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## Braziel & Associates

### PERFORMANCE WEIGHTED ASSET ALLOCATION REPORT

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### ADVISOR'S THOUGHTS

Global financial markets paused in the 2<sup>nd</sup> quarter with many stock and bond market indices showing small declines after moving higher in the previous three months. Both US and international stocks declined over the last three months with the S&P 500 down 0.23% and the MSCI EAFE off 0.37%, as noted in the Benchmark Returns table.

The bond market also experienced declines last quarter as interest rates began to rise on US treasuries. The Barclays Intermediate Treasury index had a slight drop of 0.62%, while the Barclays Long Bond index suffered a much steeper decline of 7.67%. For the quarter, interest rates on the US 10 year Treasury rose 0.41% from 1.94% to 2.35%. Longer dated bonds such as the 30 year US Treasury saw rates rise 0.57% from 2.54% to 3.11%.

At mid-year 2015 the US economy continues to expand with several overseas concerns potentially impacting our economic expansion. Within the European Union, negotiations to solve Greece's debt problem cast uncertainty over financial markets. As of mid-July, progress towards a compromise had been made. A complete deterioration in Greece would hurt the soft expansion that is occurring in Europe.

In China, a large run up in stock prices over the past year has been met since the beginning of June with a steep selloff. This has raised a concern over

a slowing of economic growth in China. Although most US investors have little direct exposure to Chinese stocks, the second largest global economy to some US exporters remains important.

*(Continued on Page 4)*

#### TOTAL RETURN THROUGH 06/30/2015

	3 Mo.	6 Mo.	12 Mo.
DJIA	-0.88%	-1.14%	4.71%
S&P 500	-0.23%	0.20%	5.25%
Nasdaq	1.75%	5.30%	13.13%
MSCI EAFE	-0.37%	3.81%	-6.57%
MSCI Emerging Markets	-0.24%	1.67%	-7.47%
Barclays Inter-term Bond	-0.62%	1.02%	2.53%
Barclays Long-term Bond	-7.67%	-4.24%	6.06%

Source: Wall Street Journal  
Does not include reinvestment of dividends

*DJIA: A price weighted average of 30 stocks.*

*S & P 500: A market value weighted index of 500 stocks.*

*NASDAQ Composite: Market value weighted index of approximately 2,082 companies.*

*MSCI EAFE: A stock market index designed to measure the equity market performance of developed markets outside US and Canada.*

*Barclays Capital Treasury Intermediate-Term Bond Index: An index comprised of US Treasury securities with maturities between 2 and 10 years.*

*Barclays Capital Treasury Long-Term Bond Index: An index comprised of US Treasury securities with maturities of 10 years or longer.*

**WHAT IS LONG-TERM CARE?**

When contemplating the words “long-term care,” the first thing that comes to mind for many of us is a nursing home. The reality is long-term care encompasses more than nursing home stays. According to “NIH Senior Health” (2015), “long-term care involves a variety of services designed to meet a person’s health or personal care needs during a short or long period of time.” That care may include **assistance with everyday activities of daily living** (ADLs), such as bathing and dressing, or **instrumental activities of daily living** (IADLs), such as medication management and housework. Long-term care also includes necessary **medical care for chronic conditions**, such as diabetes or cancer. Most of the time, though, it involves help with the basic personal tasks of everyday life and care received outside of a nursing home setting.

**WHO NEEDS LONG-TERM CARE?**

According to Family Caregiver Alliance (2015), “Annually 8,357,100 people receive support from the 5 main long-term care services; home health agencies (4,742,500), nursing homes (1,383,700), hospices (1,244,500), residential care communities (713,300) and adult day service centers (273,200)” (www.caregiver.org).

**There is no doubt our population is aging.** The Administration for Community Living (a division of the U.S. Department of Health and Human Services) reported the population of persons age 65+ in 2013 was 44.7 million. That is one out of every seven Americans. The older we get, the more likely the need for long-term care. Of the **people turning age 65**, it is **estimated that 70% of them can expect to need some form of long-term care** during their lives.

The **need for long-term care doesn’t necessarily apply to just the elderly** either. Disability due to an accident or chronic illness could also require the need for long-term care. **Eight percent of the population between the ages of 40 and 50 has a disability requiring long-term care services.**

**WHERE CAN I GET THE CARE I NEED?**

As we mentioned earlier, long-term care does not automatically mean nursing home. Given the choice, many would prefer to live out the remainder of their lives in their own house rather than a nursing home. **Family members and friends may be able to provide the care you need** so you can stay in your home. The U.S. Department of HHS reports that unpaid caregivers provided 80% of at-home care. On average, they spend 20 hours a week providing that care.

In the event that family members or friends are not able to provide the complete level of assistance that is needed, **professional home care providers are out there.** Nurses, home care aids, and therapists make home visits and provide care on an hourly basis. More and more, **communities are addressing the need for long-term care by opening adult day care facilities** or providing transportation services. When living at home is no longer an option, facility based **choices include assisted living and continuing care retirement communities.** The type of care you need will determine the type of facility you chose.

**HOW MUCH DOES LONG-TERM CARE COST?**

**Costs vary depending on the type of care received**, the duration of care, and where one chooses to live. For example, the average cost in the U.S. for a semi-private room in a nursing home costs approximately \$6,235 per month (Department of Health and Human Services, 2015). The national average cost for a home health aide is about \$21 per hour and adult day health care centers run about \$67 per day.

The **Long-Term Care Costs Table on Page 4** provides a **monthly breakdown of costs** in the Sacramento and Chico areas in 2015. Based on an annual inflation rate of 3%, the table includes projected costs in 10 years.

