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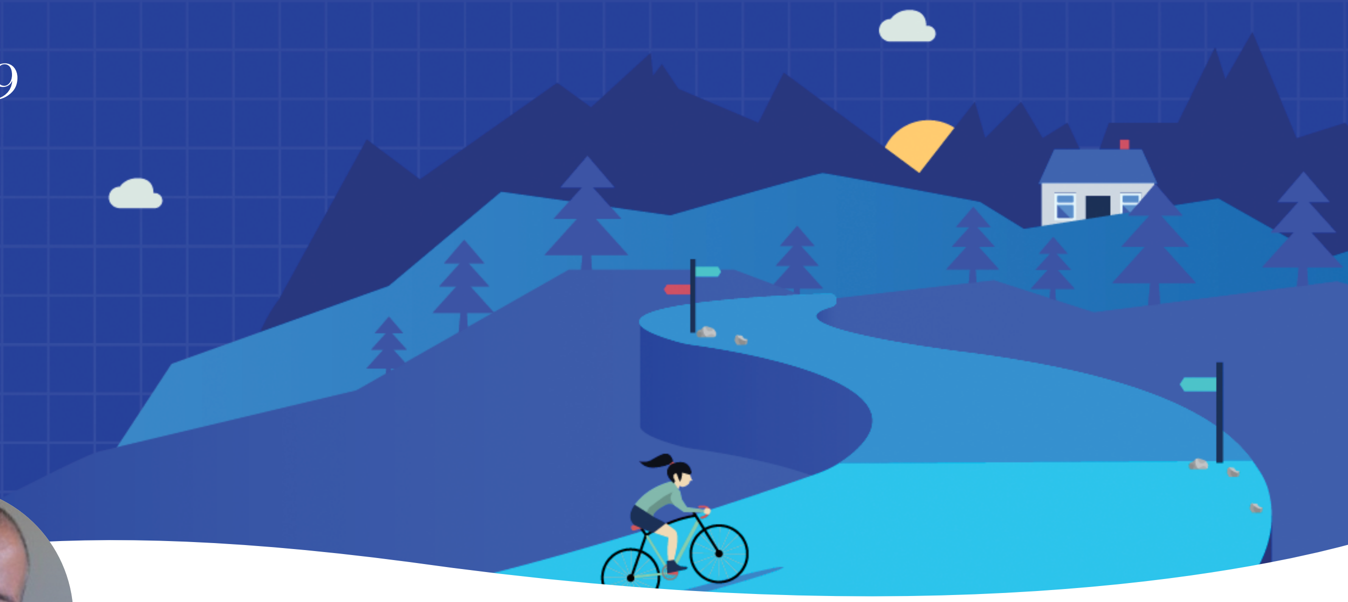

Resisting the Urge to Spend More

By Howard Hook, CFP®, CPA

They say that economic expansions end when asset prices balloon to the point where they are no longer sustainable and finally burst, creating a contraction in the economy and, ultimately, a recession.

Ten plus years of economic expansion — the longest period of expansion in history — has created a bubble, one which when popped may cause a lot of pain for people inside the bubble. I'm not talking about a classic asset price bubble, such as real estate in 2007/2008 or tech stocks in the early 2000s. No, the bubble I am talking about is spending.

People are spending too much money. Classic retirement planning theory espouses a safe withdrawal rate. Spend no more than that amount each year, adjusted for inflation, and you should be okay.

Reality, however, makes this difficult to practice. As such, we often discuss with clients a concept called "spending guard rails." That concept, rather than targeting one safe withdrawal rate, instead sets a range for one to stay within. Instead of a 4% withdrawal rate, a guard rail strategy would advise spending between 3 - 5% (adjusted for inflation) of your investable assets. This allows for unusual expenses to be paid without clients fearing they have violated the 4% withdrawal rate rule and are going to fail in retirement.

Clients typically appreciate guard rails more so than a single target withdrawal rate because it provides flexibility and reduces stress. Is someone, somewhere, forbidding his or her spouse to call a roofer to fix a leak in the roof because it will blow their target withdrawal rate? "Instead, honey, we can just move all our things to the other side of the house," is not a satisfactory answer.

It seems these spending guard rails have widened lately, and that people are spending more, presumably because they continue to see their investments go up.

