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Capital Advice

Capital Financial Advisors of New York, LLC

A View of Health Care from Around the World



The United States health-care system has been impacted by the Affordable Care Act (ACA). But how does delivery of health care in the United States compare to that of other nations? And where does

the United States rank with respect to the cost of health care per capita and as a percentage of gross domestic product?

Types of health-care systems

While each country has its own system of health care, most health-care systems generally fall within the parameters of one of four models, with the health-care system of the United States consisting of aspects of each of these models.

The Beveridge Model. Countries such as the United Kingdom, Finland, Denmark, Spain, and Sweden generally follow this model, named after social reformer William Beveridge. Health care is deemed to be a right for each citizen and is provided by the government and financed primarily through taxes. Hospitals and clinics may be government owned, and medical staff, including doctors, may be government employees. Medical providers are paid by the government, which generally dictates treatments provided and the cost for services.

The Bismarck Model. The Bismarck Model requires that all citizens have health insurance. Health care is provided by private doctors and hospitals whose fees and charges are paid for by insurance. The insurance programs are nonprofit entities and must accept all applicants, including those with pre-existing medical conditions. Insurance is funded through employer and employee payroll taxes. Countries that use a form of the Bismarck Model include Germany, France, Belgium, the Netherlands, Japan, and Switzerland.

The National Health Insurance (NHI). Combining aspects of both the Beveridge and Bismarck Models, the NHI Model is used in several countries, with the most prominent being Canada. Health care is provided through

private providers who are paid by government-run insurance. Citizens pay into the government insurance program primarily through taxes. As the sole payor, the government directly influences the cost of medical care and the services covered.

The Out-of-Pocket Model. Used by the majority of countries, including China, this model provides little or no government health care. Instead, those who can afford care get it and those who cannot pay for care generally do not receive care.

The United States Model. The United States incorporates all of these systems to varying degrees. Medicare is akin to the NHI Model; servicemembers and veterans receive health care similar to the Beveridge Model; and the ACA can be described as a type of Bismarck plan, although health insurers are typically for-profit entities.

Comparing the cost of health care*

The following information compares health-care expenditures of several countries as a percentage of gross domestic product as well as per capita.

	2012 total expenditure on health as % of GDP	2012 total expenditure on health per capita
United States	17.9	\$8,895.10
Canada	10.9	\$5,740.70
United Kingdom	9.4	\$3,647.50
Switzerland	11.3	\$8,980.00
France	11.7	\$4,690.00
Germany	12.4	\$4,683.20
Japan	10.1	\$4,751.70
China	5.4	\$321.70

*Information derived from The World Bank Health, Nutrition, and Population Data and Statistics (www.datatopics.worldbank.org)

Retirement Myths and Realities



According to the Bureau of Labor Statistics 2012 American Time Use Survey, retirees in 2012 spent 4.5 of their total 8 leisure hours per day watching television.

We all have some preconceived notions about what retirement will be like. But how do those notions compare with the reality of retirement? Here are four common retirement myths to consider.

1. My retirement won't last that long

The good news is that we're living longer lives. The bad news is that this generally translates into a longer period of time that you'll need your retirement income to last. Life expectancy for individuals who reach age 65 has been steadily increasing. According to the National Center for Health Statistics, life expectancy for older individuals improved mainly in the latter half of the 20th century, due largely to advances in medicine, better access to health care, and healthier lifestyles. Someone reaching age 65 in 1950 could expect to live approximately 14 years longer (until about age 79), while the average 65-year-old American today can expect to live about another 19 years (to age 84) (Source: National Vital Statistics Report, Volume 61, Number 4, May 2013). So when considering how much retirement income you'll need, it's not unreasonable to plan for a retirement that will last for 25 years or more.

2. I'll spend less money after I retire

Consider this--Do you spend more money on days you're working or on days you're not working? One of the biggest retirement planning mistakes you can make is to underestimate the amount you'll spend in retirement. One often hears that you'll need 70% to 80% of your preretirement income after you retire. However, depending on your lifestyle and individual circumstances, it's not inconceivable that you may need to replace 100% or more of your preretirement income.

In order to estimate how much you'll need to accumulate, you need to estimate the expenses you're likely to incur in retirement. Do you intend to travel? Will your mortgage be paid off? Might you have significant health-care expenses not covered by insurance or Medicare? Try thinking about your current expenses and how they might change between now and the time you retire.

3. Medicare will pay all my medical bills

You may presume that when you reach age 65, Medicare will cover most health-care costs.

