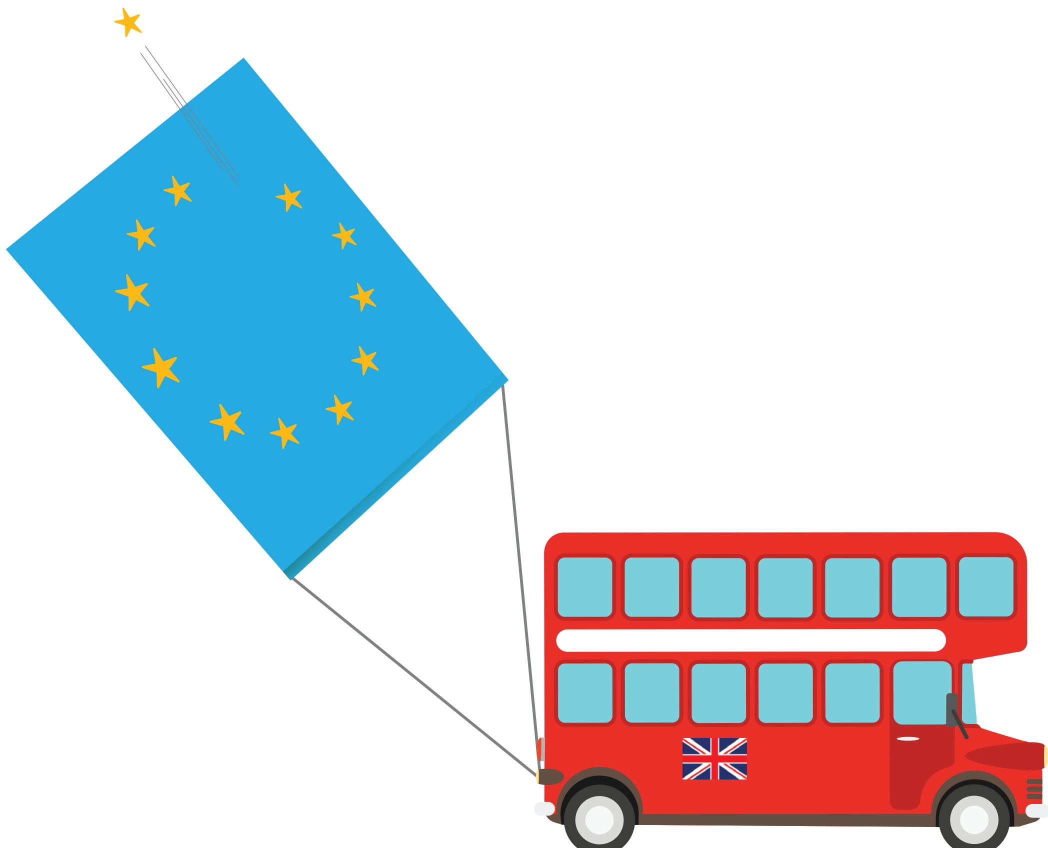
IQ
Edition 34
Summer 2016

NEUBERGER BERMAN

IN THIS ISSUE:



BREXIT, SO FAR SO RATIONAL

THOUGH THE RESULT OF THE U.K. REFERENDUM TOOK MARKETS BY SURPRISE, MOST QUICKLY RECOVERED.

IN THIS ISSUE

A LONG, HOT SUMMER OF POLITICAL RISKS

The second quarter was dominated by the U.K.'s vote for "Brexit" in late June, and the attempted mid-July coup in Turkey and the fractious political conventions in the U.S. further underscored the heightened political risk in the air today. Big votes are due in Austria, Hungary, Italy, the U.S., the Netherlands, France and Germany over the next 15 months.

Brexit seemed to bring the anomaly of record-high equity valuations and record-low bond yields to a new pitch of intensity, as markets reluctantly took on risk in anticipation of further monetary easing. In addition, some observers feel that the shock could signal a change of heart, fiscally, among some important economic players. There certainly is now more talk of infrastructure spending within the U.K., and we could see that momentum spread as both left and right unite behind it as a boost for jobs and business. That may help improve business confidence and increase the probability that earnings can recover enough in the second half of the year to justify today's valuations. Until then, markets could be volatile as they trade on sentiment and political noise rather than fundamentals.

In our latest *Investment Quarterly*, we look back on the Brexit vote and quick market recovery; examine the election's potential impact on the financial sector; take a closer look at ETFs and other passive investment vehicles; evaluate the potential need for long-term care insurance; and discuss several benefits of establishing trusts. We hope you enjoy *IQ*. Please contact your Neuberger Berman representative with questions about the markets or your portfolio.

Joseph V. Amato
President, Chief Investment Officer—Equities

HIGHLIGHTS 3Q16
FROM THE ASSET ALLOCATION COMMITTEE

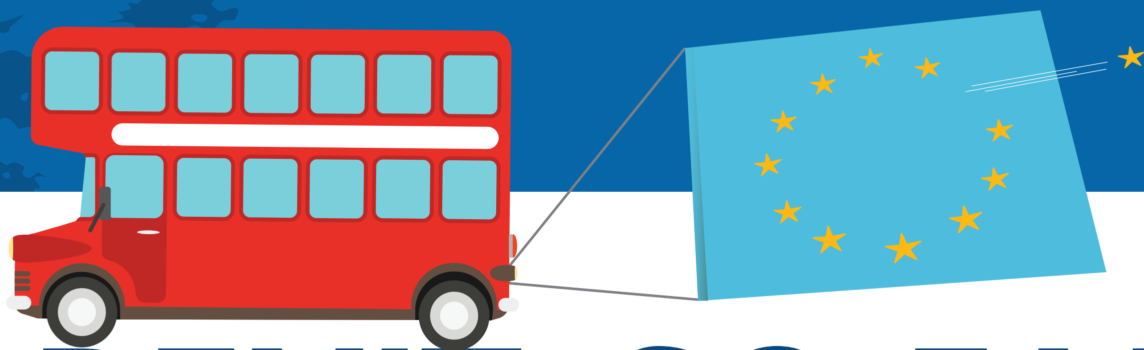
U.S. large–cap equities: Fundamentals need to improve to sustain the current rally. With the business cycle in its later stages and political risks looming, AAC members favor staying in neutral.

