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Balancing Boards

What percentage of U.S. corporate board seats should be occupied by women? Just for fun, what % do you think would be optimal? And how close, do you suppose, are we to that target?

The Thirty Percent Coalition, a group founded in 2011 which encourages gender, racial and ethnic diversity on boards, thinks 30% is a good across-the-board target. Started in 2010, 2020 Women on Boards aims for at least 20% women board members by 2020. Women Corporate Directors (WCD), is a "community of support and expertise" for women directors, with 80 chapters around the world, including 21 in the U.S. WCD doesn't name a specific percentage goal but has been working to increase female presence on public and private boards for the past 17 years.

Where are we now? The answer isn't simple because of the range of percentages across company size and industry. It varies with the particular study. A recent article from the Harvard School of Public Health states that overall, women hold 11-12% of Board Director seats in the U.S. Among Fortune 1000 companies, they hold 19.8% (2017), 21.8% in Fortune 500, 19.9% in the S&P 500, and 24.3% in Fortune 100. Larger companies are more diverse. Massachusetts follows Washington and Michigan as the state with the third highest female board representation, at 23.1%.

Each of the organizations mentioned above work to expand the pool of eligible board candidates through board training, by helping promising women to build an effective career path and bio, by teaching them how to be selected for board seats, and by way of mentorship. In addition, they work to make the environment more receptive to women on boards. They advocate, educate, and work with CEOs (mostly men) to become change agents in their own companies. They also sponsor research to present the current situation and track change.

What motivates this fervent and persistent effort? The easy answer is simple fairness...equality of opportunity, social justice and all that. After all, women are said to drive 70-80% of the purchasing power in the U.S., represent the greater percentage of labor force in many industries, and earn more higher degrees than men. But beyond fairness, advocates protest that everyone, plus the economy, wins if women share in leadership. The range of available candidates is increased, presumably raising the bar on talent. Gender balance also makes many companies better able to reflect the interests of their stakeholders, consumers and employees. Board attendance typically goes up when women are included. Most important, women and men may complement each other with different strengths. For example, women tend to be more collaborative, and more comfortable with ambiguity, while men can be more competitive and direct. Women's thought processes are likely to be more holistic, less linear. Women also are apt to be more process-oriented and, on boards, more inclined to hold top management to account. Women deal more efficiently with risk, and tend to direct greater focus on long-term priorities. Their ways are not "better" in and of themselves. Rather, the blending of female and male characteristics can lead to more productive decisions and more conscientious governance.

Of course, some boards function in such a way that the benefits of gender diversity are lost if nominating committees, wary of rocking the boat, look for women who have assimilated male behaviors. It's very human to be more comfortable among people like yourself. But nominating committees, which have identified reasons for gender diversity beyond simply achieving greater parity, look to reap the advantages of diversity. They may also recognize that a solitary woman does not tend to offer the benefits of diversity. Some researchers suggest that it takes at least 3

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Balancing Boards, continued

women board members to activate the benefits of gender diversity. Male board members, with a more aggressive style, and with more comfort in male groups, may stifle the contributions of women. For this and many other reasons, countries including Iceland, Norway, France, Spain, Italy, Belgium, Netherlands and Germany have legal quotas for the % of women on boards, some as high as 40%. Among countries, the U.S. is in the middle range, Japan at the bottom with 2%. Especially in the case of Iceland, the recent emphasis on increasing the percentage of women on banking management boards was triggered by recognition of gender differences. This followed Iceland's economic collapse in 2008-2009 (which Michael Lewis dubbed an "historic act of financial madness"), caused by overconfident and reckless male leadership.

There are opponents to increasing the female board presence. Some echo objections to affirmative action, protesting that the women nominees will not be sure that they were included for their skills rather than their gender. Yet, board membership to date has never been a perfect reflection of worthiness. Gender (male) has long been an important prerequisite. Moreover, gender bias has tended to define board qualification in terms that fit men. For just two examples, CEO status and membership on other boards, both predominantly male characteristics, have been popular attributes of board candidates. Insisting upon traditional requirements is tantamount to saying that women cannot be board members because women are not already board members.

Some studies credit adding women to boards with improved financial results. Whether or not that is true generally, a greater percentage of female board members will expand the pool of qualified candidates and improve boardroom dynamics. It also should transform attitudes towards women in business leadership, providing new roles models for young women.

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The Sky's the Limit? LTC Premium Hikes

Long Term Care insurance (LTC) caught on in the late 1980s and early 1990s. At the time, nursing homes no longer met all the varied needs of longer-living Americans who now needed what adult day-care, assisted living, and in-home care could provide. Yet health insurance, Medicare and Medicaid failed to cover such costs. LTC was a popular solution for middle aged adults concerned about protecting the next generation from the burden of parental health care expenses. Companies calculated LTC costs (subsequent premium levels) for this new product with reference to several projected estimates: morbidity and mortality of the insured, investment returns anticipated for the insurance company, health care costs, and lapse rates.

