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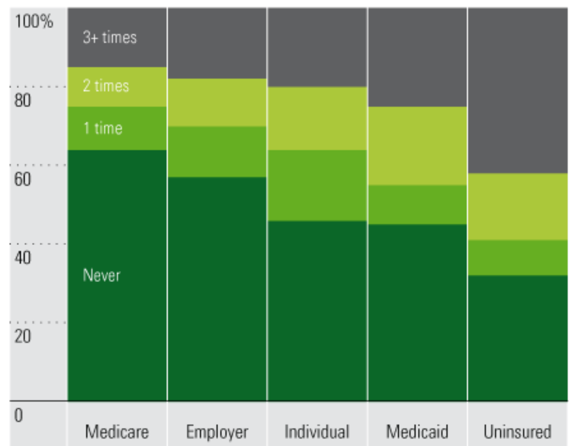
The Health-Care Dilemma

As the 2012 election season unfolds, health care is a subject of heated debate. The Supreme Court is currently evaluating the Patient Protection and Affordable Care Act that President Obama signed in 2010, and its decisions will impact millions of Americans. Among other articles, the law requires everyone to maintain minimal health-insurance coverage or pay a penalty—a most disputed provision.

The image displays the percent of consumers who have deferred care in 2011 because of cost, broken down by type of insurance. Not surprisingly, uninsured individuals were the most likely to defer care, and thus potentially place even more strain on the system later on. Perhaps mandatory health insurance for everybody would not be such a bad idea, after all.

Percent of Consumers Who Have Deferred Care in 2011 Because of Cost



Source: "Top health industry issues of 2012: Connecting in uncertainty," PricewaterhouseCoopers Health Research Institute Report and Consumer Survey, November 2011.

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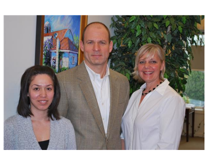

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Advisor Corner

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How to Cope with Financial Anxiety

No one likes uncertainty. We want to maintain at least the illusion of control. But that's almost impossible to do today, given the volatility of the stock market and employers' belt-tightening. Even the steadiest hand is shaking just a little. It is imperative to avoid letting your emotions get in the way of making smart investment decisions. In times of doubt, it might be in your best interest to follow these steps for re-examining your current financial strategy.

Reassess Your Risk Tolerance: Today's investor is living those "hypothetical" questions that appear on risk-tolerance questionnaires. If you haven't checked your risk tolerance (the degree of uncertainty that you can handle in your investment portfolio) in more than a year, you're most likely due—especially if you're uncomfortable right now. Maybe you've taken on more risk than is prudent. If so, it might be in your best interest to change your asset mix. If you find that you're taking on the appropriate amount of risk for your goals, just sit tight.

If You Have to Do Something, Review Your Expenses: When dealing with uncertainty, some people feel compelled to act. Instead of trying to time the market (which even the professionals can't do with any consistency), focus on things you can control with certainty: expenses. Identify where you can tighten your belt. Try to identify unneeded or underused services. After such cuts, you'll have some extra cash to invest each month. Expenses also matter in investment accounts. Do you know what you're paying in expense ratios, 12b-1 fees, front- or back-end loads? Burn up some of your nervous energy by making sure those expenses aren't eating up what little positive returns you might have.

Create a Shopping List of Investments: Research stocks or funds that would complement your portfolio, then see where they are currently trading. This could be a great opportunity to pick up some of your favorite picks at rock-bottom prices. However, make sure they are trading at historical lows because of investor overreaction and not because they are no longer financially sound.

Win the Psychological Battle: Don't let the financial media scare you into making poor investment decisions. Times of great uncertainty are usually bad times to be making major decisions. What is healthy is knowing how the human mind works and factoring that into your investment decision-making process. Researchers and academics in the field of behavioral finance attempt to better understand and explain how emotions and perceptions influence investors and their decisions. If you are interested in learning more, there are plenty of publications devoted to this relatively new field.

Consider all of the complex financial decisions faced by investors today. Without experience in different market environments or knowledge of market history, how might investors make such decisions? Potentially through their perceptions or based on their emotions. Thus, it is imperative that investors understand and combat the myriad of illusions to which they might be prone.

When the markets are doing well, people tend to think the trend will continue indefinitely. During the recent crisis when the market was struggling, we witnessed overreaction: Investors were running away from the stock market. However, if you think U.S. companies are still fundamentally strong and will profit in the next five to 10 years, then you should still have a stake in the stock market. Just make sure you set your asset allocation policy first, and then stay the course with an appropriate mix of stocks, bonds, and cash. Investing is a long-term proposition—don't let your emotions overpower your sense of reason.

