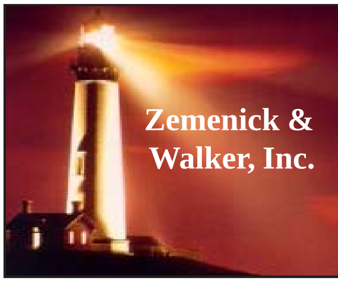

Market Perspectives

An Investment Advisory Firm, Established in 1987 Spring 2006

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In This Issue

Medicare Part D - America, Pull Up A Chair

It is with those seemingly innocuous words that Medicare's official website begins to discuss the new prescription drug benefit, which is commonly known as "Medicare Part D". Despite the extensive efforts of the government to explain it to the public, many people have found the program complicated and confusing. Genuine problems with the program and cynical attitudes among the public have contributed to the relatively low participation rate among eligible seniors. As of late February, the *Wall Street Journal* reported that only about 5.4 million of the 22 million people who are eligible to voluntarily enroll have done so.

If eligible seniors have not enrolled in a plan by May 15th, 2006 their monthly premium will permanently increase by at least 1% each month they wait to join.

While Medicare Part D can be challenging to evaluate, seniors should make the effort. Though they may ultimately choose not to participate, it is essential they make informed decisions. ***This article attempts to provide a basic introduction to Medicare Part D and is meant to serve as a starting point for those looking into the program. However, this subject cannot be adequately covered in its entirety in this space.*** Further information can be obtained at www.medicare.gov, by calling 1-800-MEDICARE, or contacting your State Health Insurance Assistance Program.

The government officially began offering prescription drug coverage to anyone with Medicare beginning January 1, 2006. This "coverage" is actually insurance provided by private companies that are approved by Medicare. An individual must select a specific plan and pay monthly *Continued on Page 2*

Focus on the Economy

January 31st, unbeknownst to many, marked a transition at the Federal Reserve as chairman Alan Greenspan stepped down following eighteen years at the bank's helm. Having served under four different Presidents, Greenspan, the second-longest serving Fed chairman, is widely credited with steering the U.S. economy through one of the most successful periods of sustained prosperity in American history. Many economists feel Greenspan's greatest achievement was enhancing the Federal Reserve's credibility as an inflation-buster. Following years of double-digit and upper single-digit inflation in the late 1970's and early 1980's, Greenspan worked to reduce inflation after taking office in 1987, to an annualized level of just 3.05% during his entire tenure. In fact, under Greenspan, inflation peaked at just 6.25% in 1990 on the heels of the first Gulf War. Following 1990, inflation eclipsed 3.00% just four times, in 1996, 2000, 2004, and 2005.

Despite Greenspan's efforts, inflation is once again beginning to make headlines. In Greenspan's final stamp on Fed Policy, he bumped the Federal Funds rate on January 31st to 4.50%, marking the 14th straight increase from its most recent low of 1.00%. Many, including Greenspan, thought January's increase would mark the near end, if not the end, of rate hikes. At that time, although inflation had been trending higher throughout 2005, it remained in check and was not expected to pose a major threat to economic growth. However, recent economic data now point to an economy growing at a faster than expected clip. Many economists believe U.S. economic growth, invigorated by a mild winter, will surpass 5% (on an annualized basis) during the first quarter.

Indeed, everything seems to be clicking at once. Consumers, who have been driving economic growth since businesses reigned in spending following the recession at the turn of the millennium, are showing no signs of slowing. And recent data showing strong job growth and steadily *Continued on Page 3*

Medicare Part D - America, Pull Up A Chair

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premiums for coverage. These premiums vary between plans but Medicare estimates the average to be $32/month in 2006.

Those who are currently eligible for the prescription drug benefit need to be aware of a rapidly approaching deadline. **If eligible seniors have not enrolled in a plan by May 15th, their monthly premium will permanently increase by at least 1% each month they wait to join.** Enrollment closes after May 15th and does not reopen until November 15th. However, there are exceptions to this penalty. According to the "Medicare & You" official government handbook, if a person receives drug coverage from a current or former employer or union, or that of a spouse, and it has been determined that, on average, this coverage is at least as good as standard Medicare drug coverage (see next paragraph), then there is no 1% penalty for waiting to enroll. The employer or union is responsible for determining whether or not this is the case.

