

Summer 2005

Medicare Part D: Ready or Not, Here It Comes!

By: Julie A. Scheers, Financial Planning Specialist

Come January 2006, the brand-new Medicare prescription drug plan, "Part D," will be rolled out. While mandated by the Federal Government, the plan will be administered by private insurance companies. You will purchase Part D from a private insurance company as you would a Medicare supplement policy.

How much will it cost? This voluntary plan is available to everyone over age 65, but the monthly cost, while approximately 75-percent subsidized by Medicare, is still unclear. Although estimated to be around \$37 per month, insurance companies will be offering various forms of Part D, and the prices and additional benefits will vary.

You should receive introductory information from Medicare this October. To begin coverage in January, you must sign up between November 15 and December 31. If you sign up between January 1 and May 15, your coverage will start the first day of the next month after you join. If you do not join by May 15, 2006, you cannot sign up until

the next November 15 to December 31 time period.

Part D has specific rules regarding health plans provided by a past employer. If your retiree health plan covers prescriptions, your employer will have the option to either continue or discontinue offering the prescription portion. Even if your employer continues to offer it, you can still opt to switch to Part D. Employers will be provided incentives by the government to retain their existing coverage and must mail you information comparing their current plan to Plan D by November 14. If your employer's plan is better, based on cost versus provided coverage, it may make sense for you to retain it.

Keep in mind that if you drop your employer-provided retiree prescription plan, you may have to drop the remainder of your coverage as well—your employer may not allow you to separate the insurance portions. You would then need to select a Medicare supplemental plan to replace the medical insurance provisions of your employer's plan. However, if your retiree plan is comparable, you can choose to move to Part D at any time in the future without incurring a higher premium. If you choose to remain on an employer plan with coverage that is not at least as good as Part D, you will face a higher premium (at the rate of one percent per month) if you switch to Part D later.

If you currently have a Medicare supplement plan with drug coverage (plans H-J), you can retain it in full, or, you can retain the H-J plan but decline the prescription portion and move to Part D. Since the cost of Part D is subsidized by the government, moving from a Medicare supplement plan with drug coverage to Part D should initially decrease your premium costs.

Insurance companies cannot sell Medicare supplement H-J plans after 2005.

This is the benefit Part D will provide:

Drug Costs Per Year	Part D Pays	You Pay
\$1 - \$250	0%	100%
\$251 - \$2,250	75%	25%
\$2,251 - \$5,100	0%	100%
\$5,101+	95%	5%

As indicated in the benefit chart, you are required to pay the first \$250 of drug costs annually. The next \$2,000 of drug costs will be shared, with Medicare paying 75 percent and you paying 25 percent of each prescription purchased. For example, if you have \$2,250 of drug prescription costs in one year, you will pay \$750 out-of-pocket and Medicare will pay the remaining \$1,500.

The next level of drug costs, i.e. those between \$2,251 and \$5,100, has been referred to as the "doughnut hole" in Part D. You are expected to pay 100 percent of costs at this level. For example, if you typically spend \$5,100 per year on prescriptions, you will pay \$3,600 in out-of-pocket costs per year under Part D. Costs in excess of \$5,100 will be shared, with Medicare paying 95 percent and you paying only five percent of each prescription purchased. We expect to see private insurance companies offer plans that have some amount of additional cost-sharing in the first \$250 "deductible," as well as in the "doughnut hole."

It is important that you pay attention to what you receive in the mail in a few months. Shop insurance companies and make sure you find a plan that meets your current needs and has the potential to meet your needs in the future.

Contact Julie Scheers if you have questions or would like additional information regarding this topic.

In This Issue

Feature	1
Medicare Part D: Ready or Not, Here It Comes!	
From Elaine	2
Exploring Africa	
Industry News	2
If a Tree Falls...	
Client Dream — Client Reality	3
Making the Most of an Inherited IRA	
Your Questions	3
Defining Financial Terms	

From Elaine Exploring Africa

In April I traveled to Cape Town, South Africa to attend the International Financial Planning Standards Board meetings, hosted by the Financial Planning Institute of South Africa. As with other trips, I was pleased, and a little surprised, to meet professionals who have financial-planning firms very similar to ours. The importance of personal financial planning and investment management is recognized worldwide!



