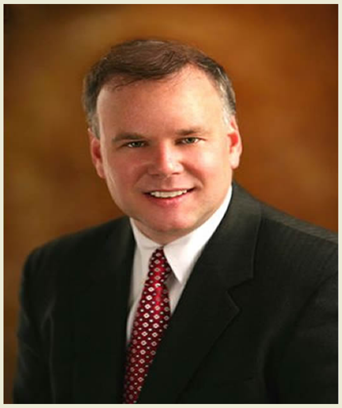


Johnston Investment Counsel

Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
2714 N. Knoxville
Peoria, IL 61604
309-674-3330
gjohnston@jicinvest.com
www.jicinvest.com

July, 2017

Johnston Investment Counsel

LIFE THE WAY YOU PLANNED IT.

Alternatives to Long-Term Care Insurance

The costs of long-term care can be overwhelming, potentially exhausting retirement income and savings. You may be thinking about buying long-term care insurance (LTCI) to help cover some of the potential costs of long-term care, but LTCI can be expensive, and if you do buy the coverage, you probably hope you never have to use it. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

The prospect of paying costly premiums for LTCI that you may never use might not appeal to you. But there are alternatives worth considering.

Self-insure

You could use your personal savings and retirement income to pay for long-term care expenses (self-insurance). While this option may be appealing, there may be some drawbacks. Depending on the type of long-term care, where that care is provided, and for how long, it's possible that you could run out of savings while still needing care. Also, using your own savings and income for long-term care costs may affect the financial well-being of a spouse or other dependents. And you may not have anything left to pass on to your heirs when you die.

Life insurance to pay for long-term care

One of the risks of buying LTCI is that you may spend thousands of dollars in premiums and never use the insurance. As an alternative, you may be able to use life insurance to help pay for long-term care expenses. For instance, some insurers offer policies that combine long-term care insurance with permanent life insurance. While these "combination" policies may differ, they generally offer a pool of money that can be used to pay monthly expenses associated with long-term care. If you don't use the policy for long-term care, then it will pay a death benefit to your designated beneficiaries if the policy is in force at your death.

Alternatively, you might be able to add an acceleration rider to your life insurance policy that will allow you to tap into (accelerate) your death benefit for long-term care expenses. Again, if you don't use the death benefit for long-term care costs, the policy will pay the death benefit to the beneficiaries you name in the policy. In any case, before buying a policy, you should have a need for life insurance and you should evaluate the policy on its merits as life insurance. Optional benefit riders are available for an additional fee and are subject to contractual terms, conditions, and limitations as outlined in the policy and may not benefit all investors. Any payments used for covered long-term care expenses would reduce (and are limited to) the death benefit and can be much less than those of a typical long-term care policy. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Medicaid

Medicaid is a joint federal and state government program that helps people with low income and assets pay for some or all of their health-care bills, including some costs associated with long-term care. Qualifying for Medicaid and covered services is based on federal requirements and eligibility rules, which vary from state to state. Generally, to be eligible for Medicaid, you must meet certain preconditions, which include income and asset levels that meet your state's eligibility requirements. You may need to exhaust your savings to qualify for Medicaid. Once the state determines that you're eligible for Medicaid, the state will make an additional determination of whether you qualify for long-term care services, based on whether you need assistance with personal care and other service needs, such as eating, bathing, dressing, toileting, and transferring (to or from a bed or chair).

Expect the Unexpected: What to Do If You Become Disabled

About 20% of Americans live with a disability, and one in four of today's 20-year-olds will become disabled before retiring.

Source: SSA, Disability Facts, 2017

The average age of SSDI recipients in 2015 was 54.

Source: Fast Facts and Figures About Social Security, 2016

In a recent survey, 46% of retirees said they retired earlier than planned, and not necessarily because they chose to do so. In fact, many said they had to leave the workforce early because of health issues or a disability.[1]

Although you may be healthy and financially stable now, an unexpected diagnosis or injury could significantly derail your life plans. Would you know what to do, financially speaking, if you suddenly became disabled? Now may be a good time to familiarize yourself with the following information, before an emergency arises.

Understand any employer-sponsored benefits you may have

Disability insurance pays a benefit that replaces a percentage of your pay for a designated period of time. Through your employer, you may have access to both short- and long-term disability insurance. If your employer offers disability insurance, be sure to fully understand how the plan works. Review your plan's Summary Plan Description carefully to determine how to apply for benefits should you need them, and what you will need to provide for proof of disability.

Short-term disability protection typically covers a period of up to six months, while long-term disability coverage generally lasts for the length of the disability or until retirement. Your plan may offer basic coverage paid by your employer and a possible "buy-up" option that allows you to purchase additional coverage.