In addition to monthly premiums, individuals must pay for a portion of their prescription drug costs. Medicare mandates that plans provide coverage that meets or exceeds its minimum requirements. *These requirements are collectively known as "standard coverage" and are illustrated on the table below.* Please note that "standard coverage" does not represent an actual prescription drug plan in which someone could enroll, but only the minimum requirements that plans must meet. The insured pays the first $250 of drug costs incurred to satisfy the annual deductible. Then he or she pays 25% of the next $2,000 of drug costs. After this point, the insured reaches the so-called "donut hole", a gap in coverage under the plan. Here the insured pays 100% of the next $2,850 of drug costs. By this point he or she will have paid $3,600 out of pocket plus monthly premiums. However, it is at this point that the "catastrophic coverage" kicks in. He or she only pays for 5% of additional covered drug costs incurred during the year. This feature offers protection in the event of serious illness when drug costs might unexpectedly skyrocket.

While Medicare has established minimum coverage requirements for plans to participate in the program (standard coverage), many plans offer significantly more coverage than the minimum. For example, some plans have a $250 yearly deductible, while others offer a reduced deductible, or even none at all. Moreover, though standard coverage features the "donut hole" - a gap in coverage where participants are responsible for 100% of drug costs - some plans are structured to provide some coverage in the "donut hole".

Now comes the really confusing part...trying to select a specific plan. First of all, an individual must select a preferred method to receive drug coverage. He or she may simply add stand-alone prescription drug coverage to the original Medicare Plan. Another option is to join a Medicare Advantage or Medicare Health Plan. These are managed care plans (HMO or PPO) that provide both the insured's Medicare health care as well as the drug benefit. According to the American Osteopathic Association, only 11% of Medicare beneficiaries are enrolled in managed care plans, thus the following discussion pertains to the traditional program.

To review plan options, go to <u>www.medicare.gov</u> armed with the names and dosages of your prescription drugs. This website provides information about the plans available in a given area - and there are many different options. For example, a recent search showed 42 different plans for the state of Missouri that are offered by 17 different companies. As mentioned earlier, the coverage offered by these plans varies significantly. For example, one plan has a $62 monthly premium, but no deductible, and provides generic drug coverage in the "donut hole", while another has a $10 monthly premium, a $250 deductible, and no coverage in the "donut hole". Which plan is appropriate is very much a <u>personal</u> decision. Someone with little or no current prescription drug costs might prefer a plan with a low monthly premium as a means to get catastrophic coverage, while someone with high current costs might like a plan with a high premium and more extensive coverage.

When evaluating a plan, a major consideration is whether or not it covers an individual's currently prescribed medications, though one should recognize that his or her medications will most likely change over time. Thus, it is important to review a plan's formulary - the list of drugs for which it provides coverage. According to Medicare's website, "the formulary must include at least two drugs in categories and classes of most commonly prescribed drugs to people in Medicare". Moreover, plans may offer different tiers of coverage for the specific drugs that are listed on its formulary. For example, the copay for a tier one drug may be $5, while it could be $25 for a tier two drug. If it becomes necessary, the insured has the ability to change his or her plan selection - the next opportunity will be between November 15th and December 31st. There are other questions to consider, such as which pharmacies can be used under a given plan. In the end, the best approach to use in selecting a plan is to spend time reviewing options and ask a lot of questions. A good piece of practical advice is to confirm the answers to important questions with multiple sources. And, of course, do not forget the May 15th deadline■

<u>What Are the Minimum Coverage Requirements?</u>

You pay a monthly premium (estimated to be $32 in 2006), plus:

Annual Deductible	Copay	Donut Hole	Catastrophic Coverage
You pay the first $250 of yearly drug cost.	You then pay 25% of the next $2,000 of drug costs, with the plan covering the other 75%	The dreaded "donut hole"...you pay 100% of your next $2,850 in drug costs.	You pay only 5% or a small copay for any additional drug costs. To get here you will have paid $3,600 + premiums.
Your Cost - $250	**Your Cost - $500**	**Your Cost - $2,850**	**Your Cost - 5%**
Cumulative - $250	**Cumulative - $750**	**Cumulative - $3,600**	**Cumulative - $3,600+**

Source: www.medicare.gov

Focus on the Economy

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rising wages suggest that profligate American consumers are not likely to moderate their spending habits any time soon. Moreover, *BusinessWeek* reports that after years of thrift and cost cutting, businesses are finally beginning to increase their spending. This is in part due to necessity, as aging technology installed to accommodate Y2K is quickly becoming outdated, forcing companies to upgrade in order to stay competitive.