Public real estate: Consumer confidence, low interest rates, the search for yield and separate sector classification by S&P Dow Jones and MSCI from September can continue to support REITs.

Emerging markets debt: We remain neutral, but stabilization in commodity prices and monetary policies globally are supportive, while currency depreciations have resulted in current account adjustments in several countries.

Commodities: We maintain our neutral view on commodities as risks look more balanced now, following the strong rebound across the segment since mid-February.

Directional hedge funds: We downgraded directional hedge funds to neutral with the view that Event Driven might continue to be challenged, although conditions may support hedged equities, global macro and trend-following strategies.



BREXIT, SO FAR SO RATIONAL

THOUGH THE RESULT OF THE U.K. REFERENDUM TOOK MARKETS BY SURPRISE, MOST QUICKLY RECOVERED.

ERIK KNUTZEN, CHIEF INVESTMENT OFFICER—MULTI-ASSET CLASS

On June 23, voters cast their ballots to decide the U.K.'s future in the European Union. While many opinion polls leading up to the referendum were suggesting the race was too close to call, investors appeared increasingly confident that a "Remain" vote was all but assured. A few hours after the polling stations had closed, however, it was clear that the markets had gotten this badly wrong.

If investors want to look for a broader impact, they should keep one eye on bond markets and the other on the way the political wind is blowing.

Though the "Leave" vote has set off the U.K.'s biggest political and constitutional upheaval in 70 years, our initial response was that fears of a "Lehman moment" were overblown. And, in fact, market reaction for the most part has been muted. While the announcement of the results sparked an immediate flight to quality, global markets in general have since recovered. The FTSE 100 Index powered back through its pre-Brexit level within a week, and the S&P 500 followed soon afterwards. The VIX Index of implied volatility in the S&P 500, often taken to be a measure of investor fear, moved back below its historical average after a brief spike. In credit markets the spread between BB and CCC rated high-yield bonds, often a herald of economic difficulties ahead, barely registered the event. Neither high-yield nor investment-grade spreads in the U.S. moved significantly, especially compared with the move at the beginning of the year, when credit markets were genuinely pricing in concerns of a recession.

That's not to say there haven't been pockets of more lasting damage. Markets that are more exposed to the longer-term implications of Brexit have re-priced for weaker performance. The FTSE 250—which better represents the U.K. economy than the global, often U.S. dollar-earning companies in the FTSE 100—remains under its high-water mark, as do European stocks. And then of course there is the pound sterling: its 8% drop against the U.S. dollar on June 24 was the biggest one-day decline in more than 40 years. But, even in the U.K., the credit market reaction has been tame; investment-grade spreads have widened 10 – 20 basis points, but almost all of that has been in the financial sector.

If investors want to look for a broader impact, they should keep one eye on bond markets and the other on the way the political wind is blowing. Brexit hasn't changed the slow-growth, low-inflation and low-interest rates dynamic we have endured since the financial crisis, but it may have amplified it. While it chose to sit tight at its July meeting, the Bank of England cut rates and announced a bond purchase program in early August. The market in Fed Funds futures, which represents expectations for the path of U.S. interest rates, now forecasts that the Federal Reserve will be on hold at least into next year. As the table on page 3 shows, in the immediate aftermath of the Brexit vote low interest rates in most parts of the world were forecast to be even lower in a year's time.

The combined expectations for extended political uncertainty, slow growth, low inflation and further bond purchases by central banks spurred demand for safe haven government bonds, sending prices so high that the yields on those bonds went negative. The two-year U.K. government bond yield fell below zero for the first time ever in the week after the vote, the 10-year U.S. Treasury yield has hit historical lows and the German Bund yield has sunk to uncharted depths. Turn to the traditional safe haven of Swiss government bonds and it's hard to get a positive yield even if you lend for 50 years.

This can be a sign that investors are more concerned about the return of capital than the return on capital. However, while low long-term interest rates do put banking-sector profits under more pressure—and financial-sector equities and bonds have sustained longer-lasting damage since Brexit—we are not yet persuaded that this rush into bond markets forecasts similar gloom for non-financial corporate earnings. As we have seen so far, equity markets appear to agree.

