

The Meridian Median

This Month's Advice

An excerpt from Kiplinger's "Better Deals on Disability Insurance" by Kimberly Lankford

Not so long ago, disability insurance was one of the industry's blackest eyes. Companies that sold disability coverage, which replaces lost earnings if you can't work, incurred massive losses during the 1990s, partly due to questionable payouts on claims for "nerves" and "stress." Then a multistate investigation by insurance commissioners, completed in 2005, found that some of the largest insurers were delaying and stonewalling the payment of legitimate benefits and committing other breaches of trust. That, plus a spate of lawsuits, led about 40 companies -- most of them not the chief offenders -- to quit selling individual policies. The insurers that stayed in the business raised rates for new buyers and tightened their underwriting rules, making it tougher to buy adequate coverage.

Now disability insurance is recovering its health and reputation. Claims battles have faded from the headlines, and it's easier than it has been in years to find an affordable policy. Some say

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*To My Clients:
A Message from
Jim*

I hope everyone is doing well and enjoying the beautiful summer. Our season has been particularly warm and all we can hope is that it lasts at least few more weeks. The stock market continues to run hot and cold and seems to hang on the balance of power in both the U.S. congress and the central bank in Europe. I can't remember another period of time where government policy and legislative rumors had such an impact on the market. The vote to raise the debt ceiling is a certainty but the political overhang surrounding spending cuts, tax policy and the industries to be impacted will be with us until 2013. This recent vote merely kicks the can down the road until after the 2012 election and if the Bush tax cuts expire we will have an increase in taxes to go along with the spending cuts. This will surely drive economic growth down further. We can only hope that at some point sanity prevails and the annual 8% increases in government spending begins to abate and some form of tax reform relating to marginal tax relief can help drive economic growth and

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Money beats: Year to Date Performance Percentages

Domestic Indexes

<i>Dow Jones Industrial Average PR</i>	6.3
<i>NASDAQ Composite</i>	3.9
<i>Russell 2000</i>	2.3
<i>Standard & Poor's 500</i>	2.8

Foreign Indexes

<i>MSCI AC Far East ex Japan ID</i>	2.3
<i>MSCI EAFE NDTR_D</i>	3.3

Bond Indexes

<i>Barclays Aggregate Bond</i>	4.3
<i>Barclays Mortgage-Backed Bond</i>	3.8

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that's because insurers were scared straight by lawsuits involving some prominent attorneys. "Insurers know that there are big guns aiming at them if they deny a claim in bad faith," says Larry Schneider, of the Disability Insurance Resource Center, in Albuquerque.

Another reason it's a good time to shop for disability protection: Insurers are more flexible about who can get coverage, says John Ryan, of Ryan Insurance Strategy Consultants, in Greenwood Village, Colo. If, for example, you've been diagnosed with depression but it's under control with medication, you may no longer be summarily rejected. And in the past, if you started a new business, you would have been ineligible for a year, if not two. Now Ryan finds that some insurers will take you right away if you can show five or more years of experience with your former employer, and that you are staying in the same industry and have contracts lined up.

If you were too ill to work for six months, how would you get by? If you don't have a ready answer, you probably need disability coverage.

It's likely that your workplace benefits would fall short by several thousand dollars a month. Employer-paid group benefits max out at 60% of pretax income (not counting bonuses), with a monthly cap of \$5,000, and you pay tax on that money. If you earn more than \$100,000, the gap could be enormous. You should price individual disability policies from an insurance agent or broker. You won't be able to replace every dollar of your salary -- normally, you can arrange to get up to about 65% of your total pretax income, including workplace benefits, if you supplement those benefits with personal coverage. And the payouts that come from your own policy will be tax-free. For example, if you earn \$100,000, you could get \$60,000 in group benefits, but you would need to pay taxes. If that left you with \$45,000, you could buy \$20,000 of individual disability insurance to bring your total payouts up to about \$65,000.

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improved employment.

As expected the market averages fell during the month created by the political uncertainty and signs the economy grew at less than 1.5% in the second quarter and continues to be weak in the third. The S&P 500 and Dow 30 fell 2% during the month and the small cap Russell 2000 down 3.6%. Foreign indices in Europe also declined but the Far East began to show some signs of life with an advance of 1.2%. Fund flows again are leaving the U.S. and going to the Far East seeking a higher growth environment and political stability. The S&P is currently 2.8% higher for the year, down from the high of 8% reached back in April.

The Barclays bond index rose 1.6% during the month as investors and savers continued to chase a safe haven in government bonds. This may seem surprising since the U.S. is in jeopardy of losing their AAA credit rating but seems logical when people are concerned with the slowing economy. In this environment, yield will be king as investors maintain their principal while looking for a consistent return. The bond index is currently a healthy 4.3% higher for the year. So much for the fear of rising interest rates fed by inflation that caused us to shift to floating rate securities and convertibles. With all the funds pouring into bond funds we will now shift to a more yield driven strategy.

The question remains as we go forward what we need to do in stock and bond accounts to improve returns for the remainder of 2011 and position client portfolios for the election year in 2012. For the remainder of 2011 the focus will be squarely on yield for both stock and bond portfolios. In stocks and mutual funds in the form of dividends and also income generated from options where possible. The objective is to provide 75% of the expected return from these two sources as the economy continues its slow growth pattern over the next 18 months. Large and mid caps will be the focus and small cap allocations will be reduced. This will also provide some cushion should the economy continue to worsen prior to the election. In the fixed income arena we will now lengthen maturities in an effort to produce higher yields and will increase the use of preferred stock in the non-banking sectors to generate higher returns. We have reduced positions in commodities and will continue to underweight going forward. Our international investments will continue to focus on the Far East and Brazil to take advantage of the higher growth rates and the shift of investor funds.

If you have any questions or would like to discuss your account please call me at 231-237-9715 or email at jamescar@meridian-advisory.com.