According to the Bureau of Labor Statistics, 40% of private industry workers have access to short-term disability insurance through their employers, while 33% have access to long-term coverage. For both types of plans, the median replacement amount is about 60% of pay, with most subject to maximum limits.[2]

Consider a supplemental safety net

If you do not have access to disability insurance through your employer, it might be wise to investigate other options. It may be possible to purchase both short- and long-term group disability policies through membership in a professional organization or association. Individual policies are also available from private insurers.

You can purchase policies that cover you for life, until age 65, or for shorter periods such as two or five years. An individual policy will remain in force as long as you pay the premiums. Because many disabilities do not result in a complete inability to work, some policies offer a rider that will pay you partial benefits if you are able to work part-time.

Most insurance policies have a waiting period (known as the "elimination period") before you can begin receiving benefits. For private insurance policies, this period can be anywhere from 30 to 365 days. Group policies (particularly through your employer) typically have shorter waiting periods than private policies. Disability insurance premiums paid with after-tax dollars will generally result in tax-free disability benefits. On the other hand, if your premiums are paid with pre-tax dollars, typically through your employer, your benefit payments may be taxable.

Review the Social Security disability process

The Social Security Administration (SSA) pays disability benefits through two programs: the Social Security Disability Insurance (SSDI) program and the Supplemental Security Income (SSI) program. SSDI pays benefits to people who cannot work due to a disability that is expected to last at least one year or result in death, and it's only intended to help such individuals make ends meet. Consider that the average monthly benefit in January 2017 was just $1,171.

In order to receive SSDI, you must meet strict criteria for your disability. You must also meet requirements for how recently and how long you have worked. Meeting the medical criteria is difficult; in fact, according to the National Organization of Social Security Claimants' Representatives (NOSSCR), about two-thirds of initial SSDI applications are denied on their first submission. Denials can be appealed within 60 days of receipt of the notice.[3]

The application process can take up to five months, so it is advisable to apply for SSDI as soon as you become disabled. If your application is approved, benefits begin in the month following the six-month anniversary of your date of disability (as recorded by the SSA in your approval letter). Eligible family members may also be able to collect additional payments of up to 50% of your benefit amount.

SSI is a separate program, based on income needs of the aged, blind, or disabled. You can apply to both SSI and SSDI at the same time.

For more information, visit the Social Security Disability Benefits website at ssa.gov, where you will also find a link to information on the SSI program.

[1] 2016 Retirement Confidence Survey, Employee Benefit Research Institute

[2] Bureau of Labor Statistics, National Compensation Survey, 2016

[3] NOSSCR web site, accessed March 2017

Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

The Health-Wealth Connection

"Always keep two things in stock: crunchy vegetables and an emergency savings account."

Michael F. Roizen, MD, and Jean Chatzky, personal finance commentator

Authors of Ageproof: Living Longer Without Running Out of Money or Breaking a Hip

It's a vicious cycle: Money is one of the greatest causes of stress, prolonged stress can lead to serious health issues, and health issues often result in yet more financial struggles.[1] The clear connection between health and wealth is why it's so important to develop and maintain lifelong plans to manage both.

The big picture

Consider the following statistics:

1. More than 20% of Americans say they have either considered skipping or skipped going to the doctor due to financial worries. (American Psychological Association, 2015)

2. More than half of retirees who retired earlier than planned did so because of their own health issues or to care for a family member. (Employee Benefit Research Institute, 2017)

3. Chronic diseases such as heart disease, type 2 diabetes, obesity, and arthritis are among the most common, costly, and *preventable* of all health problems. (Centers for Disease Control and Prevention, 2017)

4. Chronic conditions make you more likely to need long-term care, which can cost anywhere from $21 per hour for a home health aide to more than $6,000 a month for a nursing home. (Department of Health and Human Services, 2017)

5. A 65-year-old married couple on Medicare with median prescription drug costs would need about $265,000 to have a 90% chance of covering their medical expenses in retirement. (Employee Benefit Research Institute, 2017)

Develop a plan for long-term health ...

The recommendations for living a healthy lifestyle are fairly straightforward: eat right, exercise regularly, don't smoke or engage in other risky behaviors, limit soda and alcohol consumption, get enough sleep (at least seven hours for most adults), and manage stress. And before embarking on any new health-related endeavor, talk to your doctor, especially if you haven't received a physical exam within the past year. Your doctor will benchmark important information such as your current weight and risk factors for developing chronic disease. Come to the appointment prepared to share your family's medical history, be honest about your daily habits, and set goals with your doctor.