We hear this a lot: "If my investments are up 11% for the year, why can't I spend 11%? After all, I am only spending the gains in the account. I'm not touching the principal."

The classic response to this, of course, is always: "What are you going to do when your investments are down for the year? You can't spend less than zero."

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info@access-wealth.com
(973) 740-2400

Should You Consider a Medicare Advantage Plan?

By Robert Epstein, ChFC®

Now is the time (October 15 – December 7) that the 64 million Americans on Medicare[1] must decide whether to stay on their current Medicare Plan or change to another plan.

For many, the choice had always been to remain on Traditional Medicare and supplement that coverage with a Medigap policy.

Over the past several years, more and more people have gone a different route and instead enrolled in a Medicare Advantage Plan. These plans, which were first made available to Medicare-eligible participants on a test basis in 2003, are becoming more popular and now cover 34%[2] of eligible enrollees. This number is projected to grow to 47% by 2029[3].

What are these plans, and are they right for you? Let's take a look.

Understanding Medicare Advantage Plans

A Medicare Advantage Plan (MA), also called Medicare Part C, is an option available to Medicare beneficiaries through a private insurance company, usually in the form of an HMO or a PPO. Enrollment in an MA plan is still done via Medicare, and even though a private insurance company administers the insurance, you are still part of the Medicare system. The difference is that instead of having separate Parts A (Hospitalization), B (Medical), and D (Prescription Drugs), they are all combined into one plan. A Medigap policy is not needed under an MA plan, although it may still be beneficial to those who elect Traditional Medicare plans.

Below are some pros and cons for choosing a Medicare Advantage plan over Traditional Medicare.

The Need for Referrals in Medicare

In traditional Medicare, there are no gatekeepers to services. You can go directly to providers to receive Medicare-covered services as long as the care is deemed reasonable and necessary.

Under an MA plan, you typically go through a gatekeeper (usually a primary care provider) who will then determine if you need to be referred for additional care. The Medical Director or the Utilization Review Team of the MA plan can overrule the determination of your provider that the care is reasonable and necessary and deny coverage.

Different Plans Include Different Provider Networks

Traditional Medicare lets you use the services of anyone who is a Medicare participating provider — which includes most doctors, specialists, pharmacies, therapists, and hospitals. In contrast, MA plans have a more limited network of providers. You may be strictly limited to this network to receive plan benefits, or you may be able to use out-of-network providers at a higher cost. The network of covered providers is located in a specific geographical area, which may be a drawback for those who travel frequently. If keeping your current providers is important to you, you must make sure they are in the network of any MA plan you consider joining.

Medicare Advantage Plans May (or May Not) Cost Less than Traditional Medicare Plans

Cost is obviously a major issue for Americans in obtaining medical insurance. Many MA plans do not charge an additional premium beyond your current Medicare Part B cost. This can represent significant savings over Traditional Medicare where, in addition to your Part B premiums, you may also pay premiums for Medigap and Part D plans.

However, the cost savings in premiums need to be weighed against potential out-of-pocket costs, which are often higher in MA plans than in Traditional Medicare and Medigap policies. Your current health, as well as the likelihood of future health issues, should be taken into consideration before choosing between the two types of plans.

What You Need to Know About Switching from Medicare Advantage Back to Traditional Medicare

While healthy beneficiaries can take advantage of the lower premiums to obtain lower-cost coverage, care should still be taken in choosing an MA plan. It's important to note that should you fall ill and need to switch back to Traditional Medicare, there can be adverse consequences. For example, you may be subject to medical underwriting if you want to purchase a Medigap policy. If you don't qualify for Medigap coverage, this can leave you financially exposed for all costs not covered by Traditional Medicare. There is some good news for residents of NY and CT, however, as those states do not permit medical underwriting of Medigap policies.

There is an additional open enrollment period for those wishing to switch from Medicare Advantage back to Traditional Medicare. This period is from January 1 to March 31

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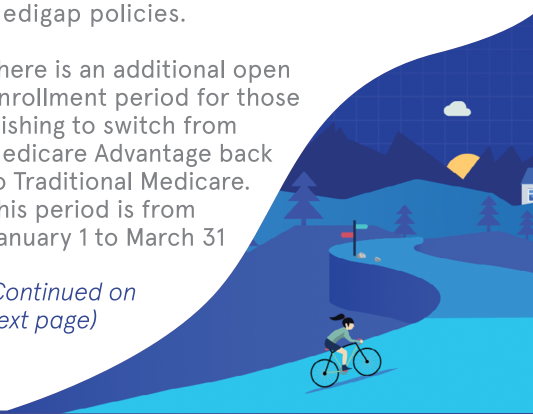

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and is in addition to the October 15 – December 7 open enrollment period for all Medicare recipients.

