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Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

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)

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.

Retirement Myths and Realities

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.

How the Windsor Decision Affects Retirement Plans

Note that the IRS and DOL have clarified that the term "marriage" does not include civil unions, registered domestic partnerships, or "other similar formal relationships."*

For more information, please review IRS Revenue Ruling 2013-17 and Notice 2014-19, and DOL Technical Release 2013-04.

****Source: Internal Revenue Notice 2014-19, April 21, 2014***

Spouses of employer-sponsored retirement plan participants have certain rights when it comes to the plans. Because of this, the legal definition of "spouse" is very important to both plan sponsors and plan participants in understanding how a retirement plan works.

On June 26, 2013, in *United States v. Windsor,* the U.S. Supreme Court struck down as unconstitutional Section 3 of the 1996 Defense of Marriage Act (DOMA). Section 3 of DOMA stated that the definition of marriage was limited to the union of one man and one woman. The *Windsor* decision means that federal law recognizes same-sex couples married under state law; same-sex couples are now able to receive federal benefits and protections that were previously afforded only to opposite-sex married couples. The decision does not, however, require individual states to recognize same-sex marriages.

Pursuant to the *Windsor* ruling, the Internal Revenue Service (IRS) and the Department of Labor (DOL) released guidance stating that same-sex couples married in a state where same-sex marriage is legal ("state of celebration") are recognized under federal law for tax and employee benefit purposes. What this means for qualified retirement plans is that spousal plan provisions are extended to same-sex spouses, even in states where same-sex marriages are not recognized, provided the marriage took place in a state that recognized same-sex marriage. In April of this year, the IRS issued further guidance to help retirement plan sponsors determine when the law officially applies (i.e., answering questions surrounding retroactivity) and whether plan documents need to be amended.

For employers

Employers will want to take note of a few dates:

- **June 26, 2013:** Plans must recognize same-sex spouses of participants as of this date to reflect the *Windsor* decision.
- **September 16, 2013:** This is the first applicable date when the state of celebration rule must apply. The period between June 26 and September 16, 2013, is considered transitional--employers that recognized same-sex married couples only in cases where the participant was domiciled in a state that recognized same-sex marriages will not be treated as failing to meet the requirements.
- **The later of December 31, 2014, or the end of the plan's normal amendment period:** Any plan documents that currently have language that is not consistent with the *Windsor* decision (e.g., any documents that reference the definition of marriage in Section 3 of DOMA, specify recognition based on state of domicile rather than celebration, or are inconsistent with *Windsor* in any way) must be amended to comply with current law.

Note that not all plans will need amendments--those whose language is neutral enough to be consistent with *Windsor* will be in compliance, provided they operate in accordance with the new law as of June 26, 2013. In addition, employers may choose to adopt amendments recognizing same-sex marriages prior to June 26, 2013; however, the IRS cautions this may result in complications and "may trigger requirements that are difficult to implement retroactively ... and may create unintended consequences."*

Employers that previously extended benefits to domestic partnerships or civil unions may want to carefully consider the ramifications of any decisions made or amendments drafted that may cut back those benefits. For example, employers may choose to grandfather in couples who were covered prior to June 26, 2013, rather than remove their partner benefit provisions outright.

For plan participants

For you, a key issue revolves around beneficiary designations. Many married participants--in both same-sex and opposite-sex relationships--are not aware that their spouse is automatically their plan beneficiary. For this reason, participants might want to review their beneficiary designations to ensure that they conform with both their wishes and the law.

If the spouse is not the plan participant's desired beneficiary, then the spouse must waive his or her right in writing. For example, if you would prefer that your child be the primary beneficiary, then your spouse must sign a consent form waiving rights to be your primary beneficiary.

Divorce is another situation that should be considered, as same-sex spouses can now be covered under a qualified domestic relations order, which is a legal order documenting how retirement assets will be divided.

Other provisions that may be affected by the law include loans, hardship withdrawals, and annuity payments in retirement (depending on the type of plan and its terms). Participants considering taking money out of their plans for any reason may want to review the rules with regard to spousal consent or applicability to ensure they understand the requirements.

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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.

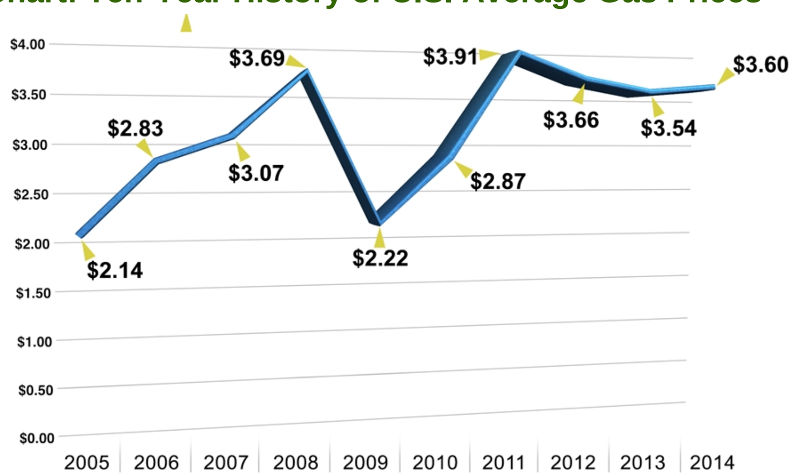
The price of crude oil is dependent on global supply levels relative to demand, and can be influenced by political events in major oil-producing countries, supply disruptions (which often result from hurricanes and storms in supply zones), and market speculation. Supply and demand is also one of the 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).