Other specific tips from the Department of Health and Human Services include:

Nutrition: Current nutritional guidelines call for eating a variety of vegetables and whole fruits; whole grains; low-fat dairy; a wide variety of protein sources including lean meats, fish, eggs, legumes, and nuts; and healthy oils. Some medical professionals are hailing the long-term benefits of the so-called "Mediterranean diet." Details for a basic healthy diet and the Mediterranean diet can be found at health.gov/dietaryguidelines.

Exercise: Any physical activity is better than none. Inactive adults can achieve some health benefits from as little as 60 minutes of moderate-intensity aerobic activity per week. However, the ideal target is at least 150 minutes of moderate-intensity or 75 minutes of high-intensity workouts per week. For more information, visit health.gov/paguidelines.

... and long-term wealth

The recommendations for living a financially healthy life aren't quite as straightforward because they depend so much on your individual circumstances. But there are a few basic principles to ponder:

Emergency savings: The amount you need can vary depending on whether you're single or married, self-employed or work for an organization (and if that organization is a risky startup or an established entity). Typical recommendations range from three months' to a year's worth of expenses.

Retirement savings: Personal finance commentator Jean Chatzky advocates striving to save 15% of your income toward retirement, including any employer contributions. If this seems like a lofty goal, bear in mind that as with exercise, any activity is better than none — setting aside even a few dollars per pay period can lead to good financial habits. Consider starting small and then increasing your contributions as your financial circumstances improve.

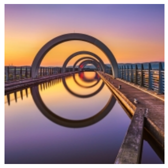
Insurance: Make sure you have adequate amounts of health and disability income insurance, and life insurance if others depend on your income. You might also consider long-term care coverage.[2]

Health savings accounts: These tax-advantaged accounts are designed to help those with high-deductible health plans set aside money specifically for medical expenses. If you have access to an HSA at work, consider the potential benefits of using it to help save for health expenses.

[1] American Psychological Association, February 4, 2015; The Telomere Effect: A Revolutionary Approach to Living Younger, Healthier, Longer, by Blackburn and Epel; and Ageproof: Living Longer Without Running Out of Money or Breaking a Hip, by Chatzky and Roizen

[2] The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that long-term care carriers have the discretion to raise their rates and remove their products from the marketplace.

Johnston Investment Counsel
Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
2714 N. Knoxville
Peoria, IL 61604
309-674-3330
gjohnston@jicinvest.com
www.jicinvest.com



What is a rollover IRA, and do I need one?

Generally, the term "rollover IRA" refers to an IRA that you establish to receive funds from an employer retirement plan like a 401(k). A rollover IRA is also sometimes referred to as a "conduit IRA."

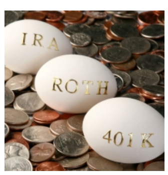
When you roll funds over from an employer plan to an IRA, your financial institution may suggest that you use a rollover IRA to receive the funds. Of course, you can transfer those dollars to any other IRA you own at some future date, because there's no legal requirement that you keep your plan distribution in a separate IRA. But even though separate IRAs are not legally required, there are at least two reasons to consider keeping your employer plan rollover separate from your contributory IRAs.

The first reason to maintain a separate rollover IRA deals with federal bankruptcy law. Your IRAs are protected from your creditors under federal law if you declare bankruptcy, but this protection is currently limited to $1.28 million for all your IRAs.[1] The $1.28 million limit doesn't apply, though, to amounts you roll over to an IRA from an employer plan, or any earnings on that rollover. These dollars are protected in full if you declare bankruptcy, just as they would have been in your employer's plan. Obviously, it's easier to track the amount rolled over, and any future earnings, if you keep those dollars separate from your contributory IRAs. So a rollover IRA may make sense if creditor protection is important to you.

The second reason to maintain a rollover IRA is that you might decide in the future that you want to roll your distribution back into a new employer's plan. In the distant past, employer plans could accept rollovers only from rollover (conduit) IRAs — rollovers from contributory IRAs weren't permitted. Now, however, employer plans can accept rollovers from both contributory IRAs and rollover IRAs.[2] Despite this, employer plans aren't *required* to accept rollovers, and they can limit the types of contributions they'll accept. And while it's becoming less common, some still accept rollovers only from rollover IRAs. So keep this in mind if you are contemplating a rollover back to an employer plan in the future.

[1] SEP and SIMPLE IRAs have unlimited protection under federal bankruptcy law.

[2] Nontaxable traditional IRA dollars can't be rolled back into an employer plan.



Can I roll my traditional 401(k) account balance over to a Roth IRA?