LITTLE MONETARY POLICY TIGHTENING IS EXPECTED WORLDWIDE

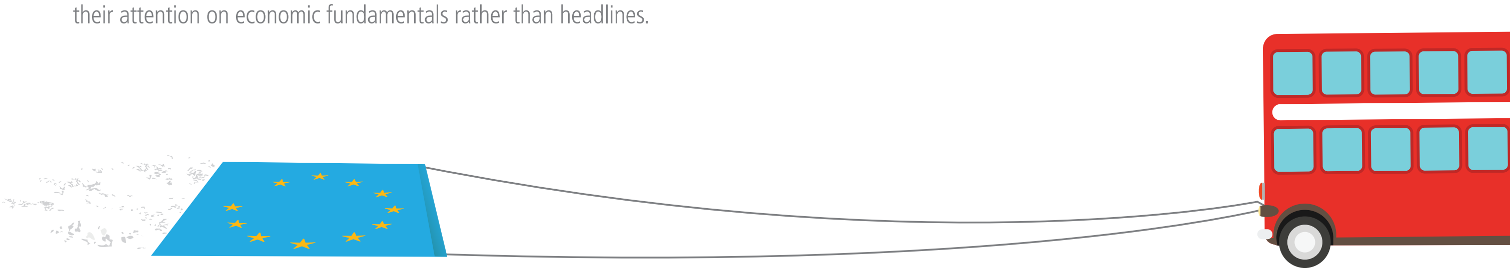
Market-Implied Policy Rate

	Current Policy Rate	In 12 Months' Time	In 2 Years' Time	In 3 Years' Time	Implied 1-Year Change in Policy Rate
U.S.	0.38%	0.36%	0.45%	0.57%	**-0.02%**
Mexico	4.25%	4.98%	5.32%	5.64%	**0.73%**
Eurozone	0%	-0.20%	-0.24%	-0.21%	**-0.20%**
U.K.	0.50%	0.12%	0.13%	0.20%	**-0.38%**
Switzerland	-0.75%	-1.05%	-0.94%	-0.96%	**-0.30%**
Poland	1.50%	1.23%	1.34%	1.63%	**-0.27%**
Australia	1.75%	1.34%	1.42%	1.48%	**-0.41%**
Japan	-0.05%	-0.34%	-0.40%	-0.38%	**-0.29%**
China	1.50%	1.58%	1.75%	1.94%	**0.08%**
India	6.50%	6.37%	6.56%	6.78%	**-0.13%**

Source: Bloomberg. Data as of July 7, 2016. The implied policy rate is derived from interest rate futures contracts for each respective currency.

When it comes to politics, Brexit is far from the last of the potential shocks coming our way. Despite fast progress putting together a new cabinet, there are still a lot of unanswered questions within the U.K. itself. Meanwhile, Spain's general election at the end of June kicked off an 18-month cycle that will include Germany, France, Italy and the Netherlands, where anti-E.U. parties are taking heart from the U.K.'s vote. And of course the U.S. will choose its next president in November; as former Treasury Secretary Hank Paulson said at Neuberger Berman's CIO Summit in June, neither candidate is promoting a positive view of global trade and investment.

If the U.K.'s vote turns out to be the blow that finally cracks the edifice of international political and economic cooperation built over the past 70 years, we could see more than a localized effect on growth prospects. That is not our base case, however. The world needs structural reform and a more appropriate fiscal response to the current malaise if its economies are going to grow on a proper footing and its companies are going to generate sustainable earnings growth. Part of that progress will involve addressing the legitimate concerns of those who have failed to benefit from globalization, but in our view, populism and political division are not the way to do it. In that respect, Brexit was hardly good news. Nevertheless, we believe its effect will likely be marginal, and the market's initial response could create opportunity for patient investors with cool heads who focus their attention on economic fundamentals rather than headlines.



ADDITIONAL THOUGHTS

FROM BENJAMIN SEGAL, SENIOR PORTFOLIO MANAGER, INTERNATIONAL EQUITY GROUP

Whatever else it may mean, the result of the U.K. referendum on leaving the European Union represents uncertainty. What will the new prime minister's priorities be now that she is in office? When will the U.K. leave the EU, and under what terms? Indeed, will the U.K. leave at all? What does that mean for trade between the U.K. and Europe and for investment in the U.K. itself? How might this result affect anti-EU factions across Europe? We are in uncharted territory, and market participants appear to be taking a cautious view until the way forward becomes clearer.

The initial sharp decline in equity markets and spike in volatility were a testament to that uncertainty. Markets sold off in the immediate aftermath of the vote, but recovered some of their losses as June came to a close, with many in July moving beyond pre-Brexit highs. The FTSE 100 Index, having declined by over 5%, was already 3% above its pre-referendum level on June 30—although adjusted for the 11% decline in the pound sterling the index was still down 8% by month's end. The more domestically focused FTSE 250 Index was hit more severely, while the MSCI Eurozone Index was down 8% in U.S. dollars. European banks were impacted significantly: The EURO Stoxx Banks Index was down 19% in euros (21% in U.S. dollars) between June 23 (the day of the referendum) and the end of the month.

Near term, the U.K. holds the greatest concern, as consumers and corporations adopt a "wait and see" attitude to spending and investment. Longer term, however, we believe the prospect of a weaker pound and more pro-business policies offer great opportunities for U.K. companies and the economy overall. In continental Europe, the loss of an important EU member is a challenge to economies that—outside of Germany—are still operating below potential. The European Central Bank is likely to maintain interest rates at a very low level, which poses ongoing problems for the banking sector.

We remain focused on companies that appear well positioned to withstand volatility: profitable, cash-generative businesses with strong balance sheets. The U.S. and emerging economies should be less sensitive than Europe's or Japan's, and therefore companies with global revenues appear better positioned, implying a preference for large caps over smaller companies. Our conviction on quality is unshaken, as is our affinity for Swiss multinationals. We remain skeptical that Japan can manage with the sharply stronger yen. We have yet to conclude, however, whether the lower prices in the U.K. and euro zone represent a buying opportunity or whether further downside risks remain.

A LOOK 'UNDER THE HOOD' AT PASSIVE INVESTING

Juliana Hadas, Director of Investment Risk

ETFs and index funds continue to surge in popularity, but investors may not always be getting what they expect.