There is no doubt that South Africa and its neighbors have tremendous problems to resolve. The connection between the country's 40-percent unemployment, poverty and crime is quite evident. Each morning people stand along the roadside offering to do day labor for a minimum wage. The African townships, often referred to



as "slums," literally house a million people in side-by-side shacks made of corrugated tin, such as we use for barn roofs. It is understandable that people who have nothing must resort to desperate activities to feed and clothe themselves and their families. All of that

is diminished in stature, however, when you consider that AIDS will claim the lives of 20 percent of the country's farm laborers each year.

Still, there is great hope for a better future for the country's children. Over ten years ago (1994) Nelson Mandela was sworn in as president after the first nonracial elections were held. Many of my South African colleagues give great credit to President Mandela for immediately letting "bygones be bygones" and uniting the country.

Cape Town is a beautiful and ethnically diverse city and I greatly enjoyed the food and culture. I also visited Kruger National Park, which is the size of Massachusetts and provides visitors with unique safari experiences. My morning runs were prohibited by rangers who feared I would be "breakfast" for one of the park's carnivorous residents! I saw African eagles, hippos, rhinos, warthogs, water buffalo, lions and other wildlife. This

picture of a playful elephant was taken from the deck of my campsite. And, no trip to South Africa would be complete without venturing to the end of the continent, the Cape of Good Hope.

After exploring the African Continent, I'm back home and helping clients explore the ever-changing world of finances. This newsletter covers some important and timely topics—Medicare "Part D," timber investments, definitions of financial terms and distribution methods for inherited IRAs. As always, if you have any questions about these, or other topics, please give us a call.

Sincerely,

Elaine E. Bedel, CFP®

Client Dream — Making the Most of

By Kathryn J. Hower, CFP®

So your favorite uncle passed away and left you with his IRA worth \$250,000. That is a nice windfall, but do you know what to do in order to maximize the value of your inheritance?

Inheriting an IRA from someone other than your spouse can be especially tricky. Understanding the requirements for distributions from an inherited IRA is crucial in order to avoid paying federal income tax unnecessarily or too soon.

You have several options to consider and decisions to make to get the biggest bang from your windfall.

When you inherit an IRA from someone other than a spouse it is designated as an "Inherited IRA." The new account established for the funds is typically titled in this manner: "Joe Smith Inherited IRA for the benefit of Sally Lee." It is important to know that the assets within the Inherited IRA must remain separate from your other IRAs and additional contributions to the Inherited IRA are prohibited.

Distributions from the Inherited IRA are mandatory and must be made in accordance with one of these three options:

1. **Lump Sum.** You can take 100 percent of the funds immediately. The taxable amount of the distribution must be included on your tax return in that year.
2. **Distributions Over Five Years.** You can take any distribution amount during the period ending December 31st of the fifth anniversary year of the death of the account owner. For example, if your uncle passed away on June 1, 2005, the entire IRA must be distributed to you before December 31, 2010. This method, therefore, allows multiple distributions to be taken over six tax years, or one withdrawal for the entire amount in the last year of the period.

Congratulations are in order (again!)

Astute readers may have noticed that Kathryn's byline has changed from "Kathryn Wagoner" to "Kathryn Hower." The change took place officially on May

20th when she and Mike Hower exchanged wedding vows. They honeymooned in La Jolla, CA and Los Cabos, Mexico!

Elaine named to Bloomberg Wealth Manager's List

Once again Elaine has been named to Bloomberg's list of "America's Top Wealth Managers." She has made the list every year since 2002!

3. Distributions Over Your Lifetime.

Taking distributions over your life expectancy allows the funds in the IRA to continue to accumulate on a tax-deferred basis for the maximum time period. Should you choose to select this option, you must:

- a. Take the first distribution by December 31 of the year following the year of your uncle's death. In our previous example, that would be by December 31, 2006.
- b. Determine the amount of the distribution based on the factor in the "single life expectancy table" provided by the IRS. For example, if you are 46 years old, the table provides a life expectancy factor of 37.9. The value of the IRA on December 31 of the previous year is then divided by 37.9 to determine the minimum distribution amount. The life expectancy factor is reduced by 1 each year thereafter, making it 36.9 in the second year, 35.9 in the third year, etc.
- c. Withdraw the required minimum amount calculated each year. Any required amount not withdrawn will be subject to a 50-percent penalty. You can, however, withdraw more than the required amount should you desire.

Even though you may be younger than age 59 1/2, there is no penalty for early distributions as would be the case with your own IRA. Any funds received from the Inherited IRA, less the allowance for after-tax contributions by the owner, are subject to income tax, however. Therefore, your choice of distribution method should be considered with your own personal tax-planning and cash-flow needs in mind.

