BLOISE & SNAVELY LAW OFFICE NEWSLETTER

283 South Hamilton St.
Painted Post, NY 14870

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The Biggest Threat to Middle Class Assets

If our government desires to help the Middle Class, it should start by undoing the 2006 changes to the Medicaid rules. The Deficit Reduction Act, signed into law February 8, 2006, whether intentionally or inadvertently, targets the Middle Class. Specifically, the law threatens to take away what people have worked for, leaving little or nothing for their children.

Anyone with assets valued less than $2,000,000 faces the possibility of consuming some or all of those resources prior to death. While it is a tragic thing to see loved ones living out their remaining days in a skilled nursing facility, knowing that all that they have worked a lifetime for is being sucked away by an eight or nine thousand dollar per month nursing home bill just adds to the tragedy.

What can Middle Class America do to protect their assets? There are fewer options left than before 2006, but it is essential that individuals and couples choose at least one option while they are still healthy. Doing nothing is an option, but the risk is much greater now; bluntly speaking, your family may not see 95% of your wealth.

Perhaps the best option is purchasing long-term care insurance while you can. Make sure you use a company with significant assets in reserve. You want to be sure the insurance company is likely to be around. Surprisingly, there are only a few that I would now recommend.

A second best option is using a Medicaid or Asset Protection Trust. While not quite as good as long-term care insurance, this alternative is much cheaper and doesn't require a medical and physical examination.

There are other options, but they involve more risk, more work and more expense. These options, while effective, are not as good as insurance or an Asset Protection (Medicaid) Trust.

The bottom line is this – make sure you have something in place to address the greatest threat to your money. Don't procrastinate.

What Should I do with my Money Now?

With the huge swings in the stock market, historically low interest rates paid by banks and money markets and the failures of established financial services companies, clients keep asking me what they should do with their money. First, let me begin with a disclaimer that I am not a financial planner nor do I claim to have special knowledge others don't possess when it comes to finances. Second, do not interpret what I say and the information I provide in this newsletter as my opinion as to what you should do. Everyone's situation is different, and you should always talk to a trusted financial professional before you do anything with your money. (If you don't have a trusted financial professional, I can recommend a few). Third, despite what I just said, I do pay attention to the economy and believe that I can offer helpful information.

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When it comes to your money, you want it protected. Safety is paramount. What is safe today? A recent poll asked where the safest place is for your money. People voted for the mattress over banks and the stock market.

I may not understand everything I know, but I know that banks cannot pay depositors on time if enough depositors ask for their money at the same time. I know that the FDIC cannot pay off every depositor of every bank that fails if enough banks fail at the same time. I know that no one knows whether the stock market will be up next year or down.

I also know that there are a few financial services companies that could survive if all depositors asked for their money at the same time. These financial services companies are required by law to keep 100% of their customers' deposits in reserve. These companies are not traded on any stock exchange, so profits do not have to be paid out to shareholders. These companies did not negligently expose themselves to sub-prime mortgage lending. These companies offer a wide range of investments for retirement assets, fixed and guaranteed income and future growth. I know that some of these companies have been around more than 150 years.

So who are these companies? They are mutual insurance companies, particularly those with the highest ratings given the rating agencies. Primary examples are New York Life, Northwestern Mutual and Mass Mutual. These companies offer about everything you could get with a bank or broker, but they have other investment vehicles that banks and brokers typically don't offer. The following article, reprinted from Forbes, discusses one of these investments.

A Financial Bunker For Scary Times

By John Girouard, Reprinted from Forbes.com, February 10, 2009

Suppose there was a financial instrument with a track record stretching back 1,400 years; that was so solid it could survive the Great Depression intact; that earned untaxed interest at a competitive rate; that could be borrowed against at will regardless of credit conditions; and that could be used by individuals as well as major corporations and banks as a safe harbor during economic turmoil.

You'd call it a financial bunker for scary times, and you'd be talking about mutual whole life insurance.

This is not the life insurance that only pays when you die. Mutual whole life is the kind of insurance our parents and grandparents owned in the good old days before the stock market began to boom in the 1980s and 1990s. Mutual whole life saw our elders through thick and thin, and after several decades of being muscled aside by the allure of the stock market, it's making a big comeback.

Mutual whole life policies have been an essential part of my financial planning practice for many years. But I'm astonished at how few of the many investment advisers I meet understand how mutual whole life policies work, or don't offer them to clients because they aren't sexy or new.

Mutual whole life fell so far out of favor in the 1990s that insurer Swiss Re issued a report in 1999 headlined, "Are mutual insurers an endangered species?" Not anymore.