With passive strategies continuing to gather assets at a rapid pace, the "active versus passive" debate remains as pitched as ever. While passive vehicles—in the form of index funds and exchange-traded funds (ETFs)—are often perceived as attractive alternatives to actively managed products offering desired market exposure at lower fees and without the risk of significant benchmark underperformance, the reality is more nuanced.

Passive Product 'Accuracy' Varies across Markets, as Do Costs

Passive investments seek to replicate the performance of a benchmark, thereby eliminating one investment risk—namely, the difference between the performance of the market segment and that of the product chosen to represent it. However, not all market segments can be copied with equal precision and ease. More efficient markets—marked by fewer and larger-cap (and thus more liquid) securities—are easier to replicate. Less efficient segments—which consist of more numerous but smaller and less liquid securities—present a greater challenge to the passive vehicle seeking replication.

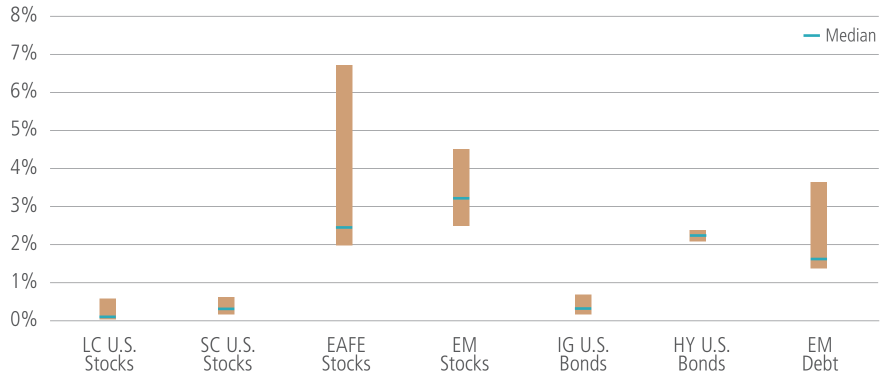
A common proxy for performance dispersion is "tracking error"—the volatility of the difference between the returns of an investment and its underlying benchmark index. As shown in the display on page 6, passive vehicles in some market segments have experienced annualized tracking errors in excess of 2%, a level more commonly associated with active funds and a potential surprise to unwary investors.

Not all market segments can be copied with equal precision and ease.

There is a common perception that passive vehicles are uniformly low-cost.

PASSIVE INVESTMENT TRACKING ERROR CAN BE SIGNIFICANT IN SOME ASSET CLASSES

Five-Year Tracking Errors of Largest Passive Vehicles within Asset Classes

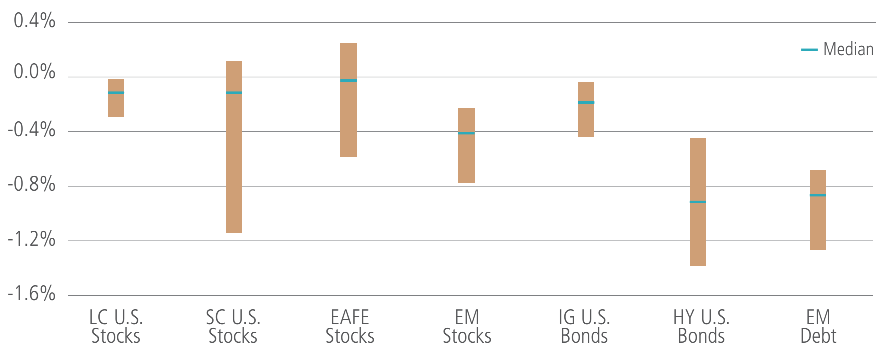


Source: FactSet, Bloomberg, Morningstar, ETFdb. Based on the 10 largest-AUM passive vehicles (index funds and ETFs) within each category. Calculated on monthly data through June 2016. 5-year tracking errors, calculated on monthly data through June 2016, computed against each product's benchmark.

Meanwhile, there is a common perception that passive vehicles are uniformly low-cost. While passive vehicles generally do feature fees and expenses notably lower than their active counterparts, some—namely, strategies replicating less efficient markets—may incur fees and expenses similar to those of active funds, primarily due to trading expenses. Even lower fees have an impact on performance, so the performance of passive vehicles still tends to lag the performance of the index, even if only by a small amount.

PASSIVE VEHICLES HAVE TENDED TO UNDERPERFORM BENCHMARKS AFTER FEES

5-Year Annualized Excess Returns



Source: FactSet, Bloomberg, Morningstar, ETFdb. Based on the 10 largest-AUM passive vehicles (index funds and ETFs) within each category. 5-year annualized excess returns through June 2016, computed against each product's benchmark.

In our view, low costs in and of themselves are not indicative of any product's benefit value. Higher fees for active management are due in large part to the investment research and processes that can translate into alpha and/or risk mitigation. To the extent a manager outperforms the benchmark, the higher management fees may be well warranted. On the other hand, for passive strategies, "closet indexers" and/or funds that do not have the potential for outperformance over market cycles, higher fees would not be merited.

Where Active Hits Its Stride

At a basic level, we believe that talented managers across markets have the ability to outperform benchmarks over market cycles. That said, the outperformance potential of active managers is partly a function of the efficiency of the market segment in which they invest. Less efficient, more heterogeneous markets with more sparse analyst research coverage have greater potential performance dispersion among their constituents, enabling active management decisions to have a greater impact on relative return. Likewise, the more decisions a manager makes in constructing a portfolio—e.g., exposure by sectors, countries, currencies, securities, etc.—the more opportunities it has to tilt the portfolio away from the benchmark and potentially drive outperformance.

