



Hill Financial Group

Fourth Quarter Newsletter

Why Does Europe Affect Your Portfolio?

When a possible default on Greek sovereign debt becomes headline news, a lot of people find themselves wondering, "How can the problems of a country so small and so far away create such turmoil in the world's financial markets?" What's happening in Europe is probably affecting your portfolio right now, regardless of the quality of your holdings or how well diversified you are.

Bank exposure

One of the chief concerns about the possibility of default on sovereign debt has to do with the financial stability of banks that hold it. For example, some of the largest French banks have already seen their credit ratings downgraded because of their extensive holdings of debt from troubled European countries. If a Greek default made banks reluctant to lend to one another, that could affect credit markets worldwide.

American banks hold very little Greek debt compared to European banks; however, they could face a different challenge. Derivatives known as credit default swaps can create a ripple effect, multiplying a default's impact beyond the bondholders to other financial institutions and institutional investors. U.S. financial institutions are major issuers of credit default swaps, and the potential impact that a Greek default would have is unclear. However, since the 2008 financial crisis, banks have been forced to hold greater capital reserves to deal with contingencies.

Potential for tighter credit creating recession

Lending worldwide hasn't fully recovered from the last financial crisis, and has helped keep global economic recovery sluggish. If banks' lending ability were impaired further by a financial crisis brought on by a default on sovereign debt, pessimists argue that a slowing global economy could be thrown into recession. Europe represents a major market for many U.S. companies, and a recession there would be felt around the globe.

Greece could be the tip of the iceberg

Even though Greece is the immediate concern,

Europe's larger economies could pose a bigger threat. Italy and Spain both face debt and deficit problems. Italy's economy is more than five times that of Greece; Spain's is more than four times bigger (CIA World Factbook 2011). If a Greek default would have a ripple effect, default by Spain or Italy could create waves.

To compound the problem, borrowing costs for troubled countries have risen. At recent auctions, nervous investors have demanded higher interest rates to compensate them for their higher perceived risk. As any credit card holder knows, having to pay a higher interest rate makes paying off debt and balancing the budget more difficult.

All politics is local

Recently there have been signs that voters in stronger European countries, such as Germany, may be questioning why they should continue to support others when their own economies are slowing. Also, investors worry that the financial support available from the European Financial Stability Fund (EFSF) may not be sufficient or available quickly enough to avert problems. Though there's no shortage of suggestions for how to deal with the situation--issuance of euro bonds backed by all eurozone members, leveraging the EFSF's existing assets, greater fiscal integration among countries, Greece abandoning the euro--questions about the ability and willingness of other eurozone countries to support weaker members have contributed to investor anxiety.

Financial markets hate uncertainty, and the situation has contributed to the recent volatility across a variety of asset classes. However, eurozone leaders have the benefit of having watched the United States during the 2008 crisis. Also, they have generally reaffirmed their determination to defend the euro.

Uncertainty about Europe could persist for months, so while it's important to monitor the situation, don't let every twist and turn derail a carefully constructed investment game plan. To determine how market events might affect your own portfolio, don't hesitate to ask questions and get expert help.

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Dear Valued Clients,

2011 was quite a ride filled with euphoria and sheer terror. The year started out with strong gains, only to see those gains wiped out by the events that unfolded in Japan, The US and Europe.

The Japanese earthquake and resulting tsunami led to a slowdown in the global economy, then the US Congress couldn't work together to prevent the first ever credit downgrade on US debt. Just when we think we are in the clear, Greece and Italy are on the brink of financial collapse. Throughout all this turmoil, your portfolios have fared well. We are starting to see the financial markets stabilize and improve; and although we don't know what the future holds, we are prepared to move and manage your investments either way.

Thanks again for the confidence and trust you placed with us during these stressful times. We wish you and your family a healthy and joyful holiday season.

Sincerely,

Hill Financial Group

December 2011

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Making Benefit Decisions during Open Enrollment

Long-Term Care Planning Is Important for Women

I'm retiring to a state with no income tax. Can my former state tax my retirement benefits?



Making Benefit Decisions during Open Enrollment



The decisions you make during open enrollment season are important, because you generally must stick with the options you've chosen until the next open enrollment season. The exception to this is if you experience a "qualifying event" such as getting married or divorced, or having a child, in which case you'll be able to make changes outside of the open enrollment period.