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Don't Fear The Correction

At of the end of June, the Standard & Poors 500 index has completed 32 full months without a correction of 10% or more. We are living in a remarkably long bull market; the average time span without a full-blown correction is just 18 months. Since the last correction in September of 2011, the S&P 500 has gained 75%, approaching the remarkable 100% advance that began in March of 2003 and lasted until the market peaked in October of 2007.

Today, as various stock market indices are at or near record highs, it may be a good time to prepare for that inevitable correction down the road. It may take the market down 10% or, worse, reach the technical definition of a full market correction, which is a downward move of 20% or more.

Prepare how? First, it helps to recognize that every market has pullbacks, and that these are a normal part of stock market behavior. Since the Great Recession lows in March 2009, the S&P index has experienced nine different corrections, ranging in magnitude from 6% to more than 21%.

Second, it helps to recognize that these pullbacks are almost totally unpredictable. Knowing there will be a pullback doesn't tell us when or help us maximize returns. If we take money out of the market today, on the certainty that a pullback is coming, we are just as likely to miss another year or two of upward movements as we are of sidestepping an immediate downturn. Nor do we know how long the downturn will last. In short, the investor has to be correct twice – getting the timing correct on both the down and up moves. The timing decision in combination with trading costs and taxes, significantly reduces the investors long-term ability to add value.

Third, recognize now that the next unpredictable correction will look blindingly obvious in hindsight. It will seem like everybody but you knew in advance what was coming and when. In reality, what you'll be hearing is reporters quoting the same few people over and over again, people who confidently predicted the downturn and turned out to be right. Look a bit more deeply than the reporters do, and you'll find that this small number of people had been predicting a market correction for many years.

Finally, realize that *inaction is actually taking strong and unusual action*. People who simply kept their money in stocks during each of the market downturns ended up seeing the indices reach new highs once the correction had run its course. Strong long-term investors benefit from the incremental daily, weekly, monthly efforts of millions of workers who come into the offices, factories and warehouses and build the value of their companies.

People will change their opinions about what stocks are worth, but in general, over time, the value of most companies will rise to the extent that those workers add value during their workdays. When people lose faith in that value, as they will when the next correction hits, it will put stocks on sale and give the rest of us an opportunity to buy in at lower prices--if we have the courage to separate ourselves from the herd.

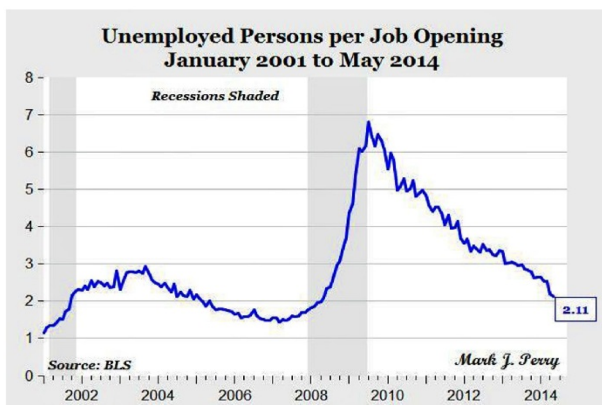
Making Sense of Unemployment Statistics

We are deluged with numbers like how many jobs were created this month and last month, or the ever-fluctuating number of jobless claims, or number of people who may or may not have stopped looking for work. The most recent Bureau of Labor Statistics report says that U.S. employers had 4.635 million job openings in May, which is up from 4.464 million in April. The Labor Department recently released its latest reporting, telling us that non-farm employers hired a "seasonally-adjusted" 288,000 workers in June, and we are told that the unemployment rate now stands at 6.1%.

But what does that tell people who are actually looking for work? What does that tell us about the real economy? Is there a better way to make sense of today's job picture?

The accompanying chart puts the current and historical U.S. labor situation into much clearer perspective. It shows the number of unemployed persons per job opening as of last week, and the same number going back to 2001. Back before the "tech wreck" bubble burst, there was approximately one job seeker per job opening. That doesn't mean that everybody was trained or suitable for every job, but it does indicate that finding work was probably not impossible for able-bodied and skilled individuals.

During the Great Recession, that number jumped up to an average of roughly 7 job seekers for every opening. Today, after a long, slightly choppy improvement in the prospects of workers, there are 2.11 unemployed workers for every job opening, and the trend is the friend of the unemployed.



This chart shows, perhaps more clearly than other indicators, an improving economy and tightening labor markets, which usually signals more competitive pay packages as companies start doing something they haven't been doing for years: actually competing for qualified workers. That, in turn, could cause the Federal Reserve Board -- which watches unemployment numbers closely -- to raise short-term interest rates sooner than expected. It may also raise the cost of doing business for companies throughout the economy, raising the inflation rate as those extra employment costs are passed on to consumers.

