



# YOUR FINANCIAL FUTURE

Your Guide to Life Planning

October 2011



Today is the start of the Medicare Open Enrollment Season. Our opening article is about Medicare. There are many changes in carriers and plans. In tough economic times, are you paying too much? Have you checked to see if your or your loved one's Medicare is right? Benefits NW represents the largest plans in WA State at no additional cost to you.

**Robert S Mori, CPA/PFS,**  
Jesse Haugh, & Louise Mori,  
Associates  
Benefits NW Inc & Financial  
Advisors NW Inc  
[marketing@benefitsnw.com](mailto:marketing@benefitsnw.com)  
425 353 9763  
Fax: 206 458-6022  
8620 Holly Drive Suite 220  
Everett, WA 98208  
[www.financialadvisorsnw.com](http://www.financialadvisorsnw.com)  
and [www.benefitsnw.com](http://www.benefitsnw.com)

## In This Issue

### Medicare Open Enrollment Starts Today, October 15, and Benefits NW Has the Answers

Beginning October 15, you'll have the chance to join, drop, or switch a Medicare Advantage or prescription drug plan for 2012.

### What You Need to Know About Currency Risk

Given the current weakness of the U.S. dollar, it is critical that U.S. investors understand the risks (and potential rewards) involved in foreign currency diversification -- and take steps to protect their portfolios.

### Three Keys to Surviving Market Turbulence

All too often, investors react to a sharp drop in prices by panic selling or digging in their heels despite deteriorating fundamentals. But more thoughtful investors see a correction or downturn as an opportunity to review the risks in their portfolios and make adjustments where necessary.

### When Should You Collect Social Security?

When should you begin collecting Social Security? The answer depends in part on how long you think you'll be around to collect it.

### Realizing Losses: The Psychology of Investing

Why do we hold on to losing investments? McGraw-Hill Professional author and finance professor Meir Statman offers guidance to help investors minimize the mistake of not letting go.

## Medicare Open Enrollment Starts Today, October 15, and Benefits NW Has the Answers

**Those 65 and older or disabled take note: Open enrollment for Medicare plans starts today, about a month earlier this year. Beginning October 15, you'll have the chance to join, drop, or switch a Medicare Advantage or prescription drug plan for 2012. The open enrollment period ends on December 7 instead of New Year's Eve.**

Those 65 and older or disabled take note: Open enrollment for Medicare plans starts today, about a month earlier this year. Beginning October 15, you'll have the chance to join, drop, or switch a Medicare Advantage or prescription drug plan for 2012. The open enrollment period ends on December 7 instead of New Year's Eve.

"Open enrollment is seniors' chance to review their Medicare choices and pick the plan that works for them, or keep the plan they have today," said US Department of Health and Human Services Secretary Kathleen Sebelius in a statement issued last week.

The government's health plan is available to all those age 65 and over and younger people with disabilities as well as those with kidney failure requiring dialysis or a transplant.

It's definitely smart for Medicare participants to review their coverage during open enrollment because details can change from year to year, and they don't want to get locked into a plan that will no longer work for them.

Last month, HHS announced that, on average, Medicare Advantage premiums will be 4 percent lower in 2012 than in 2011. Individuals, however, won't know whether their own premiums will rise, fall, or remain the same until later this month.

Since the federal government subsidizes these Medicare plans to the tune of hundreds of dollars per month, depending on the county of residence, many seniors still will enjoy no deductible plans including prescription plans added in. These plans are very helpful especially in a recessionary economy and interest rates are so low for retiree's incomes.

If cost of living adjustments for Social Security benefits rise as expected, then Medicare part B premiums (which pay for check-ups and sick visits to the doctor, home health services, and some preventive health services) could rise too.

Those who enroll in Part B coverage for the first time this year are entitled to a free one-time, comprehensive "Welcome to Medicare" preventive visit -- to help reduce those expensive medical costs -- during the first 12 months of coverage that they have Part B.

If you've had Part B for longer than 12 months, you can get a yearly "wellness" visit to develop a plan to prevent disease based on your current health and risk factors. Those with diabetes, for example, could get a referral and coverage for a nutritionist to help them map out a meal plan.

About 1 percent of Medicare beneficiaries are enrolled in Advantage plans that won't be available next year. These plans are offered by private insurers and operate like a health maintenance organization with provider networks for physician and hospital visits and drug coverage. Those with discontinued plans should have already received a notification by mail that they will need to find a new plan.

People enrolled in a discontinued Advantage plan will revert to a traditional Medicare plan -- with separate parts to cover outpatient and inpatient visits -- if they don't choose another Advantage plan on their own. But they might find themselves out of luck when it comes to prescription drug coverage if they neglect to enroll in the separate Part D drug coverage plan.

Confused by all the choices? Benefits NW Inc offers the largest Medicare plans in Washington State that we believe will be here not only today but into the future. Our staff will be able to help you and/or your loved one choose the plan that includes the providers and the rx prescriptions that need to be included. Call toll-free (877) 455-7591 or email me at [rmori@benefitsnw.com](mailto:rmori@benefitsnw.com).