Yes, you can make a direct or 60-day rollover from a 401(k) plan [or other qualified plan, 403(b) plan, or governmental 457(b) plan] to a Roth IRA, as long as you meet certain requirements.*

First, you must be entitled to a distribution from your plan. While you can always access your account when you terminate employment, in some cases you may be able to withdraw your own or your employer's contributions while you're still working (for example, at age 59½).

[Note: Your plan may also permit the "in plan" conversion of all or part of your account balance to a Roth account, regardless of whether you're eligible for a distribution from the plan. Check with your plan administrator.]

Second, your distribution must be an "eligible rollover distribution." Distributions that cannot be rolled over include hardship withdrawals, certain periodic payments, and required minimum distributions (RMDs).

Third, you must include the taxable portion of the distribution in your gross income in the year you make the rollover ("conversion"). But that's the price you have to pay to potentially receive tax-free qualified distributions from your Roth IRA in the future.

Fourth, if your distribution includes both after-tax and pre-tax dollars, you can generally direct that only the after-tax dollars be rolled over to the Roth IRA (resulting in a tax-free conversion), while making a tax-deferred rollover of the pre-tax dollars to a traditional IRA.

When evaluating whether to initiate a rollover from an employer plan to an IRA, be sure to: (1) ask about possible surrender charges that your employer plan or IRA may impose, (2) compare investment fees and expenses charged by your IRA with those charged by your employer plan (if any), and (3) understand any accumulated rights or guarantees that you may be giving up by transferring funds out of your employer plan. Also consider all of your distribution options, including leaving the money in your employer's plan, transferring the funds to a new employer's plan, or taking a cash withdrawal.

* If you make a 60-day rollover, your plan will withhold 20% of the taxable portion of your distribution for federal income tax purposes.

Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

Who's On Your Side?

Friday, June 9 quietly marked/will mark an historic day in the financial services world. On that date, all financial advisors will be required to forego any sales agenda and give advice that would benefit their clients or customers—or, if they decide otherwise, to explain how and why they intend to give advice that instead primarily benefits themselves and their brokerage company. This rule only pertains to rollovers from a qualified plan like a 401(k) into an IRA, and to the investment recommendations for that IRA account. But it may be a first step toward something larger.

The polls consistently show that most Americans believe they already receive objective advice—called "fiduciary" advice by the profession and regulators. But the overwhelming odds are that they don't. There are half a million brokers who earn commissions if they can convince you to buy an expensive alternative to the thriftier, better-performing investment options on the market. That's more than ten times the number of advisors who adhere to a fiduciary standard. Government research estimates that consumers lost $17 billion a year to conflicted advice in the recommendations made by brokers and sales agents posing as advisors related to retirement plans.

The actual number of real fiduciary advisors may be lower than this discouraging figure. A mystery shopper study in the Boston area found that only 2.4% of the "advisors" (most were almost certainly brokers) it surveyed made what most would consider to be fiduciary recommendations. On the other side, 85% advocated switching out of a thrifty portfolio with excellent funds into something a bit more self-serving.

An article in the most broker-friendly publication imaginable—Bloomberg—recently outlined some of the ways that you can be taken in by a sales pitch and never know it. (The full article can be found here: https://www.bloomberg.com/news/features/2017-06-07/fiduciary-rule-fight-brews-while-bad-financial-advisers-multiply. It notes that the brokerage industry—that is, the larger Wall Street firms, independent broker-dealer organizations and life insurance organizations—repeatedly fought the fiduciary rule in court, arguing, in some cases, that their brokers and insurance agents shouldn't be held to this standard because, despite what they said or what the companies' marketing materials proclaimed, they were nothing more than salespeople trying to effect a sale. The courts refused to block the rule.

It gets worse. Even though brokers are held to a sales standard—they are required to "know their customer" and to make investment recommendations that would be "suitable" to somebody in your circumstances (a very low standard that is appropriately known as "compliance"), a new study found that 8% of all brokers have a record of serious misconduct, and nearly half of those were kept on at their firms even after getting caught.

We don't know how long this regulation will be in effect. New Labor Secretary Alexander Acosta has announced that he's studying whether the rule that requires brokers to act in the best interests of their customers is good or bad for customers, and his comments hint that he thinks you would be harmed if suddenly you were able to trust the advice you receive. But there is one simple way to determine whether you're working with somebody you can trust.

First, ask your advisor directly to provide written documentation that he or she will act in your best interests. This should be no longer than a page and might be no longer than a sentence or two. There's even a "Fiduciary Oath" that many financial advisors are giving to their clients—without any prompting. If the broker hems and haws, then hold onto your wallet or purse, because chances are any recommendations you receive are going to cost you money that will be disclosed in the fine print of whatever agreement you sign, somewhere after page 79.