In addition, as economist David E. Kelley has pointed out, more jobs at the tail end of a market expansion can add an unexpected boost to GDP growth by raising corporate capital spending. In a presentation in San Francisco, he recently said that when companies lay off people, and then eventually start hiring back to previous staffing levels, they really don't need to buy anything new. They can give their new employees the cubicle, computer and desk of the fired workers.

But once they've replaced the jobs lost, the next hire needs new equipment. "What we're seeing now is that the economy is going to need capital spending to go with the improvement in employment," Kelley told the group, "and we are starting to see that in capital goods orders."

At least the jobs situation can be better understood with this new chart, and more jobs and higher salaries are ultimately better for the American people as a whole.

The Surprising Benefits of Sleep

Are you and the other members of your family getting enough sleep? How do you know?

One of the best articles on healthy sleep can be found here: http://jamesclear.com/better-sleep?hvid=4efDS; it describes a study conducted by researchers at the University of Pennsylvania and Washington State University that prescribed different levels of sleep for four groups of healthy men and women. The first group had to stay awake for two days without sleeping. Group two slept for four hours a night for two weeks, while group three slept for six hours a night over the same time period. The final group was asked to sleep for eight hours a night.

When the researchers tested the different groups on their physical and mental performance, the volunteers who received a full eight hours of sleep showed no declines in their cognitive ability, attention or motor skills. They were, in other words, fully-functional, bright and chipper. Meanwhile, the groups who received four and six hours of sleep a night steadily declined in all categories with each passing day. After one week, 25% of the six-hour group began falling asleep at random times a day, and by the end of the two weeks, their performance deficits in all categories were the same as those who had stayed up for two days straight. The four-hour sleepers did even worse.

Interestingly, none of the volunteers noticed their own performance declines. When they graded themselves, they said that their performance might have declined for a few days, but then it tapered off--when in fact they were continuing to get worse each day. In the real world, symptoms of sleep deprivation totally ruins any potential benefits of skimping on sleep and working those additional hours.

The researchers, and others, concluded that, to operate at peak performance and stay healthy, 95% of adults need 7-9 hours of sleep each night. Yet at least 20% of Americans sleep fewer than six hours per night.

The article talks about the importance of slow wave (deep) sleep--which helps the body heal itself and recover from hard exercise--and REM (dreaming) sleep, which boosts your memory, facilitates learning and helps the brain's neurons grow. Both are important, and there is evidence that people who get sufficient sleep live longer in addition to performing better.

And so far, researchers have found no substitute for sleeping.

Where the "Best" Jobs Are

What are the best college majors for students who want a lucrative career and low unemployment in their field? Recently, the Kiplinger magazine ranked the top ten (you can find the slideshow here: http://www.kiplinger.com/slideshow/business/T012-S001-10-best-college-majors-for-a-lucrative-career/index.html), starting with "Pharmacy and "Pharmaceutical Sciences," where starting salaries average $42,100 and mid-career salaries average $120,000. Unemployment rates for these graduates are 2.5%, and job growth is projected at 36.4% a year. This degree leads to a career as a pharmacist or researcher in the pharmaceutical industry (designing and developing drugs).

Second on the list is "Computer Science," with a starting salary averaging $58,400, mid-career: $100,000. Job growth is projected at 18.7% a year, and the unemployment rate for these graduates is 4.7%. Students are advised to master computer languages C++ and Java, and be prepared to work in artificial intelligence, computer system organization and digital system design.

Third? "Civil Engineering" ($53,800; $88,800, 19.4% job growth and 4% unemployment rate). These are the people who design and supervise large construction projects--like airports, sewer systems and tunnels.

Numbers four through ten are "Information Systems Management" (which marries computer courses with project management skills); "Nursing;" "Information Systems" (implementing technology within a company or organization, often best supplemented with a minor in business); "Finance" (requiring economics, statistics and calculus, plus accounting and financial markets courses); "Mathematics" (mastering number theory and real analysis for work with government and scientific research teams); "Information Science" (database management and programming, plus study of human-computer interaction); and "Construction: (requires a solid foundation of math and science courses, including the physics of building a structure and the accounting to build the budget for it).

The magazine also ranked the worst careers: the list included "Human Services and Community Organization" ($32,900; $41,100; 8.1% unemployment rate); "Fine Arts" ($31,800; $53,700; 7.3%); "Social Work" ($33,100; $45,300; 6.5% unemployment rate); "Early Childhood Education ($29,200; $37,600; 5.5% unemployment rate); "Art History" ($36,400; $54,000; 8.3%); "Interdisciplinary Studies" (majors you design yourself; $37,500; $51,000; 8.5%); "Studio Arts" ($35,700; $53,200; 7.3%); "Mass Media" ($34,400; $59,800; 7.9%); "Humanities" ($35,600; $60,100; 9.8%); and "Family Consumer Sciences" (aka Home Economics; $34,700; $47,800; 5.6%).