

# BATES BRIEFINGS



WINTER/SPRING 2015



## FROM GEORGE'S DESK

On occasion, I realize I have stopped talking with clients about a subject that is really important; probably because I think everybody is now aware of the importance of the issue, so I do not need to keep bringing it up.

A recent experience for a family with whom my wife and I have been friends for many years, has reminded me to NOT stop discussing some of these subjects, such as "Umbrella Liability Insurance" to further cover your home, autos, and many other personal liability issues.

In this family's specific circumstance, their son was hit on his motorcycle by an illegal immigrant that did not have insurance. Though the major issue in this case was the devastating life threatening injuries their son experienced — he was in a medically induced coma, had severe internal injuries, etc. His life was literally "hanging by a thread" for days, as many family and friends were praying for his recovery as well as his life. To add to the trauma, he is a divorced father of young children and had just lost his job. He was riding his motorcycle because his car had been totaled in another accident where the other driver's insurance company was delaying paying the claim.

Enough of the background of our friends' experience — the subject is "Umbrella Liability Insurance". If you are not familiar with Umbrella coverage, it is an insurance policy that picks up liability coverage when your basic coverage is exhausted. For example, let us assume you have \$250,000/500,000 auto liability limits — that means you have bodily injury coverage for up to \$250,000 for any one person involved in the accident, but that coverage maxes out at \$500,000 per claim/accident. In this day and age, \$250,000 does not go very far for medical costs of a significant injury from an accident. In our friends' case, the hospital bill is over \$1 million which does not include doctor bills, rehabilitation expenses, etc., to say nothing of the fact he may never be able to hold down a full-time job again.

What should you do to protect yourself from something like this? Talk to your home and auto insurance agent about obtaining or increasing your "Umbrella Liability Insurance". These policies are usually issued in million dollar increments (\$1 million minimum), so purchase as much as you can. Normally, it costs a few hundred dollars per year for the first million, but the premium increase for each additional million is negligible compared to the base premium.

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## **FROM GEORGE'S DESK** continued

A very important additional point is to be sure to add "Uninsured and Underinsured" coverage to your Umbrella policy. I learned this lesson personally several years ago when my son's family was involved in a serious accident. The other driver was at fault and only had a \$25,000/50,000 liability limits. My son did have uninsured and underinsured coverage on his basic policy but NOT on his Umbrella policy. The claims seriously exceeded his own \$250,000/500,000 liability limits, but his Umbrella coverage paid nothing because it did not have an "Uninsured and Underinsured" rider.

In Illinois, illegal immigrants are now permitted to obtain a driver's license, but the state only requires minimum coverage of \$20,000/\$40,000 to get a license. That requirement is not just applicable to illegals, it applies to everyone. So if you are involved in a serious accident, you better be protected by your own insurance since it would be likely that other driver not have adequate coverage for your claim.

As always, if you have any questions or your agent cannot help you, call us and we will refer you to someone who can help!



### **ANNOUNCING THE RETIREMENT OF BARBARA O'NEILL**

It is with a great deal of mixed emotions that I announce the retirement of Barbara O'Neill as of December 31, 2014.

As most of you know, Barb has been my right AND left ARM for the last 16 years. Like Donna Tomlinson who preceded her, I would not have been able to serve as many clients as I have without her. Loyal, dedicated, hard working, and conscientious are just a few of the adjectives that describe Barb. She has been a wonderful associate, and I miss her already. The only good thing that has come out of this event is that Ginny Whittington has taken her position and has been the third assistant that I could not do without.

Barb is definitely looking forward to moving back to Kansas City in the near future to be closer to her grandson (and his parents – her son and his wife), but in the meantime she is taking every opportunity to spend time with him through her frequent visits. For all you grandparents, I am sure you can appreciate her feelings.

Many of you are probably wondering about Barb's health. The few occasions I get to visit with her, she is in good spirits. She wishes she did not have to endure her treatments, but the treatments seem to be helping.

Due to her health, the doctors advise Barb not to mingle in groups or crowds, so we will not be having a retirement party. Should any of you wish to send her a card or note, please send them to the office, and I will relish the opportunity to deliver them in person.

On behalf of all of our clients, our staff, and myself, THANK YOU, BARB, for your unselfish and faithful service!!!



My friend, Carl Stuart, a financial advisor in Austin, Texas recently included some very interesting data in his recent newsletter. The first was in regards to the valuations of U.S. equities on a historical basis. The second was the effect of the rising value of the dollar on owning international stocks. The third was statistics on the probability of people age 65 reaching age 80 and 90.