Overall, academic research has shown that high-conviction active managers (as determined by their active share)[1] with a long-term focus historically have outperformed their benchmarks net of fees. Lower-conviction, shorter-term focused managers, in contrast, have lagged.[2]

Risk Mitigation and Other 'Active' Benefits

Passive vehicles by design have the same risk profile as their benchmark. Active vehicles, in contrast, may be able to achieve lower volatility than their benchmark while generating superior return/risk ratios. They seek to do so through a variety of strategies and approaches, such as focusing on lower-volatility securities or varying cash levels.

In addition, capitalization-weighted equity indices—i.e., most major benchmarks—by definition capture market momentum; they over-emphasize recent winners, which may have become overvalued, and under-emphasize lagging performers, which may have become undervalued. Naturally, passive vehicles bear these momentum exposures. Active managers, on the other hand,

Active vehicles may be able to achieve lower volatility than their benchmark while generating superior return/risk ratios.

[1] Active share, a term coined by Professors Martijn Cremers and Antti Petajisto in their 2006 paper "How Active Is Your Fund Manager? A New Measure That Predicts Performance," is a measure of the percentage of holdings in a manager's portfolio that differ from the benchmark index.

[2] Martijn Cremers and Ankur Pareek, 2014, "Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently." The authors used a large sample of actively managed all-equity U.S. retail funds from the CRSP Survivorship-free mutual fund database to create hypothetical portfolios divided by fund duration (a measure of holding period) and active share. They found that an equally weighted portfolio of funds in the top quartiles of both categories outperformed their benchmarks by 1.9% on an annualized basis, net of fees, from 1995 – 2013; those in the bottom quartiles of fund duration and active share underperformed over the same period.

have the potential to mitigate exposure to such momentum trends (including their ultimate manifestation—asset bubbles—which, though infrequent, can have a significant and long-lasting impact on a portfolio [see display]).

MARKET BUBBLES CAN PROVE COSTLY

Crisis	Bubble Sector	Peak Date	Bubble Sector % of Index on Peak Date	Subsequent Sector Performance (Peak to Trough)
Dot-com Meltdown	Information Technology	3/27/2000	34.5% of S&P 500	-82.4% (3/27/2000 – 10/9/2002)
Global Financial Crisis	Financials	2/20/2007	36.5% of Russell 1000 Value	-80.1% (2/20/2007— 3/6/2009)
Oil Price Collapse	Energy	6/23/2014	15.7% of Russell 1000 Value	-49.2% (6/23/2014 –1/20/2016)

Source: Bloomberg, Neuberger Berman.

A thorough understanding of the nature of passive investments is no less important than a thorough understanding of active products.

Bond markets present similar risk-mitigation and return-enhancing opportunities for active investors. First, fixed income benchmark allocations typically are determined based on the amount of debt issuance; as such, larger debtors are heavily weighted in index funds, leaving the funds vulnerable to specific credit problems. Puerto Rico (in the municipal market) and the heavily levered energy sector (in high yield) come to mind as issuers to which one may prefer not to be significantly exposed. Second, the current low interest rate environment means that broader fixed income indices (and the index fund and ETFs that seek to replicate them) now carry extremely low yields. Although active managers are affected by this problem as well, they have the ability to exert more flexibility in terms of duration, credit selection and, in some cases, choice of market to enhance yield and total return potential.

Conclusion: Weighing the Differences

In sum, a thorough understanding of the nature of passive investments is no less important than a thorough understanding of active products. Not all passive vehicles are created equal, and not all market segments lend themselves equally well to efficient, accurate, low-cost replication. Furthermore, even in the easier-to-replicate market segments, the benefits of active management—namely, the ability to add alpha and mitigate risk and undesired factor exposures—must be balanced against the cost difference between active and passive products to truly capture the total value proposition that each presents.

As with any other investment decision, selecting an appropriate mix of active and passive strategies—and the vehicles themselves—requires thorough due diligence and thoughtful evaluation of available options.

SECTOR SPOTLIGHT
ELECTION
2016

BANKING AND THE CANDIDATES

Kush Goel, Research Analyst, Global Equity Research

WHAT ARE THE IMPLICATIONS OF THE PRESIDENTIAL RACE FOR THE BELEAGUERED BANKING SECTOR?

As we enter the final phase of the U.S. presidential election, it's worth considering the impact that the results could have on the banking industry, which has been the focus of considerable political and popular anger since the global financial crisis of 2008.

In doing so, it's important to point out that this is not a homogeneous industry. There are still over 6,000 banks in the U.S., and most of them are small community banks. The public, political and regulatory ire is actually directed toward a handful of the largest banks—the so-called GSIBs (global systemically important banks) and some other institutions. The eight U.S. GSIBs are largely "Wall Street" firms such as Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley. This is a group that gets the most press and is the focus of this Sector Spotlight.

We see most change in the industry now being driven by regulators rather than legislators.

Sanders Defeat Makes for Potentially Clearer Sailing

With Bernie Sanders out of the race, political risks have eased somewhat for the group. Sanders famously said that the "business model of Wall Street is fraud," and he has been vocal about breaking up the largest banks. In contrast, we don't think Donald Trump or Hillary Clinton is strongly against Wall Street beyond the general dislike that politicians have shown for the group.

Trump hasn't yet put out a formal position on banks, and under his leadership the Republicans could potentially roll back parts of the Dodd-Frank Act (the signature piece of post-crisis legislation passed in 2010), which would likely be positive for the group.