The end of the year is traditionally open enrollment season, your annual opportunity to review your employer-provided benefit options and make elections for the upcoming plan year. Even if you're busy, take a look at the enrollment packets or information you receive from your employer. You generally only have a few weeks (or less) to make important decisions about your benefits, and with health-care costs rising, it's more important than ever to choose your benefits wisely.

Are you happy with your health plan?

During open enrollment season, many employers roll out new health plan options. Even if you're satisfied with your current health plan, it's a good idea to check out the plans your employer is offering for next year and compare these to your existing health coverage. If you decide to stick with the same health plan you have now, look for differences between this year's plan and next year's. Premiums, out-of-pocket costs, and coverage offered often change from one year to the next.

Some tips for reviewing your health plan:

- Start by reading any plan materials you've received in your open enrollment packet and find out as much as you can about your options. Look for a "What's New" section that spells out plan changes.
- List your expenses. These will vary from year to year, but what you've spent over the course of the last 12 months may be a good predictor of what you'll spend next year. Don't forget to include co-payments and deductibles, as well as dental, vision, and prescription drug expenses.
- Reevaluate your coverage to account for life changes. For example, getting married, having a baby, or retiring are events that should trigger a thorough review of your health coverage.
- Consider all out-of-pocket costs, not just the premium you'll pay. For example, if you frequently fill prescriptions, you may save money with a plan that offers the broadest prescription drug coverage with the lowest co-payments, even if it charges a higher premium than other plans.
- Compare your coverage to your spouse's if he or she is eligible for employer-sponsored health insurance. Will you come out ahead if you switch to your spouse's plan? If you have children, which plan best suits their needs?
- Take advantage of technology. Some employers offer calculators or tables that allow you to do a side-by-side comparison of health plans to help select the best option.

Should you contribute to a flexible spending account?

You can help offset your health-care costs by contributing pretax dollars to a health flexible spending account (FSA) or reduce your child-care expenses by contributing to a dependent care FSA. The money you contribute is not subject to federal income and Social Security taxes (nor generally to state and local income taxes) and you can use these tax-free dollars to pay for health-care costs not covered by insurance or for dependent care expenses.

If your employer offers you the chance to participate in one or both types of FSAs, you'll need to estimate your expenses for the upcoming year in order to decide how much to contribute (subject to limits). Your contributions will be deducted, pretax, from your paycheck. If you're currently participating in an FSA, it's also an ideal time to find out how much money you have in this year's account. Unused contributions are lost if you don't spend them by the end of your benefit period. And remember, you must enroll each year--you won't automatically be reenrolled in a health or dependent care FSA.

What other benefits or incentives are available?

Health insurance coverage is a valuable benefit, especially if your employer pays a large percentage of the cost, but many employers offer other voluntary benefits such as dental care, vision coverage, disability insurance, life insurance, and long-term care insurance. Even if your employer doesn't contribute toward the premium cost, you may be able to conveniently pay premiums via payroll deduction.

Many employers sweeten benefit packages by offering discounts on various health-related products and services, such as gym memberships, wellness programs, and eyeglasses. Find out what your employer offers--otherwise you may miss out on some saving opportunities. Your employer may also offer incentives for employees who take steps to maintain a healthy lifestyle. For example, you may be eligible for a monetary reward for completing a health assessment, or you may be reimbursed for the cost of fitness classes.

Do you need more information?

Ask your benefits administrator for help if you have any questions about your health plan, the options available to you, or enrollment instructions or deadlines.

Long-Term Care Planning Is Important for Women



Women are more likely than men to face the need for long-term care without the help of their spouse. According to the United States Administration on Aging, 42% of older women were widows in 2010 and half of the women over age 75 lived alone (www.aoa.gov). And the Centers for Disease Control reports that over 70% of nursing home residents are women (www.cdc.gov).



The prospect of needing long-term care is an important, yet sometimes overlooked, part of financial and retirement planning. Yet it may be especially vital for women to consider as they often face the need for long-term care as both a caregiver and recipient.

Women as caregivers

While you may think most long-term care is received in a nursing home setting, the National Clearinghouse for Long-Term Care Information (National Clearinghouse) estimates that about 80% of care is provided at home by informal (unpaid) family caregivers. Of those caregivers, about 60% are women (www.longtermcare.gov).