But Medicare doesn't cover everything. Examples of services generally not covered by traditional Medicare include most chiropractic, dental, and vision care. And don't forget the cost of long-term care--Medicare doesn't pay for custodial (nonskilled) long-term care services, and Medicaid pays only if you and your spouse meet certain income and asset criteria. Without proper planning, health-care costs can sap retirement income in a hurry, leaving you financially strapped.

Plus there's the cost of the Medicare coverage itself. While Medicare Part A (hospital insurance) is free for most Americans, you'll pay at least \$104.90 each month in 2014 if you choose Medicare Part B (medical insurance), plus an average of \$31 per month if you also want Medicare Part D (prescription coverage). In addition, there are co-pays and deductibles to consider--unless you pay an additional premium for a Medigap policy that covers all or some of those out-of-pocket expenses. (As an alternative to traditional Medicare, you can enroll in a Medicare Advantage (Part C) managed care plan; costs and coverages vary.)

4. I'll use my newfound leisure hours to _____ (fill in the blank)

According to the Bureau of Labor Statistics 2012 American Time Use Survey, retirees age 65 and older spent an average of 8 hours per day in leisure activities. (Leisure activities include sports, reading, watching television, socializing, relaxing and thinking, playing cards, using the computer, and attending arts, entertainment, and cultural events.) This compares to an average of 5.4 hours per day for those age 65 and older who were still working.

So how did retirees use their additional 2.6 hours of leisure time? Well, they spent most of it (1.6 hours) watching television. In fact, according to the survey, retirees actually spent 4.5 of their total 8 leisure hours per day watching TV.

And despite the fact that many workers cite a desire to travel when they retire, retirees actually spent only 18 more minutes, on average, per day than their working counterparts engaged in "other leisure activities," which includes travel.

Financial Choices: College, Retirement, or Both?



A juggling act

It's the paramount financial conflict many families face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.

Note

**All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.*

Life is full of choices. Should you watch *Breaking Bad* or *Modern Family*? Eat leftovers for dinner or order out? Exercise before work or after? Some choices, though, are much more significant. Here is one such financial dilemma for parents.

Should you save for retirement or college?

It's the paramount financial conflict many parents face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.

Over the past 20 years, college costs have grown roughly 4% to 6% each year--generally double the rate of inflation and typical salary increases--with the price for four years at an average private college now hitting \$192,876, and a whopping \$262,917 at the most expensive private colleges. Even public colleges, whose costs a generation ago could be covered mostly by student summer jobs and some parental scrimping, now total about \$100,000 for four years (Source: College Board's Trends in College Pricing 2013 and assumed 5% annual college inflation). Many parents have more than one child, adding to the strain. Yet without a college degree, many jobs and career paths are off limits.

On the other side, the pressure to save for retirement is intense. Longer life expectancies, disappearing pensions, and the uncertainty of Social Security's long-term fiscal health make it critical to build the biggest nest egg you can during your working years. In order to maintain your current standard of living in retirement, a general guideline is to accumulate enough savings to replace 60% to 90% of your current income in retirement--a sum that could equal hundreds of thousands of dollars or more. And with retirements that can last 20 to 30 years or longer, it's essential to factor in inflation, which can take a big bite out of your purchasing power and has averaged 2.5% per year over the past 20 years (Source: Consumer Price Index data published by the U.S. Department of Labor, 2013).

So with these two competing financial needs and often limited funds, what's a parent to do?

The prevailing wisdom

Answer: retirement should win out. Saving for retirement should be something you do no matter what. It's an investment in your future security when you'll no longer be bringing home a paycheck, and it generally should take precedence over saving for your child's college education.

It's akin to putting on your own oxygen mask first, and then securing your child's. Unless your retirement plan is to have your children be on the hook for taking care of you financially later in life, retirement funding should come first.

And yet ...

It's unrealistic to expect parents to ignore college funding altogether, and that approach really isn't smart anyway because regular contributions--even small ones--can add up over time. One possible solution is to figure out what you can afford to save each month and then split your savings, with a focus on retirement. So, for example, you might decide to allocate 85% of your savings to retirement and 15% to college, or 80/20 or 75/25, or whatever ratio works for you.

Although saving for retirement should take priority, setting aside even a small amount for college can help. For example, parents of a preschooler who save \$100 per month for 15 years would have \$24,609, assuming an average 4% return. Saving \$200 per month in the same scenario would net \$49,218.* These aren't staggering numbers, but you might be able to add to your savings over the years, and if nothing else, think of this sum as a down payment--many parents don't save the full amount before college. Rather, they try to save as much as they can, then look for other ways to help pay the bills at college time. Like what?