Although Hillary Clinton moved further to the left in the Democratic primaries, we believe she would likely govern from the middle, and her recent comment that she wouldn't rule out appointing people who have worked on Wall Street to her economic team lends support to our view. Meanwhile, her Wall Street reform proposals don't contain anything particularly new for the largest banks. The one wild card is the role of Elizabeth Warren in a future Clinton administration. Warren has been an outspoken critic of the largest banks and could continue to be a thorn in the side of the industry if she lands a cabinet spot (for example, as attorney general or Treasury secretary).

Regulators, Not Legislators, Are Likely to Be the Key Drivers

Still, the markets haven't really been too concerned about the impact of the elections on banks because we see most change in the industry now being driven by regulators rather than legislators. As far as legislation is concerned, Dodd-Frank is already considered a very tough law, the regulators are in the process of implementing it, and there appears to be little appetite in either party to make it more onerous; if anything, there could be changes to ease the burden on smaller banks. Meanwhile, most of the crisis-era federal litigation has been worked through by the Justice Department; we do not expect a new administration from either party will discover major transgressions from that period that haven't already been prosecuted.

Regulators are pushing through important changes in the U.S. and on a global basis, though we appear to be moving toward the end of this process as well. In the U.S., this group consists of the Federal Reserve and several other agencies (including the FDIC, OCC, SEC, CFTC, CFPB, FHA and NCUA). Globally, central bankers coordinate their actions in Basel, Switzerland. The largest banks now have to manage a veritable alphabet soup of new requirements on capital (CET1, SLR, CCAR), liquidity (LCR, NSFR), resolution (TLAC) and safety (Volcker rule, leveraged lending). These have already had a massive impact on the amount of capital and liquidity that the industry holds, curtailed the ability to engage in certain activities legislators deemed too risky, and, we believe, improved the safety and soundness of these institutions. Unfortunately, this could all have the effect of meaningfully lowering the profitability of these institutions.

On an ongoing basis, the large banks are most affected by the Comprehensive Capital Analysis and Review (or CCAR), which is the Federal Reserve annual stress test that has been in effect for five years and is used to control the capital plans of the group (including dividend, share repurchase and acquisition plans). The CCAR is both a quantitative and a qualitative test and is designed to be opaque, all of which gives the Fed tremendous power to force change—to capital, business model, management and more—at the covered banks; the test has resulted in the large banks being required to hold more capital each year. One way the election could impact industry conditions relates to the head of this effort, Fed Governor Dan Tarullo, who has been very tough on the banks. Some believe that a Trump victory could prompt Tarullo to leave prior to the end of his term in 2022 and be replaced by a new appointee who might be "friendlier" to financial institutions.

More Fundamentals than Politics

It's hard to anticipate if and when the public's attitude could soften towards the large banks and Wall Street. However, the group has already absorbed the effects of this anger, and it's hard to believe that sentiment could get any worse. From an earnings and growth perspective, the more important impact under a new president is likely to be how well the economy performs and the implications for interest rates, loan growth and the risk appetite of individuals and corporations. In other words, whether or not the noise continues, we believe it will likely be fundamentals that make the ultimate difference.

KEY TAKEAWAYS:

- The very largest banks are the focus of public ire
- Sanders' exit means political risks have eased
- Trump could work to roll back Dodd-Frank
- Clinton would likely govern from the middle, but Warren role is a wild card
- All eyes are on regulators, not legislators
- Economic fundamentals will be key to stocks' prospects moving forward

EVALUATING LONG-TERM CARE INSURANCE

Sharon Appelman, CFP®, Financial Planner

The cost for a private room in a nursing home averages about $92,000 per year in the U.S., but ranges as high as $160,000 in Connecticut. Meanwhile, the average cost of daily home care is $48,000, but jumps to nearly $175,000 nationally, assuming 24-hour service.[1] Depending on the location and level of care, we find that some families pay well over $200,000 annually, with costs growing every year. Given these imposing figures, it's not surprising that the topic of funding such custodial care, and in particular the use of insurance for that purpose, is a popular topic of conversation. What are the issues to consider? Is insurance "worth" the price? What policy options are out there? Here are some basics to keep in mind as you sort through the decision process.

What is 'long-term care'?

Everyone understands the concept of long-term care, that at some point many of us will need support with even the most basic tasks as we go about our lives. But for insurance purposes, the trigger point for coverage of "long-term" care is fairly specific. Indeed, long-term care insurance benefits are triggered when an individual requires care for cognitive impairment or requires help with at least two of the following six activities of daily living: dressing, transferring, bathing, eating, continence or toileting. An individual who fits this description may require both custodial care and skilled nursing care. This article focuses on custodial long-term care.

Doesn't Medicare cover this?

Medicare does not cover custodial long-term care. It will cover up to 100 days of care after a hospital visit of at least three days, but only under specific circumstances. The patient is also responsible for a copayment for the majority of those days.

What about Medicaid?

The vast majority of wealthy individuals are unable to qualify for Medicaid, which requires you to demonstrate very low income and asset levels, and includes a five-year look-back period related to spending down or gifting away financial assets. Medicaid also institutes strict trigger points before benefits kick in, and care options are more limited.

What are my options for receiving care?

Aside from receiving care from a loved one, the three primary choices are to have professional care provided in your home, to move to an assisted living facility, or to move into a nursing home.

[1] Genworth 2016 Cost of Care Survey, conducted by CareScout®, April 2016. Daily home care is based on 44 hours of service per week. We extrapolated the 24-hour care figure based on the same hourly cost.

Increasingly, individuals are choosing to receive care in their own home—which is often the costliest option. Those who buy into assisted living facilities typically move there while still healthy. The facility may offer various levels of living solutions to enable couples to remain together for as long as possible. It's important to find out whether long-term care insurance would cover such care, and under what circumstances it might not be accepted.