Over time, it became apparent that their estimates were faulty. It was a perfect storm. Health and longevity increased. "Lingering diseases," such as dementia and Alzheimer's, prolonged the need for care. Interest rates plummeted, shrinking the companies' returns. Medical costs soared. And instead of the 4 to 5% lapse rate anticipated by the actuaries, only 1% of policy holders surrendered their contracts. Two related companies brought themselves down with reckless underwriting. Penn Treaty Network America Insurance Company and American Network Insurance Company became an insolvency of historic scope when put into liquidation in 2017. Claims were at least partially met by Pennsylvania's Guaranty Association.

Many LTC providers, including MetLife, Guardian, and Prudential exited the business, but had to maintain existing policies. They continue to meet claims of remaining policyholders, but may, with approval of the Insurance Commissioner in each state, increase premium costs. All but nine states having adopted long-term care insurance rate stability regulation. Thus, policy holders in different states suffer different increases which have ranged from around 15% to over 100%. Federal employees faced rate hikes of 83% on their John Hancock contracts. Generally, customers who agree to benefit concessions such as lowering their daily benefit or shortening their benefit period, can reduce their premium increase. Or, they can end premium payments and select a paid-up option whereby the lifetime total of premiums paid becomes the new life time benefit limit.

People still purchase LTC insurance, but typically via a new hybrid policy (permanent life/LTC) in which the insured may receive benefits in the form of life insurance benefits, long term care benefits, or a combination. These policies can be expensive, but the costs of illness in our waning years certainly hasn't gotten more affordable.

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Economic and Financial Overview

Diminishing unemployment, positive consumer sentiment, strong corporate earnings, and controlled inflation, were among the factors which together formed the foundation for positive U.S. stock performance in 2018. Third quarter performance exceeded prior quarterly results as the S&P 500 stock index returned +7.7% for the period, bringing year-to-date performance to +8.9%. However, developed international markets, and especially emerging markets, did not keep up. Developed markets' positive +1.4% return for the quarter was not enough to offset earlier losses, as the index registered –1.4% on a year-to-date basis. Emerging markets suffered more, year-to-date, with an approximate loss of –9.5%.

Apprehension concerning the potential effects of tariffs used as a trade negotiation strategy, as well as rising oil prices, and interest rates, roiled world markets. U.S. investors were particularly concerned about rising interest rates as the Federal Reserve continued its policy of soft but deliberate tightening, achieved through .25% rate hikes, and the monthly reduction of the central bank's balance sheet. A 4th rate increase for 2018 in December, and an anticipated 3 increases in 2019, are intended to subdue any inflationary threat, and to "normalize" rate levels. The Fed notes that the federal funds rate is not yet at a "neutral" level, yet the sudden plunge in stock prices on October 10 reflected investors' concerns about rising rates.

Some analysts advise that the seemingly endless bull market will encounter some headwinds. Much of the positive direction in U.S. stock prices has represented corporate stock buybacks, rather than investor activity. In fact, in Quarter 3, investor money was flowing to bond, not stock funds. And, at the same time as corporations were purchasing their own stocks, corporate insiders have been selling their shares. Potential challenges include a trade war with China, political turmoil in the U.S., and fallout from economic struggles in the European Union. We also face consequences from our rapidly climbing national debt.

Heating up the Economy

How did you enjoy the sweltering heat that our region, and those around the globe, suffered through the summer unpredictable? News reports referred to "unseasonable" heat, but in the context of climate change, we may not truly know what temperatures are appropriate for the time of year. What we do know is that extreme temperatures can spoil our golf game, render outdoor weddings nearly unbearable, and magnify our electricity and water bills.

Our physical discomfort is just one very personal and obvious threat from "Global Warming." Climatologists worldwide have been studying the pace, dimensions and hazards of this process. Climate Change is not new, but has increased in velocity in recent years, largely because of human behavior. And because we share the Earth, countries have been motivated to work jointly since 1992 when the United Nations Framework Conference on Climate Change (basically, our planet's reaction to increased carbon in the atmosphere) was established. Together, they analyze climatic changes and seek workable solutions.

Oceans are expanding as they become more acidic and warmer, causing sea levels to rise and disturbing the global circulation of air and water. Most scientists in the field forecast a substantial impact on the global economy, with a significant drop in global GDP. Unpredictable and intense hurricanes, tornadoes, earthquakes, droughts and floods have cost human lives and displacement, and severe crop damage. High temperatures reduce agricultural production as yields decline and worker productivity drops.