Loans, for one. Borrowing excessively isn't prudent, but the federal government allows undergraduate students to borrow up to \$27,000 in Stafford Loans over four years--a relatively reasonable amount--and these loans come with an income-based repayment option down the road. In addition, your child can apply for merit scholarships at the colleges he or she is applying to, and may be eligible for need-based college grants. And there are other ways to lower costs--like attending State U over Private U, living at home, graduating in three years instead of four, earning credits through MOOCs (massive open online courses), working during college, or maybe not attending college right away or even at all.

In fact, last summer, a senior vice president at Google responsible for hiring practices at the company noted that 14% of some teams included people who never went to college, but who nevertheless possessed the problem solving, leadership, intellectual humility, and creative skills Google is looking for ("In Head-Hunting, Big Data May Not Be Such a Big Deal," *New York Times*, June 19, 2013). One more reason to put a check in the retirement column.

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Why are you paying more at the pump?

Have you ever stood at the pump wondering why you're paying so much to fill up your vehicle? The answer is ... complicated. According to the U.S. Energy Information Administration (EIA), many factors contribute to the cost of a gallon of gasoline, including the price of crude oil (which accounts for the majority of the cost), refining costs and profits, taxes, and distribution and marketing expenses.

The price of crude oil is dependent on global supply levels relative to demand, and can be influenced by political events in major oil-producing countries, supply disruptions (which often result from hurricanes and storms in supply zones), and market speculation. Supply and demand is also one of the reasons that U.S. gas prices tend to fluctuate seasonally, with prices generally rising in the spring and remaining higher in early summer. But refining costs also play a role. Prices tend to rise as refineries shift from winter to summer gasoline blends in order to meet federal and state environmental guidelines. Gasoline must be blended with other ingredients to reduce emissions, and costlier ingredients are used in

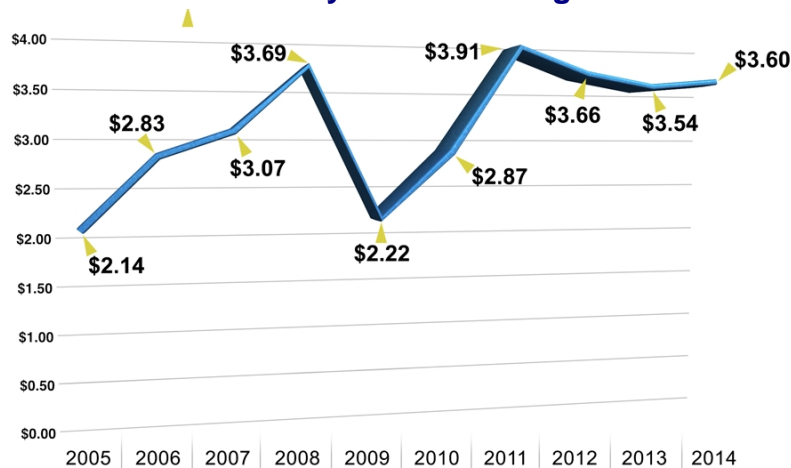
the summer blend.

How much you pay for gasoline also depends on where the pump is located and who owns it. For example, prices are generally highest on the West Coast due to higher state taxes and transportation costs from distant refineries. But no matter where you live, you know that prices also vary locally from one station to the next. Why? Generally it's because the cost of doing business for an individual station owner varies. The price the station pays for gasoline, the station's location and volume of business, and whether it must match or beat prices from local competitors all contribute to how much you pay for a gallon of gas.

What's the outlook for the future? The EIA expects the average price of gasoline to fall in 2015 to \$3.39 per gallon. Despite the increasing demand from emerging economies, U.S. crude oil reserves and production are expected to increase, and U.S. demand is expected to decrease as vehicles become more fuel efficient.

Sources: "Factors Affecting Gasoline Prices" and "Short-Term Energy Outlook", May 6, 2014, www.eia.gov

Chart: Ten-Year History of U.S. Average Gas Prices



Gas prices fluctuated widely in 2008, peaking at a high of \$4.11 during the second week of July, then plummeting to \$1.81 by the first week of December. Since 2008, gasoline prices have generally been on an upswing, but have leveled off during the past three years, as this chart shows. According to the U.S. Energy Information Administration (EIA), average gasoline prices are even expected to decline slightly in 2015, although projections are far from certain.

Sources: Short-Term Energy Outlook, May 6, 2014, U.S. Energy Information Administration, www.eia.gov; Chart data is from the EIA's Weekly U.S. Regular Conventional Retail Gasoline Prices (chart shows average dollars per gallon as of the second week of May of each year).