# CFA INSIGHTS & OUTLOOK

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## A Quick Guide to Home Equity Loans

If you as a consumer need an additional line of credit, a home equity loan, also known as a second mortgage where your home serves as collateral, is one of several options that you can choose from. There are two major advantages of home equity loans. First, the interest rate on home equity loans is usually lower than credit cards and other consumer loans. Second, you can usually deduct the interest on home equity loans, unlike other loans. There are two types of home equity loans—fixed-rate loans and lines of credit.

A fixed-rate loan provides a single, lump-sum payment to the borrower, and is repaid over a fixed period of time at a pre-determined interest rate. This is useful if you know how much you would need and when you would be able to pay off the loan.

A home equity line of credit (HELOC) is a variable rate loan that works like a credit card. Borrowers are pre-approved for a specific spending limit and can withdraw money when needed via a credit card or special checks. Similar to a fixed-rate loan, the outstanding loan amount must be repaid in full at the end of the term. However, unlike a fixed-rate loan, HELOC interest rates float up or down, generally adjusted based on the current prime rate. A HELOC is a convenient way to cover short-term, recurring costs, such as quarterly tuition for a four-year college degree.

Although home equity loans do provide attractive rates of financing, we caution consumers to think twice about the reasons why one would need an additional line of credit. If you are thinking about using a home equity loan for day-to-day expenses, one should examine whether you are overspending and possibly sinking deeper into debt. If you end up taking out more money than your house is worth, the interest paid on the loan above the value of the home is not tax deductible.

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# Government Health-Care Spending: Medicare

It is a well-known fact that the United States spends much more than other developed countries on health care, both in absolute dollars and as a percentage of GDP. Two enormous, complicated programs, Medicare and Medicaid, account for the majority of govern¬ment health-care spending in the U.S. Both programs have been growing rapidly, which is expected to continue in the coming years.

Medicare and Medicaid were both created in the mid-1960's as part of Lyndon Johnson's Great Society agenda. As of 1970, 62% of total health-care spending was still private, with out-of-pocket spending the single most significant source. During the subsequent forty years, however, Medicare and Medicaid each expanded by more than 11% annually due to benefit expansions and demographic change, pushing public-sector spending up to nearly 50% of total health-care expenditures. During the same time, private-sector spending also grew at a robust 8.7% annually, as employer-sponsored insurance became the predominant conduit of health-care spending.

Looking forward, the Centers for Medicare & Medicaid Services (CMS) project 6.5% annual health-care spending growth over the next decade. Public sector growth is again expected to outpace private spending growth, with a 6.9% growth rate compared to 6% for the private sector. Combined, Medicare and Medicaid are expected to account for 39% of U.S. health-care spending in 2019, up from 37% in 2010 and 17% in 1970.

Medicare is a federal government program that provides health insurance to people over age 65, and people with certain disabilities. In 2009, more than 43 million people received health insurance benefits through Medicare at a total cost of approximately $510 billion. Medicare benefits are divided into three parts: Part A Hospital Insurance, Part B Medical Insurance, and Part D Prescription Drug Insurance. Part C created a private version of Medicare, now called Medicare Advantage. More details about these benefits can be found in the attached table.

Original Medicare's relatively high cost-sharing provisions and lack of a limit on out-of-pocket spend¬ing can leave beneficiaries exposed to potentially devastating expenses in the case of a serious adverse health event. For this reason, most Medicare beneficiaries also carry supplemental insurance. Employer-sponsored retiree health plans, though becoming less common, still cover approximately 30% of the Medicare population. 20% of Medicare beneficiaries purchase individual supplemental policies, also called Medigap policies. Medicaid helps pay Medicare's premiums and cost-sharing for another 20% of the Medicare population. Only about 10% of Medicare beneficiaries are estimated to be completely without supplemental coverage.

## Medicare Benefits Breakdown

| Benefit | Approx. % of Spending | What Does It Cover? | What Does It Cost Beneficiaries? |
|---|---|---|---|
| **Part A** | 39 | Inpatient hospital care, skilled nursing facilities, and in some cases hospice or home care. | Generally no monthly premium as long as the beneficiary paid sufficient payroll taxes while working. Deductible and co-insurance for hospital stays exceeding 60 days. |
| **Part B** | 26 | Physician services, outpatient care, and in some cases physical or occupational therapy and home health care. | Monthly premium, deductible, and 20% co-insurance after the deductible is met. |
| **Part C** | 23 | Same benefits as Part A, Part B, and often Part D. Medicare Advantage plans are offered by private insurance companies as an alternative to original government-run Medicare. | Monthly premium, deductibles, co-pays, and co-insurance. |
| **Part D** | 11 | Prescription drugs. | Part D benefits are only offered through private insurance companies, which charge a premium in addition to deductibles, co-pays, and co-insurance. |

*Source: Kaiser Family Foundation and Medicare.gov*

# Are you prepared for an Emergency?

Alright Mother Nature, we get it…YOUR ARE IN CHARGE HERE! The weather across the U.S. has been very unpredictable for the past few years. An Earthquake, a Tornado, and a Hurricane all in one week is quite “unsettling,” to say the least. Some of us have never experienced these extreme weather conditions, especially the Earthquake. It makes you stop and think - this REALLY could happen at any given time and am I truly prepared for these events. No power for days or weeks…boy are we spoiled! Reality hits you pretty hard when you have no running water, no lights, no TV, not one of the simplest things that we take for granted on any given day. Please go to our website, www.calvertfinancialadvisory.com, click on our Resource Center page then click on the links to the government websites. These sites provide tips on what to do to prepare you and your family if a disaster hits and give great advice and recommendations for items to include in a “Basic Emergency Supply Kit”. A lot of the information is common sense and basic necessities, but there are a few things that you may not have thought about. For instance, planning for a special needs or disabled family member or neighbor, extra medications, an extra set of car and house keys, or CASH. If there is a mass power outage in your area, most likely your local stores will not have the capability to accept debit or credit cards, only cash! We think it is extremely important for you and your family to take a look at this information and put together a Disaster Plan and Emergency Supply Kit. Being prepared and having a plan will not only help you and your family get through a tough situation but will also give you piece of mind. We encourage you to please share this information with your family and friends and bring awareness to others on the importance of being PREPARED in case a disaster strikes. Make sure you change out the food and update maps in your supply kit every 6 months. We recommend doing this when you change your batteries in your smoke detectors. Calvert Financial Advisory has 3 Emergency Supply kits to give away. Enter your name in our drawing on our website and you could win a 4 Person – 3Day Emergency Supply Kit. Drawing will be held on November 4, 2011. Good Luck!

# Pearls of Hope

"Think About It" "Learn from yesterday, live for today, hope for tomorrow" Albert Einstein

Anyone up for some good news? You have undoubtedly heard about the recent market volatility, the political debates concerning the debt ceiling, the drop in the U.S. credit rating, and let's not forget the earthquake and hurricane. As a country we have always rallied from challenges, be they political, financial, or natural disaster, and we are confident we will rally above those that currently lie in our path. While we face several "headwinds" to a solid economic recovery, there are some pearls of hope indicating the probability of an economic recovery is increasing, albeit ever so slow. For example, Durable Goods (orders for goods that are meant to last at least three years) rose 4%, the most it's risen in four months. 71% of the S&P 500 companies beat their earnings estimates this past quarter. This quarter marks the first quarterly drop in the FDIC's troubled-bank list in five years. These are but a few examples of the glimmers of light that will hopefully continue as we work our way back to a solid economic footing.



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