## What You Need to Know About Currency Risk

Currency risk is an essential element of international investing and is only one risk of investing across borders.

The U.S. dollar continues to fall against other major world currencies -- and the consensus among economists and analysts is that the greenback's downward spiral may likely continue over the long term.

General investment wisdom states that to hedge a portfolio against the falling dollar, investors should diversify into foreign currency holdings. One of the easiest ways to do that is to acquire shares of U.S. companies with multinational operations, such as Microsoft and Exxon. Yet recent research suggests that this strategy may not be as effective at providing adequate currency diversification as many investors think. A study found that roughly 80% of the international income of multinational companies is hedged back to U.S. dollars.<sup>1</sup> Furthermore, the larger the company, the more completely hedged those earnings tend to be.

So where does this leave investors who think they are gaining global currency exposure through purchases of global U.S. firms? According to the study, many investors are getting only about one-fifth the diversification effect they assume -- perhaps much less.

Given the current weakness of the U.S. dollar, it is critical that U.S. investors understand the risks (and potential rewards) involved in foreign currency diversification -- and take steps to protect their portfolios.

### Currency Risk 101

Strategies for managing a portfolio's foreign currency exposure fall into three broad categories.

1. **No hedge.** The simplest approach used by international portfolio managers and investors is to not hedge the currency risks at all. Proponents of this approach say that not hedging foreign currency exposure helps diversify a portfolio. Others believe that currency fluctuations tend to wash out over an extended period of time.
2. **100% hedge.** Some go to the other extreme and hedge 100% of their currency exposures. This group believes that foreign exchange rates are highly unpredictable and that currency risks in non-dollar securities should always be fully hedged. But hedging costs tend to reduce overall returns over time, compared with an unhedged portfolio.
3. **Actively managed hedging.** The third strategy falls somewhere in between. Those who use an actively managed hedging approach hedge selectively: sometimes no hedge, sometimes a partial hedge, and sometimes a full hedge. The selective approach is gaining in popularity. Most investment firms now offer some kind of currency service, and some firms with substantial international investments even appoint a separate manager to handle currency as a distinct asset class.

Currency risk is an essential element of international investing and is only one risk of investing across borders. Others include possible increased taxation as well as political uncertainties. Your financial advisor can explain the pros and cons of international investing in more detail.

<sup>1</sup>Source: Merk Investments LLC, "U.S. Investors Overexposed to U.S. Dollar Risk," June 2011.

## Three Keys to Surviving Market Turbulence

**When confronted with any adverse market event -- whether it is a one-day blip, a more lengthy market correction (a decline of between 10% to 20%), or a prolonged bear market (a decline of more than 20%) -- take time to review your portfolio.**

Most stock market investors are looking for the same result: strong and steady gains of their investments. Dealing with a period of sustained falling stock prices is not easy. All too often, investors react to a sharp drop in prices by panic selling or digging in their heels despite deteriorating fundamentals. But more thoughtful investors see a correction or downturn as an opportunity to review the risks in their portfolios and make adjustments where necessary.

When confronted with any adverse market event -- whether it is a one-day blip, a more lengthy market correction (a decline of between 10% to 20%), or a prolonged bear market (a decline of more than 20%) -- take time to review your portfolio. Dealing with volatility can be difficult. Here are three suggestions to help you and your portfolio survive market turbulence.

1. **Talk with a professional.** A financial professional can help you separate emotionally driven decisions from those based on your goals, time horizon, and risk tolerance. Researchers in the field of behavioral finance have found that emotions often lead investors to read too much into recent events even though those events may not reflect long-term realities. With the aid of a financial professional, you can sort through these distinctions, and you'll likely find that if your investment strategy made sense before the crisis, it will still make sense afterward.
2. **Organize and review your financial records.** Crisis events highlight the importance of knowing where your assets are and maintaining organized financial records. Following the September 11, 2001, terrorist attacks, markets closed for several days and many records in the heart of New York City's financial district were destroyed. Yet the nation's financial systems were up and running in a matter of days, and your securities accounts were safe even when the stock exchanges were closed. While you cannot trade investments or access your assets during a market shutdown, securities firms maintain backup facilities and have contingency plans to help them service customers when trading resumes.
3. **Keep a long-term perspective.** The only certainty about the stock market is this: It will always experience ups and downs. That's why it's important to keep emotions in check and stay focused on your financial goals. A buy-and-hold strategy -- making an investment and then holding on to it despite short-term market moves -- can help. The opposite of buy-and-hold investing is market timing -- buying and selling investments based on what you think the market will do next. Market timing, as most investment professionals will tell you, is risky. If your predictions are wrong, you could invest when the market is on its way down or sell when it's on its way up. In other words, you risk locking in a loss or missing the market's best days.

It's important to remember that periods of falling prices are a natural part of investing in the stock market. While some investors will use a variety of trading tools, including individual stock and stock index options, to hedge their portfolios against a sudden drop in the market, perhaps the best move you can make is reevaluating and limiting your overall risk position.