Where people live and where crops are grown will shift as temperature changes make previously arable areas inhospitable to plants and humans. Massive migration will result. Areas never before popular for human habitation may become desirable. (Siberia, anyone?) Shorelines will be affected, impacting real estate values. (The U.S. Department of Defense reported that 128 military bases are endangered.) These threats likely will cause political clashes and will require international cooperation.

Many of us won't see some of the most extreme results of climate change, but prevention efforts already are ongoing. While these current observations and forecasts are alarming, it's important to remember that as ever, when things change, humans adapt with new technologies and creative social programs. These solutions already are in the imagination of some scientists, and social planners, as well as entrepreneurs hoping to profit from necessary lifestyle changes. Once the general population becomes more fully acquainted with the impact of climate change, they'll find that adaptive programs are in place. This does not mean that there won't be agonizing changes, affecting some people more than others, just that as a population, we have not simply thrown up our hands in surrender.

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MAGI, IRMAA & RMD

Personal financial management gets more complicated as we age. A first challenge is figuring out Medicare at age 65. The second is managing your Required Minimum Distribution ("RMD") from your IRAs, starting by April 1 of the year after your turn 70.5. Then, how are the two related?

We pay Medicare premiums for both Part B (doctor visits) and Part D (prescription drugs) based on our Modified Adjusted Gross Income("MAGI"). Those with MAGI over a certain limit, even merely a dollar over, pay an Income Related Monthly Adjustment Amount ("IRMAA") or a surcharge added to the minimum Medicare premium. It's important to note that the IRMAA is calculated using the MAGI reported on the federal tax return from *two years prior*.

2018 IRMAA Surcharges for Medicare Part B and Part D

Filing Single	Married filing joint	IRMAA Surcharge Part B	Total Premium Part B	IRMAA Surcharge Part D	Total of surcharges Part B & D
Up to $85,000	Up to $170,000	$0.00	$134.00	$0.00	$0.00
Over $85,000 to $107,000	Over $170,000 to $214,000	$53.50	$187.50	$13.00	$66.50
Over $107,000 to $133,500	Over $214,000 to $267,000	$133.90	$267.90	$33.60	$167.50
Over $133,500 to $160,000	Over $267,000 to $320,000	$214.30	$348.30	$54.20	$268.50
Above $160,000	Over $320,000	$294.60	$428.60	$74.80	$369.40

Source: Medicare.gov; analysis by Ed Slott & Co

The impact of an IRMAA is shown here. By multiplying the number in the lower right corner by 12, you get the highest possible annual surcharge: $369.40 x 12 = $4,432.80. Controlling your MAGI has a bearing upon your Medicare costs, as well as many other effects. IRMAA will become higher for some in 2019 as an additional MAGI tier will be added. The new thresholds will be $500,000 for single payers, and $750,000 for married filing jointly. Surcharges for this tier will be set to meet 85% of the plan costs, a 5% increase from that of the current highest tier. At the end of this year, the premiums for 2019 will be announced. Making sure that your MAGI does not exceed your current threshold can have a meaningful impact, if you're in one of the highest 4 tiers, including the new one. The difference between current tier 4 and tier 5, for example is $1,210.80.

RMDs can trigger Medicare premiums because, depending upon your levels of both wealth and income, and the size of your IRAs, the annual RMD distributions may cause a steep rise in your MAGI, and, therefore, in your IRMAA. Minimizing your RMD is a way to control those increases. Timing makes a big difference if you reduce or eliminate your RMD by converting your traditional IRA to a Roth IRA. In the conversion, some or all assets are moved to the Roth, with income tax paid on the amount. In the years after the conversion process, there is no RMD. However, in the conversion year, the transfer amount counts as income. If the taxpayer is already receiving Medicare, the Medicare premium is significantly affected. But if the conversion precedes Medicare participation, there is no such effect. Because the IRMAA is based upon a MAGI from two years ago, it's necessary to convert more than two tax years before signing up for Medicare to avoid an elevated premium. If you can't convert "early," it still may be worth a one year elevated tax hit to avoid RMDs in the future.

Another way to decrease the tax impact of RMDs is to make a Qualified Charitable Distribution (QCD) directly from your IRA to the charity. An IRA owner or beneficiary may transfer as much as $100,000 annually from the IRA, thus removing the charitable amount from the IRMAA calculation. Depending upon the amounts, this strategy can save significant amounts in both taxes and Medicare payments over time.

M. Miller, "A Stealth Surcharge For Affluent Retirees." www:wealthmanagement.com, 5/13/18, M.Miller, "Medicare Surcharges," https:Versantcm.com,

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Wayne: Bad Blood: Secrets and Lies in a Silicon Valley Startup by John Carreyrou (2018) is the incredible story of Elizabeth Holmes, CEO and founder of Theranus. It's a page-turner full of corporate greed and bold, widespread deception.

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