What is the likelihood of requiring long-term care custodial services?
The likelihood that someone who buys a long-term care policy at age 60 will use the policy is 50%, assuming benefits begin on the same day the care begins (a.k.a., a zero-day elimination period).[2]

How should I think about long-term care insurance?
By purchasing a long-term care policy you are essentially transferring the risk, or a portion of the risk, that you will have to pay for care to the insurance carrier. Long-term care policies have evolved a great deal over the last few decades and there is now a greater variety of products through which to attain coverage. The options available today include traditional long-term care insurance plans, hybrid plans and state partnership programs.

What stands out about the different policy and program options?
Traditional long-term care policies may offer more coverage for the same amount of premium than other types of policies, such as hybrid policies, but those premiums can increase over time. Traditional policies can also qualify for state tax deductions and credits, and can enable the use of a state partnership program, discussed below, where applicable. Traditional policies used to offer the option of paying premiums over a 10-year period (called a 10-pay option), after which your policy would be paid in full for life. That is no longer the case. Today you must pay premiums for life to continue coverage.

Hybrid policies, which combine long-term care with life insurance or annuities, may offer certain benefits over traditional long-term care policies. Compared with traditional policies, hybrids tend to have a simpler underwriting process and are easier to qualify for medically. If you pay with an up-front premium or pay premiums for a fixed number of years (10-pay, for example), you are immune from future rate increases. Hybrids also provide a death benefit to heirs if you don't use the long-term care coverage during your lifetime.

There are some potential drawbacks, however. You typically receive less coverage for the same amount of premium as a traditional policy because you're also paying for the cost of life insurance; ideally, you would have a separate need for life insurance before putting such

What if the premiums on my existing policy increase?

Think carefully before terminating your policy. Frequently the new, higher premium will still be cheaper than the going rate for policies in the marketplace today. If you can afford the new higher premium, it may be worth keeping the policy, particularly if your health circumstances have changed. Typically, the decision is not simply one of keeping or canceling the policy; the carrier may make other options available, such as reducing the daily benefit, changing the inflation rider or reducing the benefit period.

[2] Source: American Association for Long-Term Care Insurance.

a policy in place. Further, these policies may underperform in a rising interest rate environment because the cash value may be locked into today's rates. Hybrid policies also do not qualify for your state's tax deduction/credit.

State Partnership Programs. Some states offer a partnership program that enables you to qualify for Medicaid after depleting your long-term care benefits, without having to spend down all of your assets. Consider educating yourself on your state's partnership program as you learn about the various options available to you.

At what age would I buy long-term care insurance?

Typically, people buy long-term care insurance between the ages of 50 and 70, with the bulk obtaining coverage between ages 55 and 65. The level of the premium is a function of the applicant's age and health at the time of application. The younger you are when you buy, the lower the premium; that being said, younger policyholders will pay premiums for a greater number of years. Remember that underwriting requirements for long-term care insurance can be stringent, so it is better to apply for a policy while still in good health.

Should you decide to explore your long-term care insurance options, note that insurance carriers each have a "sweet spot" in terms of an applicant's age and health.

What else should I keep in mind?

Should you decide to explore your long-term care insurance options, note that insurance carriers each have a "sweet spot" in terms of an applicant's age and health. An experienced insurance agent will help you to navigate the carriers based on your particular circumstances. You should be able to prequalify before submitting your full application so that, if the carrier determines you're ineligible, you won't be formally denied coverage. A denial from one carrier can make it harder to subsequently qualify with another carrier.

Some individuals hesitate to purchase long-term care insurance because they are concerned the premiums may be raised at a future date. While this is of course a possibility, carriers have evolved in their understanding of the risks and are pricing the policies accordingly. Likewise you may know a family member or friend whose policy did not pay out when needed. Your insurance agent should be able to provide you with rating information on the insurance carriers. You can request information on each carrier's claims-paying history.

There are individuals who are fortunate enough to have sufficient assets to pay long-term care costs out of pocket. Some of these individuals conclude that they don't need to purchase a policy while others decide that the insurance will provide them with peace of mind. As with most complex financial decisions, no one solution is right for all individuals or families. Taking the time to educate yourself on your options and going through the prequalification process can help you make an informed decision.

NINE REASONS WHY YOU MAY STILL NEED A TRUST

Trusts continue to prove they're much more than tax optimization tools.

Diane E. Lederman, President and Chief Executive Officer, Neuberger Berman Trust Company N.A.

Within the recent drama around Viacom founder and Chairman Emeritus Sumner Redstone was a threat by the 93-year-old of a lawsuit against two former companions, alleging elder abuse, that would seek to recover more than $150 million in gifts made to them. The high stakes of the larger Viacom/Redstone situation—the sums of money in play are significant and the fate of a trust controlling the multibillion-dollar corporation hangs in the balance—make for fascinating if somewhat sensational reading. From a wealth-planning perspective, however, the elements that touch on Redstone's continued ability to manage his money at a vulnerable life stage may underscore for many the potential benefits of establishing a system of checks and balances (both for ourselves and for heirs) to protect assets and those they are intended to benefit.

