important to buy it before you are worried about flooding.

How do you go about applying for flood insurance or obtaining a proposal? Contact your local insurance agent. Your agent may ask you for an elevation certificate, especially if your property is in a high-risk area. You can obtain this certificate from a community official, certified engineer, or surveyor, or possibly the previous owner of your home. **Just don't wait until it's too late!** ❌

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sticks fairly close to that number. So at least historically, time heals the markets relatively quickly in the grand scheme of things. Finally, and best, is the difference between the average Bull market and the average Bear market in percentage gain or loss. The average Bull market gained a whopping 93%, as opposed to that average Bear loss of -26.4%. This doesn't make the Bears any less painful, but it does remind us of why the stock market has been the greatest wealth creating machine in history. It also reminds us why trying to time the peaks and valleys is a dangerous game.

So how does this answer the very good question about "nothing like this happening before"? Well, what it tells me is that while this time around has been particularly nasty, it isn't all that different from past crisis, at least not statistically. The other thing to remember is that each crisis always brings

that frightening feeling of "this time is different". I can remember getting that exact same question the days and weeks following 911, which of course was the first time our markets and our Country had ever experienced that type of cataclysm. How about the savings and loan crisis of the 1980's? I am certain that collapse carried those same feelings of fear and uncertainty. How about the market crash of 1987 known as Black Monday? Or the Oil Embargo of the 1970's that lead to a 48% decline? All scary, all firsts of their kind, all included in the table.

So let me wrap up this article with the answer I gave to my client: While I cannot guarantee that the lessons of the past will get us through this crisis...I also do not believe that abandoning those lessons, nor abandoning the disciplines and science that come from those lessons, are better alternatives. After all, you shouldn't bet on the end of the world...because it only happens once! ❌



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Have A Wonderful Fall!

- Scott, Lori, Steve And Jennifer

Autumn Thoughts...

“The nation should have a tax system that looks like someone designed it on purpose.”— William E. Simon

“It takes as much energy to wish as it does to plan.”— Eleanor Roosevelt

“Luck? I don't know anything about luck. I've never banked on it and I'm afraid of people who do. Luck to me is something else: hard work — and realizing what is opportunity and what isn't.” — Lucille Ball