Stocks are not guaranteed and have been more volatile than bonds. Past performance is no guarantee of future results. Diversification does not eliminate the risk of experiencing investment losses.

The Do-It-Yourself Health Savings Account

When deciding how much to set aside for an emergency fund, there is a growing category of expenses most people tend to overlook: potential out-of-pocket health-care costs. Even if you haven't opted for a high-deductible health-care plan, it's likely that your out-of-pocket health-care costs have jumped up substantially in recent years. Not only have health-care premiums increased dramatically, but so have the co-payments and deductibles associated with many health-care plans.

The magnitude of those numbers and the sobering statistics about the extent to which health-care costs can derail household finances suggest that households should make sure that their emergency funds include an allowance for health-care expenses that their plans don't cover.

This is the idea behind flexible-spending accounts, which enable you to set aside pre-tax dollars to pay for out-of-pocket costs not covered by your health-care plan. You can use an FSA to cover everything from co-payments to prescription expenses to health-care costs that your plan did not pick up. Yet FSAs have an important downside: If you don't use the assets you've put in them, the money doesn't roll over to the next year. Unless you're able to anticipate your out-of-pocket costs with some level of precision (for example, you expect to be on a certain drug or see a certain specialist for the foreseeable future), the use-it-or-lose-it risks of putting too much money into an FSA outweigh the benefits.

On the other hand, health-care savings accounts do allow you to roll over your money from year to year. However, they're only available to participants in high-deductible health-care plans, which have lower premiums and higher deductibles than traditional health plans.

Given these two types of accounts, a two-part health-savings program, consisting of FSA assets plus additional assets held outside the FSA, may be worth considering. Such a two-part plan would work as follows.

Part 1: Flexible Spending Account. Fund an FSA with an amount that you think, with some degree of certainty, you'll be able to use on health-care expenses in the year ahead.

Part 2: Supplemental Health-Care Account. Create a separate pool of liquid assets to cover any additional out-of-pocket costs that arise once you've exhausted your FSA funds. How large should the supplemental health-care account be? Your company's out-of-pocket maximum, less your FSA amount, may be a reasonable amount if you can swing it. Unlike FSAs and the health-savings accounts that can be used in conjunction with high-deductible health-care plans, you can't put pre-tax money into your supplemental health-care account. However, the money in your supplemental account won't have to be spent in a single year. If you spend only a fraction of your supplemental account in year 1, you'd just need to top it back up in year 2.

Those who aren't already funding Roth IRAs could experiment with holding their health-savings account within a Roth. The pluses: You can withdraw your Roth IRA contributions at any time and for any reason without triggering taxes or a penalty, and if you don't end up spending your contributions to cover health-care costs, you can withdraw the assets on a tax-free basis during retirement.

Finally, be sure to track your out-of-pocket expenses for health care. If these costs exceed 7.5% of your adjusted gross income, you can deduct the amount over 7.5%.

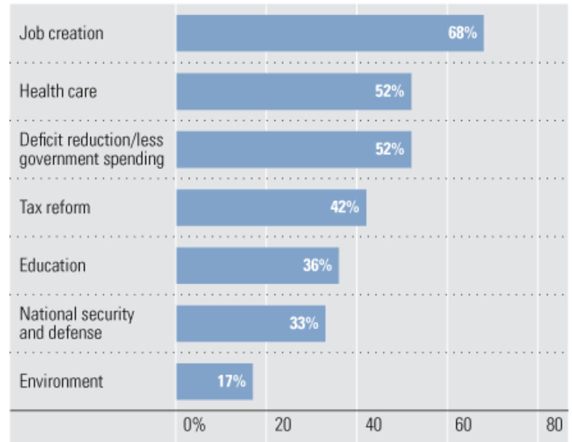
Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation.

Health Care, a Central Election Issue in 2012

As soon as President Obama signed the Patient Protection and Affordable Care Act into law in 2010, critics and defenders of the legislation started a heated debate, which continues throughout the 2012 election season. Republicans like to point out the program's high cost and how it will likely increase the federal deficit; Democrats argue that short-term benefits of the law have already become apparent, and long-term benefits will include affordable health care to all Americans.

The image displays the percent of consumers who ranked each issue as first, second, or third most important factor in the 2012 presidential election. With the unemployment rate at 8.2% as of April 2012, it's no wonder voters are primarily concerned with job creation. Health care is the second most important factor on the list.

Percent of Consumers Who Ranked This as Most Important Factor



Source: "Top health industry issues of 2012: Connecting in uncertainty," PricewaterhouseCoopers Health Research Institute Report and Consumer Survey, November 2011. Unemployment rate from the Bureau of Labor Statistics.

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