TRUST COMPANY CORNER

Given today's high federal gift and estate tax exemption amounts ($5.45 million per individual, $10.9 million per couple in 2016), one of the most common questions we hear from clients is, "Why bother with trusts?" While it's true that federal gift and estate taxes are no longer a concern for many families (state estate and gift tax laws vary by state and not all states match the federal exemptions), trusts can perform other critical functions within an estate plan. By allowing you to specify when, under what circumstances, how and to whom assets will be distributed or used, trusts can achieve a variety of goals, including protecting assets, alleviating the burden on beneficiaries of day-to-day financial management and facilitating transfers to those who are incapacitated. The following are nine key non-tax reasons to consider a trust as part of your estate plan:

1. Protect minor children or heirs with disabilities

One of the most common reasons to create a trust is to hold assets on behalf of minor children (or other beneficiaries) who are unable to hold them in their own names. In the absence of a trust, assets left to your minor children after your death will become subject to the control of the court—a situation that generally is preferable to avoid. If you have children facing other disabilities, including addiction issues, mental illness or other medical issues, they may also benefit from having assets held for them in trust on a temporary or permanent basis.

2. Provide support for spendthrift heirs

If you have a child (or other beneficiary) who lacks prudent money management and budgeting skills, a trust can be a way to put an intermediary in charge of protecting the assets and helping to ensure that the assets remain available for a set period of time or throughout the child's life. Also, if you name the beneficiary as a co-trustee, the beneficiary can feel involved in his or her own future and perhaps learn prudent financial skills.

3. Protect assets from creditors

When you create a trust for a beneficiary, those assets are generally protected from creditors. This protection is one of the key benefits of a trust, and is particularly useful if you have beneficiaries who work in fields that experience higher rates of liability lawsuits, for example, doctors or those who serve on corporate boards of directors. Should a beneficiary lack sufficient liability insurance, a trust can also protect assets from liability stemming from an accident. Also, assets held in trust generally offer protection in the event of a divorce.

4. Provide lifetime support for a surviving spouse, but leave assets to children from a previous marriage

In blended families, it's common for a spouse to want to provide support for a surviving second spouse throughout his or her life, but ultimately leave assets to children from the first marriage. If you leave assets to a surviving spouse outright, you run the risk that the spouse may then leave the assets to his or her own children or a new spouse, thereby removing them from the family. A trust can provide the support for your spouse throughout his or her life and then provide that any remaining assets pass to your children.

Because the interests of your surviving spouse and children are at odds in this scenario—your spouse wants to maximize the funds he or she receives while your children want to preserve the assets for their inheritance—it sets up a conflict that can require the trustee to tread carefully to avoid disputes. For this reason, the selection of your trustee is a critical decision. One option is to consider a corporate trustee or co-trustee who can help navigate these delicate situations as they arise.

5. Ensure that your assets pass to grandchildren or more remote descendants upon a child's death—and not to your child's spouse, friends or favorite charity

Depending on the size of your estate and the amount you intend to provide to heirs, your trust may endure over multiple generations. Similar to the previous example, if you want to provide for your children during their lifetimes and then ensure that the assets stay within the family after their deaths rather than pass to surviving spouses, friends or charity, your trust can provide that any remaining assets pass to grandchildren or other descendants that you select.

6. Provide ongoing support to surviving spouses

Often in a marriage, one spouse handles much of the day-to-day financial management. When that spouse is the first to die, the surviving spouse may not want to or may not be capable of taking up the household financial reins. In such cases, a trust allows for the trustee, or another appointed person or entity, to take over asset management responsibilities or oversight, as well as more mundane bill-paying and recordkeeping tasks, while providing the surviving spouse with support. Additionally, the trust can protect the assets if the surviving spouse decides to remarry.

7. Benefit individuals for a set period, then pass the remainder to charity

If you are charitably inclined, a charitable trust can provide for both family members and causes you would like to support. For example, a charitable remainder trust can provide income to a beneficiary, such as a surviving spouse, for a set period of time, and then pass the remainder to a qualified charity. There may be tax benefits associated with these types of trusts.

8. Delay knowledge of wealth until a certain age

For a variety of reasons, you may decide to withhold knowledge of a future inheritance from your children or other heirs for a period of time. Generally, a trustee must advise a current beneficiary of his or her interest in a trust. In certain jurisdictions such as Delaware, however, you can create a trust with the condition that the beneficiaries not be notified of their interest in the trust until a specified time, such as attaining a certain age.

9. Provide a structure to manage your assets if you become incompetent

Most relevant to the Sumner Redstone example above, you can establish a trust to manage your own assets in the event that you become incapacitated. Unlike the trusts we discuss above, which are irrevocable, in this case you can employ a revocable trust, which could be used in place of a power of attorney and, in some cases, may be an easier solution. In the event that you become disabled, the trust can provide that a successor trustee steps in with the full authority to manage the assets of the trust, provide for your support and manage your financial affairs.

Set Your Own Terms

Serving as more than tax optimization vehicles, trusts can offer you a flexible way to direct how your assets are distributed to your loved ones, and can provide a means to protect assets for beneficiaries from potential predators, and from themselves. Should you become incapacitated, a trust can assist you in the management of your assets on a temporary or permanent basis. You can give beneficiaries as much or as little control over the trust as you feel is appropriate—for example, being a co-trustee or giving them the power to remove and replace trustees. The terms of the trust generally are established as part of your estate planning process and can be funded upon your death or during your lifetime, as you select. An estate planning attorney can work with you to determine how a trust may fit into your estate plan.

IRA CONSIDERATIONS

When you name an individual as beneficiary of your IRA, that person has the authority to withdraw the entire balance at one time. This access can have significant tax implications, but, further, if the beneficiary is incapacitated, a spendthrift, a second spouse or someone unable or uninterested in managing their finances, your wishes may not be achieved. Naming a trust as the IRA beneficiary instead of an individual allows you to protect the assets from creditors or the beneficiary, or provide a structure to make sure the assets are distributed in accordance with your wishes.

NEUBERGER | BERMAN

Neuberger Berman
605 Third Avenue
New York, NY 10158-3698
www.nb.com