Contact Kathryn J. Hower if you have questions or would like additional information regarding this topic.

Weekly article in "The INside Edge"

Elaine's articles appear every Monday in "The INside Edge", Gerry Dick's Inside Indiana Business daily e-newsletter. Sign up at www.insideindianabusiness.com.

By: Matthew L. Roop, CFP®

We have all heard the riddle: "If a tree falls in the forest and there is no one around to hear it, does it make a noise?" For an investor, the riddle is more likely to go: "If a tree falls in the forest, can it make me a lot of money?" Large institutions have seen considerable success over the years by investing in timber. Their investment successes, combined with the boom in U.S. housing construction and increasing demand by China for the commodity, have attracted many investors to this rather unique investment.

A closer look at the investment strategy demonstrates that it does have significant benefits. Since 1987, the National Council of Real Estate Investment Fiduciaries (NCREIF) Timberland Index has averaged a 14.61-percent annual return for investors.

Perhaps more importantly, timber returns have demonstrated a low correlation to bond and publicly traded real estate returns, as well as stock returns. For example, S&P 500 Index return percentages from 2000 to 2002 were -9.73, -11.80 and -21.54, respectively. Conversely, during the same period, timber return percentages were 4.36, -5.16 and 1.87. (As with any investment, past performance does not guarantee future performance.)

While timber prices can be volatile, timber is a commodity that allows you to maintain your investment until prices become more attractive. In fact timber may increase in quantity and quality during that time period, increasing the value of your investment.

Direct investments in timber may tie up funds for eight to twelve years, so investors generally receive a premium to compensate for the lack of liquidity. This point will naturally beg the question: "Why not invest in publicly traded timber companies, which are more liquid?" This is a viable option, however, these stocks tend to be much more volatile than direct investments. In addition, the attention timber investments have generated recently has caused many of these stocks to rise in price significantly over the past few years, making them less attractive from a valuation standpoint.

There are other liabilities with direct investments. You may incur significant penalties if you have to liquidate your investment prematurely. Mother Nature can also intervene, with potential losses occurring due to drought, fire and infestation.

Finally, as more and more money chases what amounts to a relatively fixed amount of timber assets, the opportunities to find value in this area may decline in the future. Up to now, however, high barriers to investing in timber have prevented this from happening.

All things considered, we feel the unique characteristics of a direct investment in timber can make it an attractive addition to specific client portfolios. Whether direct or indirect, an investment in timber must compliment the rest of your portfolio and play an integral part in allowing you to meet your long-term financial goals.

Contact Matthew Roop if you have questions or would like additional information regarding this topic.

Your Questions Defining Financial Terms

By: Dawn E. Morley, MBA

Q: *What is a "load" mutual fund?*

A: A load mutual fund trades at a price that includes a sales charge, typically one- to eight percent of the principal value of the trade. Mutual funds can be front-end or back-end loaded. Investors

buy front-end load funds at a price exceeding net-asset value, typically by three- to six percent, but they are redeemed at net-asset value. Net-asset value is the dollar value of one unit of a mutual fund based on the total market value of all the securities held in the fund. Investors buy back-end loads at

Continued on Page 4

Your Questions

Continued From Page 3

net-asset value, but sell the fund at a price that exceeds net-asset value, typically by one- to eight percent. There is no reason to expect a fund with a sales charge to outperform one without a sales charge. Therefore, Bedel Financial Consulting pays no loads when using funds. We utilize funds sold directly to customers at net-asset value with no intermediate salesperson charging a fee. In certain situations, we can purchase funds for our clients that normally carry loads at the fund's net-asset value.

Q: *What is a transaction fee?*

A: A transaction fee can be paid on a stock or a mutual fund. When Bedel Financial Consulting buys or sells a stock or mutual fund for a client's portfolio, the custodian who is acting as the broker is typically paid a transaction fee for the required bookkeeping and accounting activities. We utilize

predominantly Schwab or Fidelity as custodians. There is nearly always a transaction fee on a stock trade except during special promotions. Currently, Schwab clients who deposit or transfer \$500,000 in new net assets by September 30th can receive up to 30 commission-free online equity trades (within 30 days) and have exit fees rebated (up to \$200). Contact us if this is of interest to you or someone you know.

Mutual funds can also have transaction fees when they are traded. However, many mutual funds used by Bedel Financial Consulting have no transaction fees. The mutual fund company has made an arrangement with the custodian to pay the transaction fee on behalf of the investor.

Contact Dawn E. Morley if you have questions or would like additional information regarding this topic.

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