Final Thoughts about Medicare Advantage Plans

MA plans may also be attractive because they offer additional benefits that are not part of Traditional Medicare. These vary by plan but often include vision, dental, and hearing benefits. MA also has an annual out-of-pocket maximum of $6,700 (adjusted annually for inflation), which Traditional Medicare does not. The maximum figure does not include most prescriptions or the cost of "extra" services (like dental), but it does provide a sense of security in case of catastrophic illness.

Selecting the type of Medicare coverage that is best for you is complex, and you should not be influenced by promotional materials you receive from insurance companies or government sources.

To compare MA plans in your area, visit www.medicare.gov/plan-compare. There, you will see the cost of each service, both in- and out-of-network. After reviewing this material to decide which plan works best for you, contact the insurance company to discuss the details of the coverages, and examine their provider networks.

[1 2] Henry J Kaiser Foundation. https://www.kff.org/medicare/fact-sheet/medicare-advantage/

[3] Congressional Budget Office estimates.

Medicare's Open Enrollment Period Has Begun. Review Your Coverage Now.

The annual Medicare open enrollment period started on Tuesday, October 15. For those currently enrolled in Medicare, *this is the time to make changes to your plan*. We recommend you review your coverage now to see if it still fits your needs for the coming year. Any changes you make will be effective beginning January 1, 2020.

In addition to deciding whether to change from Original Medicare to a Medicare Advantage Plan, you can make changes to your Medigap policy and Part D Prescription Drug Plan. If you have Medicare but have never enrolled in a Medigap plan or Prescription Drug Plan, you can enroll at this time as well.

For those already on Medicare, you should have received an Evidence of Coverage (EOC) and an Annual Notice of Change (ANOC) in September. These documents spell out the coverage you have, as well as any changes that are being made to the coverage, costs, or service area provided under your current plan. These documents will help you decide whether to make a change.

One of the key items you should review is whether the prescription medications you use will continue to be covered under your Prescription Drug Plan. You should review the plan's formulary, which is a list of the drugs covered under your specific plan. This information can be found on the insurer's website, but we recommend contacting the insurance company and confirming whether or not the drug actually will be covered.

Open enrollment ends December 7, so don't wait until the last minute to review your plan and make changes. A good resource to look at is the Medicare.gov website and in particular, this blog post from their website, *Get Ready for Medicare's Open Enrollment*, which you can access here: https://www.medicare.gov/blog/get-ready-for-medicares-open-enrollment.

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Spending *(Continued from Page 1)*

The above example is extreme. Yet, even spending a bit more during good years can be dangerous to your plan for financial independence if left unchecked.

The truth is that overspending in one year would likely be offset by spending less in subsequent years to make up for the excess. Maybe it's not a perfect formula, but spending at the upper limit of the guard rail every year is really no different than spending a higher amount each year. For example, if the guard rails should be 3 - 5% and every year you are spending 5%, then your target spend is 5%, which may be too much. If the guard rails you set are 3 - 5%, that means the average spend rate should work out to 4%, with some years being below 4% and some above 4%.

Sure, you can pledge to reduce your spending further into the future, but that's a risky bet. As people age, their discretionary spending likely decreases while their non-discretionary spending (such as medical costs), likely increases. Non-discretionary expenses are harder to predict and control, so taking the approach that you will reduce spending at, say, age 85 may not be something you are able to do.

Unfortunately, the correct way to deal with this is to not overspend. Instead, think of the excess market returns as rainy day funds. Your 11% portfolio return in one year, if you keep your spending to 4%, allows the difference to be set aside for those years when the portfolio earns less than 4%, or even loses money. You can still spend the difference, just not all this year.

This is an excerpt from an article that appeared recently in Forbes Magazine.

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Congratulations Five Star Winners
Join us in congratulating Howard Milove, Howard Hook, and Darren Zagarola on being named 2020 Five Star Wealth Managers. The award will officially be announced in the January issue of *New Jersey Monthly* magazine.

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