**WHO PAYS FOR LONG-TERM CARE IF YOU NEED IT?**

**Individuals can pay** long-term care expenses privately from their own assets just

like any other out of pocket health care expense. For those with ample income and savings, out of pocket expenses may not be an issue. Determining if we have enough assets or adequate income to cover these expenses can be tricky because we do not know how long we are going to need care. Of the 65 year olds alive today, approximately one-third may never need long-term care services. However, 20 percent of them may need it for 5 years or longer during their lifetime (U.S. Department of Health and Human Services, 2015).

As a rule, **Medicare only pays** for long-term care that requires **skilled nursing services or rehabilitative care**. The needed care must follow a recent hospital stay for the same condition and **coverage is limited** to a maximum of 100 days. Medicare does not pay for assisted living facilities, continuing care retirement communities or adult daycare services. **Most health insurance plans provide coverage similar to Medicare**, meaning the services it covers are very limited. Moreover, **forget about disability insurance**. It is only designed to replace income when a working person becomes disabled and unable to work. It does not cover long-term care services.

**Many do not concern themselves** at the prospect of long-term care costs because they **believe Medicaid will take care of them**. Medicaid (known as Medi-Cal in California) **pays for nursing home stays only**. In order to qualify, a person must spend down his or her assets to a level required by the state. In most states, including California, that amount is \$2,000 per person. In addition, a person must meet minimum state eligibility requirements based on the amount of assistance needed with ADLs.

#### IS LONG TERM-CARE INSURANCE RIGHT FOR YOU?

You may have heard of long-term care insurance, but **never considered it because you thought it was too expensive**. Taking into account the potential cost of long-term care, **perhaps it is more affordable than one might think**. Many people are under the impression that long-term care insurance only covers

nursing home expenses. The truth is **most policies provide benefits for in home care as well as adult day service centers and assisted living facilities**.

It is important to remember that **not all long-term care insurance policies are created equal**. There are a number of terms to understand when shopping for long-term care insurance. Most policies include **four basic parts to consider** when choosing long-term care insurance: **maximum daily benefit, the benefit period, elimination period and the inflation option**. Simply comparing policies based on price without a full understanding of what benefits are provided may lead to inadequate coverage.

Furthermore, there are a number of different types of policies. Traditional long-term care insurance is most common. Just like your homeowner or auto policy, you pay an annual premium and receive a benefit only if you need it. Another basic type of policy is one that combines life insurance with an accelerated death benefit rider that can be used for long-term care. In this case, you pay a one-time premium for the policy and if you never use the long-term care rider, there is still a death benefit for your heirs.

At this point, you may be scratching your head wondering what do all these terms and policy alternatives mean. **At Braziel & Associates, these terms and policy types are very familiar to us**. Call our office to ask us questions and **allow us the opportunity to help you decide if long-term care insurance is a wise choice for you**. Planning now for the potential need of care in the future makes sense. **The choice of where you live and how you are cared for should be your decision**.



Despite the concerns over what may happen in Greece, China and other overseas issues, the US economy is growing. Furthermore, the **US stock market has remained resilient.**

The **bond market** is an area where we see an **increased level of risk to long-term investment** success. There is a possibility that a multi-year rise in interest rates will occur causing a negative impact on the value of bonds. **Since the early 1980's interest rates have declined** leading to capital appreciation on bond investments. At current interest rate levels, **further declines in rates seem unlikely** and therefore **bonds will tend to provide**, at best, **their current yield and may suffer declines in value if interest rates rise.**

There are **several ways** one can **address a rising interest rate cycle.** First, **by holding short and intermediate term bonds, the impact of rising rates is diminished.** Note on the Total Returns chart on Page One that the Barclays Intermediate Treasury index only fell 0.62% while the drop in the Barclays Long Bond index was 7.67%. At times, holding lower yielding cash type investments (a form of extremely short-term bond) will make more sense than longer dated bonds.

Second, one can **hold bonds that have some credit risk** rather than US Treasury bonds that are backed by the US government. With bonds that have credit risk, such as US corporate bonds, one can have an improvement in company fundamentals that may positively impact the price of the bond. Of course this can also work in the reverse direction where declining company fundamentals may decrease the bond value.

Finally, making **adjustments to the portfolio overall stock and bond allocation** or holding alternatives such as real estate can be a viable alternative to a static bond allocation. **We have considered each of these approaches** in the management of your accounts and are **employing some or all of them today depending upon your own unique situation.**

One final note about bonds is that **while we anticipate long term bonds will be a low return investment,** they still offer an **important diversification benefit** to holding stocks. In prudent money management, **one has to view the entire portfolio as a whole** and not just the parts in isolation.



LTC COSTS	SACRAMENTO AREA		CHICO	
	2015	2025	2015	2025
<b>Home Care</b>				
Homemaker Services	\$4,481	\$6,022	\$3,909	\$5,253
Home Health Aid	\$4,767	\$6,406	\$3,909	\$5,253
<b>Adult Day Health Care</b>				
Adult Day Health Care	\$1,653	\$2,221	\$3,142	\$4,223
<b>Assisted Living Facility</b>				
Private One Bedroom	\$3,250	\$4,368	\$3,625	\$4,872
<b>Nursing Home</b>				
Semi-private room	\$7,878	\$10,587	\$6,798	\$9,136
Private room	\$12,570	\$16,893	\$7,346	\$9,872

Source: [www.genworth.com/corporate/about-genworth/industry-expertise/cost-of-care.html](http://www.genworth.com/corporate/about-genworth/industry-expertise/cost-of-care.html)

*Past performance is not indicative of future returns. Hypothetical portfolios or allocations discussed herein are not necessarily the allocations the advisor recommended or would have recommended. Indexes are unmanaged measures of market conditions. An individual may not invest directly into an index. There may be other benchmarks than those presented which more closely match the individual investor's portfolio. Sources available upon request.*

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