### #1 Valuations of U.S. Equities on a Historical Basis

U.S. Equity: Valuation Measures			Historical Averages			
Valuation Measure	Description	Latest	1-year ago	5-year average	10-year average	25-year average*
P/E	Price To Earnings	16.2x	15.4x	13.5x	13.8x	15.6x
Div. Yield	Dividend Yield	1.9%	1.9%	2.0%	2.0%	2.1%
P/B	Price to Book	2.9	2.7	2.3	2.4	2.9
P/CF	Price to Cash Flow	11.4	10.8	9.3	9.7	11.3

Source: Standard & Poor's, FactSet, Robert Shiller Data, FRB, J.P. Morgan Asset Management. Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next twelve months. Dividend Yield is calculated as the trailing 12-month average dividend divided by price. Price to Book Ratio is the price divided by book value per share. Price to Cash Flow is price divided by NTM cash flow. \*P/CF is a 20 year avg. due to cash flow data availability. Guide to the Markets – U.S. data are as of 12/31/14

### #2 Effect of the Rising Value of the Dollar on Owning International Stocks

Country/Region	4Q14		2014	
	Local	USD	Local	USD
<b>Regions/Broad Indexes</b>				
U.S. (S&P500)	–	4.9	–	13.7
EAFE	1.8	-3.5	6.4	-4.5
Europe ex-U.K.	0.2	-4.3	7.4	-5.8
Pacific ex-Japan	3.1	-1.5	5.8	-0.3
Emerging Markets	0.1	-4.4	5.6	-1.8
<b>MSCI: Selected Countries</b>				
United Kingdom	-0.4	-4.2	0.5	-5.4
France	-1.7	-5.8	3.6	-9.0
Germany	4.0	-0.4	2.8	-9.8
Japan	6.7	-2.4	9.8	-3.7
China	7.0	7.2	8.3	8.3
India	1.5	-0.7	26.4	23.9
Brazil	-7.5	-14.8	-2.8	-13.7
Russia	-5.9	-32.8	-12.1	-45.9

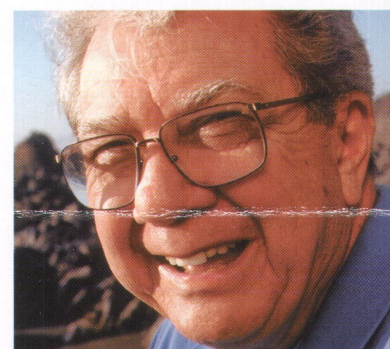
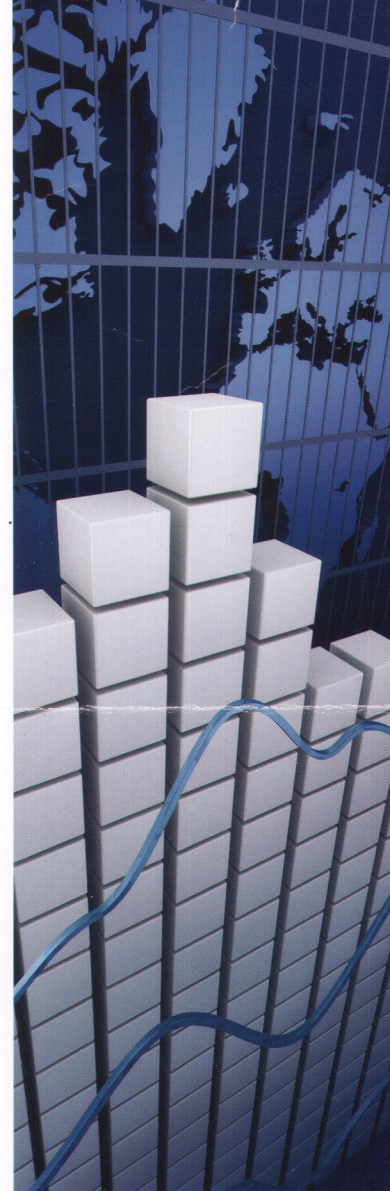
Source: Standard & Poor's, MSCI, FactSet, J.P. Morgan Asset Management. All return values are MSCI Gross Index (official) data. Chart is for illustrative purposes only. Past performance is not indicative of future results.

Guide to the Markets – U.S. Data as of 12/31/14

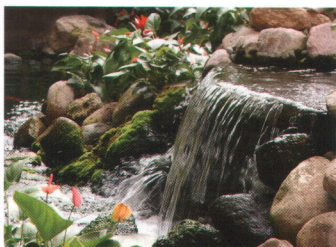
### #3 Statistics on the Probability of People Age 65 Reaching Age 80 and 90

	Men	Women	Couple – at least one lives to specific age
80 Years	58%	69%	87%
90 Years	18%	28%	41%

Source: SSA 2010 Life Tables, J.P. Morgan Asset Management. Guide to the Markets – U.S. Data as of 12/31/14







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## BENEFICIARY OPTIONS

Recently I came across a chart that shows the options beneficiaries have for non-qualified annuities. Non-qualified means it is not an IRA account or some other retirement account e.g. 401(k), 403(b) etc.

I have included a chart showing the benefit of different ages of non-spousal beneficiaries drawing the money out over their life expectancy: one of the three options available.

	SPOUSAL BENEFICIARY	NON-SPOUSAL BENEFICIARY	TRUST BENEFICIARY
<b>Lump Sum</b>	✓	✓	✓
<b>Five-Year Rule</b> Distribute entire contract value within five years of the owner's death	✓	✓	✓
<b>Lifetime Payments</b> Such as systemic withdrawals or annuitized payments	✓	✓ Not available for non-living beneficiaries (such as trusts, charities, and estates)	
<b>Spousal Continuation</b> Spouse becomes the owner of the new contract	✓		