© 2012 McGraw-Hill Financial Communications. All rights reserved.

## When Should You Collect Social Security?

Those choosing to collect before their normal retirement age face a reduction in monthly payments by as much as 30%.

A growing number of Americans have been forced to delay their planned retirement date due to job and savings losses suffered during the past five years. According to a survey, 40% of U.S. workers said they have resolved to retire later due to concerns about outliving their savings and fears of rising health care costs.<sup>1</sup> Postponing retirement not only means working longer, but also delaying when you start collecting Social Security. Currently, workers can begin collecting Social Security as early as age 62 and as late as age 70. The longer you wait to start collecting, the higher your monthly payment will be. Your Social Security monthly payment is based on your earnings history and the age at which you begin collecting compared with your *normal retirement age*. This *normal retirement age* depends on the year you were born.

Year Born	Normal Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Those choosing to collect before their *normal retirement age* face a reduction in monthly payments by as much as 30%. What's more, there is a stiff penalty for anyone who collects early and earns wages in excess of an annual earnings limit (\$14,160 in 2011).

For those opting to delay collecting until after their normal retirement age, monthly payments increase by an amount that varies based on the year you were born. For each month you delay retirement past your normal retirement age, your monthly benefit will increase between 0.29% per month for someone born in 1925, to 0.67% for someone born after 1942.

Which is right for you will depend upon your financial situation as well as your anticipated life expectancy. Anyone with a good pension or substantial savings may want to delay a bit. Similarly, if you're in no hurry to retire, you may want to continue working longer and collect later.

Likewise, those with a family history of longevity who expect to live a long time stand to gain more by delaying. If you think it unlikely to survive beyond age 78, you may want to start collecting at age 62. And if you expect to survive beyond age 82, you might consider a delayed collection.

Whenever you decide to begin collecting, keep in mind that Social Security represents only 38% of the average retiree's income.<sup>2</sup> So you'll need to save and plan ahead -- regardless of whether you collect sooner or later.

<sup>1</sup>Source: Towers Watson, October 2010.

<sup>2</sup>Source: Social Security Administration, "Fast Facts & Figures About Social Security," August 2011.

© 2012 McGraw-Hill Financial Communications. All rights reserved.

## Realizing Losses: The Psychology of Investing

**We need not acknowledge our paper losses fully before we realize them, but we face them and they gnaw at us.**

*By Meir Statman*

I am reluctant to realize my losses and you are probably reluctant to realize yours. Rational investors follow the maxim "Cut your losses and let your profits run." They are eager to realize losses quickly while they are slow to realize gains. Why then are we disposed instead to sell winners too early and ride losers too long? The answer to the puzzle is in our cognitive errors of mental accounting and hindsight, our emotions of regret and pride, and our inner struggle for self-control.

Buying a stock marks a hopeful beginning. We place the stock into a mental account, record its \$100 purchase price, and hope to close the account at a gain, perhaps selling the stock at \$150. As stock fate has it, the stock's price plummets to \$40 during the following month rather than increase to \$150. This is only a paper loss, we console ourselves. The stock's price would surely recover very soon and climb higher. We do not need to acknowledge our loss fully because it is only a paper loss. We do not realize the loss yet by selling the stock. The mental account containing the stock is still open, keeping alive the hope that losses will turn into gains.

### Regret and Pride

We need not acknowledge our paper losses fully before we realize them, but we face them and they gnaw at us. We feel stupid. Hindsight error misleads us into thinking that what is clear in hindsight was equally clear in foresight. We bought the stock at \$100 because, in foresight, it seemed destined to go to \$150. But now, in hindsight, we remember all the warning signs displayed in plain sight on the day we bought our stock. Interest rates were about to increase. The CEO was about to resign. A competitor was ready to introduce a better product.

The cognitive error of hindsight is accompanied by the emotion of regret. We kick ourselves for being so stupid and contemplate how much happier we would have been if only we had kept \$100 in our savings account or invested it in another stock that zoomed as our stock plummeted. Regret is painful enough when we face our paper losses, but the pain of regret is searing when we realize our losses because this is when we give up hope of getting even by recovering our losses.

Pride is at the opposite end of the emotional spectrum from regret. Pride accompanies the realization of gains. We congratulate ourselves and feel proud for seeing in foresight that our \$100 stock would soon zoom to \$150. Realizing gains by selling our stocks seals our gains and amplifies our pride. Regret is painful while pride is pleasurable, but both are teachers, warning us against behavior likely to inflict regret and encouraging us toward behavior likely to bring pride.

But sometimes the lessons of regret are overly harsh and the lessons of pride too encouraging. Stocks go up and down for many reasons and for no reason at all. We need not kick ourselves with regret every time stock prices go down, and we should not stroke ourselves with pride every time they go up.

*Excerpted from What Investors Really Want. © 2010 The McGraw-Hill Companies. All rights reserved.*

© 2012 McGraw-Hill Financial Communications. All rights reserved.