Johnston Investment Counsel <u>does</u> follow a fiduciary standard for <u>all</u> client activities. The equivalent of the "Fiduciary Oath" is on our website at: http://www.jicinvest.com/about-johnston-investment-counsel/jics-code-of-ethics/
Sources:

- https://www.bloomberg.com/news/features/2017-06-07/fiduciary-rule-fight-brews-while-bad-financial-advisers-multiply
- http://www.dolfiduciaryrule.com/
- http://www.newhampshire.com/article/20170604/NEWHAMPSHIRE02/170609837/1037

Our Driverless Future

By now, you're familiar with at least the concept of driverless cars—a new technology where computers will replace humans behind the wheel, gradually at first, and then all at once ten or more years down the (pun intended) road. But what you probably haven't seen is a comprehensive review of the interesting social changes a driverless world would bring about—and the potential investment implications of it.

The CFA Institute—the organization of professional investment managers—has published an article which takes us on a tour of that not-so-distant world. Start with the fact that cities and communities will be able to re-use (or develop) acres of space currently devoted to parking lots. A self-driving car will deliver you to your destination and then go park itself in a compact high-rise parking facility—and spend the time recharging itself, since it will also be electric. At the end of the day (or the shopping trip, or the sporting event) the car will be summoned to pick you up at the door and take you home. If your home is an urban apartment, then the car will drop you off before relocating itself to a parking facility. Alternatively, you might "subscribe" to a car service that will take you wherever you want to go without the need to actually own the vehicle.

In a city environment, this simple change would bring about a huge reduction in traffic, since many of the cars currently on the road are driving around hunting for a rare parking space. Traffic flows will be faster and less congested, making cities more pleasant to live in. The article even envisions the commute as a time for work or personal relaxation. Your office might be a detachable, mobile pod that could drive itself downtown while you're answering emails. If you were to take a trip to another city, your 5-hour drive can be spent productively.

Of course, a driverless society would eliminate the hazards of drunk driving, people texting behind the wheel, people falling asleep on the road—and prevent some 30,000 highway deaths each year. Since driverless cars are more precise, a 4-lane highway could become a 5- or 6-lane road simply by making the lanes narrower and using the curb spaces. Driverless cars might move more quickly, adapting to opportunities to move 80 or 100 miles an hour in safety. These shifts would eliminate traffic jams, making transportation easier and more convenient.

Meanwhile, think of all the time that parents currently spend driving their kids to soccer games, orthodontists and school. In the future, the driverless car would become the chauffeur while the parents live their own lives. Older people would no longer have to give up the keys to the car when they reach a certain age; instead, they could travel where they pleased without endangering others.

Cities would be more spread out, since fewer people would dread the shorter, painless commute on uncrowded highways.

Of course, there would also be negatives, and this is where the investment analysis comes in. The article points out that hospital emergency rooms would have fewer patients as they would no longer have to care for hundreds of thousands of people injured in auto accidents. Organ donation would be reduced. Auto insurers would suffer, since there would be little need for insurance in a world of nearly zero accidents. Car companies would have to shift their value proposition from a thrilling drive to more robust in-car entertainment systems. And millions of jobs involving driving trucks and cabs would be eliminated from our economy.

Are you ready for that world?

Source:

- http://www.cfapubs.org/doi/pdf/10.2469/cfm.v27.n2.23

The Earliest Humans

Archeologists have long traveled under the assumption that what we call the human race—the African hominids known to science as "homo sapiens"—evolved roughly 200,000 years ago in either southern or eastern Africa. Starting perhaps as early as 100,000 years ago, they migrated out of Africa and eventually displaced the European and Asian hominids known as Neandertals (sometimes spelled Neanderthal).

That was the prevailing theory until recently, when scientists announced that they had unexpectedly turned up some very old bones—the remains of recognizably modern humans dating back 300,000 years, 100 millennia before any of us were supposed to be around. Even more surprising, the now-earliest evidence of homo sapiens was discovered in north Africa, not far from the city of Marrakesh in Morocco. Not only were humans around much longer than anybody realized, but by that ancient time, they had apparently spread all over the African continent. The archeological expedition turned up several remains, with brain cases as large as modern humans, plus stone tools (see image) that were carefully shaped by ancient craftspeople living far earlier than anybody suspected.

<u>Source:</u>

- https://www.theatlantic.com/science/archive/2017/06/the-oldest-known-human-fossils-have-been-found-in-an-unusual-place/529452/