Mutual life insurance is making a comeback now that our speculative economy has blown up and financial disaster is driving people away from risk and back to basics. Forbes magazine reported in December ("Mutual Respect") that two of the larger mutual insurance companies, Guardian Life and New York Life, reported double-digit growth in sales of individual life policies.

Mutual or "participating" whole life insurance is the closest thing to owning your own bank. As New York Life has said in its ads, "We're Main Street. Not Wall Street." The concept of mutual insurance is rather simple, especially compared with the complex annuity products that were so popular until recently. And the benefits include all those listed in my opening paragraph.

Here, for the curious and the uninformed, is *Mutual Whole Life 101,* or *The Life Insurance Policy for the Living:*

- **You Own The Bank:** Mutual insurance companies are owned by the people who buy the policies. These companies are the modern equivalent of mutual "societies" among European trade guilds of the 1600s. Guild members pooled their money to help each other and their families in times of sickness or death. Because mutual companies have no shareholders, they serve one constituency – the policyholders. Mutuals have no need to report good earnings every three months to justify a stock price, **so there is no pressure for them to take extra risk to make a profit.** [emphasis added].

- **Your Premium Payments Belong To You:** Unlike traditional term insurance, the premiums you pay for your mutual whole life policy belong to you in the form of the accumulated "cash value" of your policy. On top of that, the cash value of the accumulated premiums earns interest at a rate set once each year. In 2008, Guardian Life paid a record 7.3% dividend interest, and those earnings are untaxed! That's spectacular compared with last year's over 30% decline in the stock markets; bank CDs paying under 2% taxable, or money market rates under 1% taxable.

- **You Can Borrow Back Your Premium Payments:** Because your premiums "belong" to you as a policyholder-owner of the company, you can borrow them back any time you want for any reason you need, regardless of your creditworthiness. The death benefit of the life insurance will be reduced by the amount you borrow, and you will lose the interest you would have earned. But you can choose to pay the interest as you would for any loan, except you are paying yourself instead of the stockholders of a bank. If you pay the loan back as well, the death benefit goes back up.

- **Mutuals Offer Ironclad Guarantees:** Few people realize that the insurance industry, dominated by mutuals, was the one sector that made it through the Great Depression without a disaster and with policyholders financially intact. The cash value and the death benefit are guaranteed and tightly regulated by the states. That means your cash value is there regardless of market conditions, and when you die your heirs will receive the full face value of the policy. While stockholder-owned insurance companies saw their values fall sharply last year (remember when we taxpayers bailed out **AIG** [nyse: AIG]?), the top mutually-owned insurers saw their book values remain stable or rise.

- **Even Banks and Corporations Buy Mutual Policies:** One of the lesser-known aspects of mutual insurance is that major corporations and banks buy policies on the lives of their employees and use the cash value to fund employee benefits and as a safe harbor for working capital. By some estimates Fortune 500 companies and large banks have policies covering some 5 million employees. Instead of doing what banks say – put your money in our CDs at low rates so we can turn around and lend your money out at a profit to us – do what banks do.

- **Mutual Insurance Is One Leg of The Money Stool:** Investing should be approached as a three-legged stool. One leg is the money you need to live on in the near future (cash in the bank), one leg is the money you invest for long-term growth (equities) and one leg is the financial bunker you can retreat to when the rest of the world is falling apart and you can't sleep. Mutual whole life got our grandparents through the Great Depression, and it's going to get a lot of the people through our current calamity.

John E. Girouard (www.jongirouard.com) is author of* The Ten Truths of Wealth Creation, *CEO of Capital Asset Management Group in Bethesda, Md., and founder of the Institute for Financial Independence, which provides investor education programs to financial professionals.

Donna Heading South

It is with mixed emotions that I will be saying "good-bye" to Donna Ginnan, a friend of some 30 years and a key employee for the last 10. She and her husband, Randy, will be moving to Houston, Texas in June. I am happy for them, but sad for us. She will be sorely missed. Our prayers and best wishes go out to them as they begin a new chapter in life. Thanks, Donna, for all you have done!

DIRECTIONS

From North, East and West of Corning/Painted Post area:

Take exit 44 off of Route 86 (old Route 17)

Follow signs for 15 South

Take Exit 3 (417, Gang Mills)

At the traffic light, turn right (417 East)

We are on the right hand side about 0.7 mile, in a plaza of shops.

From South of Corning/Painted Post area:

Take 15 North

Take Exit 3 (417, Gang Mills)

At the traffic light, turn left (417 East)

We are on the right hand side about 0.7 mile, in a plaza of shops.

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Sign up today for our electronic newsletter. Simply email us at snavelylaw@yahoo.com and request to receive our next newsletter via email.

"Helping people pass on assets to their families and, at the same time, avoid death taxes, probate and nursing home costs"