In many instances, the care provided for chronically disabled older adults is quite intensive and time-consuming. Women who act as family caregivers of older people with high levels of personal-care needs may face considerable financial, emotional, and physical strain. For instance, caregivers may face financial challenges due to lost wages from reduced work hours, time out of the workforce, extended family leave, or early retirement. Reduced work hours or extended time out of work may also affect the ability to contribute toward retirement savings, potentially resulting in a loss of retirement income.

Caregivers also may face emotional strains and poor health related to their caregiving responsibilities. This may be especially true for older women caregivers and younger women who may be caring for an older family member in addition to managing their own household.

Women as long-term care recipients

According to the Centers for Disease Control and Prevention (CDC), women outlive men by an average of 6 years (www.cdc.gov). Because they tend to live longer, women are at a higher risk than men of needing long-term care (source: National Clearinghouse). And the National Clearinghouse reports that women, on average, need care over a longer time than men (3.7 years vs. 2.2 years). With a longer life expectancy and a greater likelihood of needing long-term care, women often must confront their long-term care needs without the help of their spouse or other family members.

Paying for long-term care

Long-term care can be expensive. An important part of planning is deciding how to pay for these services.

Buying long-term care (LTC) insurance is an option. Many LTC insurance policies pay for the cost of care provided in a nursing home, assisted-living facility, or at home, but the premium paid generally depends on the age of the insured and the policy benefits and options purchased. And premiums can increase if the insurer raises its overall rates. Even with LTC insurance, you still may have some out-of-pocket contributions in addition to premium payments. For example:

- Not all policies provide coverage for care in your home, even though that's where most care is provided. While the cost of in-home care may be less than the cost of care provided in a nursing home, it can still be quite expensive.
- Most policies allow for the selection of an elimination period of between 10 days and 1 year, during which time the insured is responsible for payment of care.
- The LTC insurance benefit is often paid based on a daily or monthly maximum amount, which may not be enough to cover all of the costs of care.
- While lifetime coverage may be selected, it can increase the premium cost significantly, and some policies may not offer that option. Most common LTC insurance benefit periods last from 1 year to 5 years, after which time the insurance coverage generally ends regardless of whether care is still being provided.

Government benefits provided primarily through a state's Medicaid program may be used to pay for long-term care. To qualify for Medicaid, however, assets and income must fall below certain limits, which vary from state to state. Often, this requires spending down assets, which may mean using savings to pay for care before qualifying for Medicaid.

Women may have to confront particular challenges when planning for long-term care. A financial professional can help with some of the complex issues you may face when preparing for the possibility of long-term care, both as a caregiver and a receiver of care.

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Ask the Experts



I'm retiring to a state with no income tax. Can my former state tax my retirement benefits?

The short answer is "no."

In the past, several states enacted "source tax" laws that attempted to tax retirement benefits if they were earned in that state, regardless of where a taxpayer resided when the benefits were ultimately paid. For example, if you earned a \$50,000 annual pension while working in California, and then retired to Florida, California would attempt to tax those benefits, even though you were no longer a California resident.

But, in 1996, a federal law was enacted (P.L. 104-95) that prohibited states from taxing certain retirement benefits paid to nonresidents. As a result, if your retirement benefits are covered by the law (most are, see below), only the state in which you reside (or are domiciled) can tax those benefits.

Whether you're a resident of, or domiciled in, a state is determined by the laws of that particular state. In general, your residence is the place you actually live. Your domicile is your

permanent legal residence; even if you don't currently live there, you have an intent to return and remain there.

The law applies to all qualified plans (this includes 401(k)s, profit-sharing plans, and defined benefit plans), IRAs, SEP-IRAs, Internal Revenue Section 403(a) annuities, Section 403(b) plans, Section 457(b) plans, and governmental plans.

The law provides only limited protection for nonqualified deferred compensation plan benefits. Benefits paid from nonqualified plans that are designed *solely* to pay benefits in excess of certain Internal Revenue Code limits (for example, Section 415 excess benefit plans) are covered by the law. Also covered are nonqualified plan (for example, top-hat plan) benefits that are paid over the employee's lifetime, or over a period of at least 10 years.

Examples of benefits that are not covered by the law include stock options, stock appreciation rights (SARs), and restricted stock.