Even more important however, is the fact that businesses are in better financial shape now than they have been in years. Since the depths of the recession in 2001, most companies have been able to raise production levels to meet rising demand by simply increasing unused capacity and drawing more productivity from their existing workforce. However, with factory utilization rates now approaching levels not attained since 1999-2000, companies are beginning to increase spending in an effort to add capacity and hire additional workers. *BusinessWeek* explains that this "determination to keep growing has been fortified by strong growth in profits, record cash flow, solid balance sheets, exceptionally low debt, and easy borrowing conditions in both the credit and equity markets".

These easy borrowing conditions are exactly what new Fed chairman Ben Bernanke will have to address if he is to fight inflation as effectively as Greenspan did. Most experts agree that Bernanke is a capable replacement for Greenspan, having served as the Chairman of the President's Council of Economic Advisers and as a member of the Federal Reserve Board of Governors prior to his nomination. Yet Bernanke will have little time to collect his bearings, as he will be put to the test right away. Despite robust growth in the economy, the residential real-estate market is beginning to show signs of slowing. Consequently, any future interest rate hikes designed to slow business spending and keep inflation in check, could unintentionally put pressure on an already shaky housing market. And any downward push on real-estate prices could be magnified as consumers lose confidence in what has been their primary means of savings - their homes. Bernanke's challenge will be to orchestrate a measured pullback in the real-estate market while hitting the brakes forcefully enough to slow inflation■

Be Aware: Tax Updates for 2006

Although 2006 brings no major tax law overhauls, there are several significant changes and modifications that are worthy of note and examination. For all taxpayers, changes in tax law are worth knowing and reviewing with a tax accountant. Not only will this help maximize savings, but it will also allow the taxpayer to take advantage of increased limits and/or decreased restrictions. A case in point for 2006 is retirement account contribution levels, which increased across the board. This year, employees with a 401(k) or 403(b) can contribute $15,000, up from $14,000 in 2005. Also, the "catch-up" contribution for taxpayers over the age of 50 is $5,000, a $1,000 increase from 2005.

Other important tax changes for 2006 involve itemized deductions and estate taxes. Generally speaking, itemized deductions are phased out (reduced) as income rises. Therefore, the more taxpayers earn, the less their deductions are actually applied to their taxable income. Starting in 2006, this itemized deduction phaseout will be reduced by one third. In 2008, it will be reduced by two thirds, and in 2010, the phaseout will completely disappear. However, it returns entirely in 2011, assuming no further tax changes. Also in 2006, the federal estate tax exemption increased from $1,500,000 to $2,000,000, resulting in tax savings of $235,000 for a $2,000,000 estate. This amount will increase to $3,500,000 in 2009, before the estate tax is repealed in 2010. In 2011, the tax rate will return to its 2001 level, and the exemption will be set at $1,000,000, barring any further action by Congress.

Listed to the right is a sampling of noteworthy tax changes for 2006. Again, understanding these tax updates is important. Using them to one's benefit can not only decrease tax liability, but also maximize the use of beneficial increases in areas such as retirement contributions and the transferal of assets■

Significant Tax Changes

- **401(k) Contributions** - The maximum employee contribution increases from $14,000 to $15,000.
- **IRA Contributions** - The contribution limit is $4,000. Taxpayers 50 and older can make an additional $1,000 "catch-up" contribution.
- **Itemized Deduction Limits** - Starting in 2006, the itemized deduction phaseout, incurred as income rises, will be reduced by one third.
- **Estate Tax** - The applicable estate tax exemption amount increases to $2,000,000.
- **Gift Tax** - The annual amount you can give a non-spouse without paying gift taxes rises to $12,000 this year from $11,000 for the past four years.
- **Social Security** - The maximum taxable wage base rises to $94,200 from $90,000 in 2005.
- **Alternative Minimum Tax** - The AMT exemption for joint filers drops to $45,000 from $58,000 in 2005.
- **Energy Efficient Vehicles** - A new energy bill allows a $400 to $3,400 tax credit for energy efficient vehicles.

Our Mission

Zemenick & Walker is committed to providing superior investment advisory services to high net worth individuals, trusts, not-for-profit organizations, and retirement plans. As a fee-only, non-discretionary advisor, Zemenick & Walker eliminates potential conflicts of interest and offers clients a disciplined, business-like approach to the investment of their capital■

By the Numbers

Interest Rates	3/15/2006	3/15/2005	Change	Exchange Rates	3/15/2006	3/15/2005	Change in $
Federal Funds Target	4.50%	2.50%	+2.00%	USD/EUR	1.2069	1.3307	+10.26%
3-Month T-Bill	4.61%	2.75%	+1.86%	JPY/USD	117.38	104.56	+12.26%
10-Year Treasury	4.73%	4.54%	+0.19%	USD/GBP	1.7481	1.9131	+9.44%
30-Year Mortgage	6.37%	5.85%	+0.52%	USD Index[1]	85.08	80.22	+6.06%

Stock Indices[2]	3/15/2006	Change From High	Change From Low	Economic Data	Feb-06	Feb-05	Change[3]
DJIA	11,210	+8.54%	+66.47%	Unemployment Rate	4.80%	5.40%	-0.60%
S&P 500	1,303	-6.09%	+78.46%	CPI (Trailing 1-Year)	3.60%	3.00%	+0.60%
NASDAQ	2,312	-52.88%	+111.91%	Retail Sales	$362 b	$340 b	+6.47%
Russell 2000	743	+32.92%	+137.28%	Housing Starts	2.12 m	2.23 m	-4.93%
MSCI EAFE	1,799	+14.83%	+138.28%	Real GDP (4th Qtr)	$11.25 t	$10.90 t	+3.21%

[1] Represents the wgt avg exchange value of the USD against 7 currencies: Australia, Canada, Japan, Sweden, Switzerland, the U.K., and Euro.
[2] High and Low points for each index come from their year 2000 peaks and subsequent bear market lows; represents cumulative total returns.
[3] This represents absolute change for unemployment and CPI, but it is the percentage change for retail sales, housing starts, and real GDP.

Book Review - The Smartest Guys in the Room

By now most investors instinctively cringe at the mere mention of the word "Enron". After reading *The Smartest Guys in the Room*, written by Bethany McLean and Peter Elkind, few would feel anything other than outright anger and disgust over the events surrounding the energy giant's corruption-ridden slide into bankruptcy. McLean and Elkind spent sixteen months exploring the intricacies of Enron's miraculous rise to power and its eventual fall from grace. The authors make a compelling argument that the integrity of Enron's upper management was questionable long before any accusations of fraud. This is in contrast to the general perception that Enron was an honest company that hit hard times and went sour due to the misguided actions of just a few.

The authors leave little doubt that management's driving goal was to get rich, and they did not care who suffered in the process - be it the California residents struggling through an apparently phony energy crisis, or the Enron employees who lost nearly their entire retirement savings. For example, the authors note, "in 2000 - the last full year before Enron went bankrupt - each of the top 200 employees made over $1 million; and 26 executives made over $10 million". Indeed, greed, self-indulgence, and reckless overconfidence permeated the company. In fact, Enron became so powerful that its management was able to bully former "Big Five" accounting firm Arthur Andersen into certifying its corrupt accounting schemes. The collateral damage from Enron's bankruptcy eventually led to Arthur Andersen's downfall.

Recommended Reading

- **Give Me A Break**
  Author: John Stossel
- **Freakonomics**
  Authors: Steven Levitt & Stephen Dubner
- **The World is Flat**
  Author: Thomas Friedman

Undoubtedly, Enron has been the largest business scandal of the young 21st century, and many experts believe that McLean and Elkind provide the most detailed account of the company's sinister history to date. At 400+ pages, the book is detailed, well-written, and easy to follow. Anyone interested in American business history should consider reading this book■

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