Taking Stock: If the manager doesn't buy it, neither should you

by Malcolm_Berko

Dear Mr. Berko: I have three questions and I need the first and second questions answered right away for my wonderful aunt and my dad.

1. What is the difference between Medicare and Medicare Advantage? If you approve of Medicare Advantage would you recommend Aetna, United Health or Blue Cross?

2. My 58-year-old dad, a widower, lost his job and his health insurance and needs serious surgery. I asked to take $43,000 from my 401(k) penalty-free but my company won't let me do it. I asked the company lawyer to see if there is a rule exception and he gave me a rude reply. I told him that I heard there might be a rule change. He thinks I insulted his competence and screamed at me telling me to quit if I didn't like his attitude. Unfortunately he is the owner's best friend and they play cards and golf together.

3. I need mutual fund advice. Other than all those complicated statistical equations used by professionals to select mutual funds do you have any simple rules to help me select the best funds for my wife's Individual Retirement Account?

If you can give me answers you will "fac ut gaudeam" (make my day), as my dad likes to say in Latin.

S.R.

Harrisburg, Pa.

Dear S.R.: "Credo nos influctu eodem esse" (I think we're o the same wavelength), as my Latin teacher used to say - in Latin.

Medicare Advantage is the health care plan sold by private insurers as an alternative to Medicare. Under Medicare, which is administered by the government, you pay $93.50 a month and you can see almost any doctor for the cost of coinsurance (after the deductible). However, unless you elect for extra coverage under Part D, you are responsible for normal vision care, dental and prescription drugs.

If you chose Medicare Advantage, you pick from over 50 private insurers and what a frustrating bleeding mess it is because you're at the greedy mercy of many unscrupulous, high-pressure and fraudulent con-artists whose only concern is: "how much money can I make?"

Medicare Advantage (MA) plans basically pay for the same services as Medicare. And MA plans often offer more types of benefits such as glasses, dental checkups and prescriptions. But many of those services may not be available in a couple of years when the insurers are sure they have their hooks under your armpits.

MA plans start at the same price as Medicare and premiums escalate from there - higher premiums usually mean better benefits. However contrary to what some salesmen tell you, many docs will not accept MA because they have enormous trouble collecting service fees from private insurers who often deny and delay claims to increase their company's income. I wouldn't touch an MA plan because I don't trust insurers like Blue Cross, United Health or Aetna. Those insurers and many others are as devious as politicians! Stay with Medicare; better the devil you know than the devil you don't.

I have three hard rules (other than 10- or 20-year performance records) that give me a great leg up when selecting mutual funds.

1. Without exception, always purchase a no-load fund. I am a cynical son of a biscuit and I'm suspicious of a stockbroker's recommendation when there's a 5 percent commission attached to a purchase.

2. I will only own mutual funds in which the fund's mangers have their personal cash on the line. The Journal of Financial Economics, perhaps the most prestigious financial publication in the world and probably the most boring, agrees with rule No. 2. A JFE study discovered that for each .01 percentage point of fund assets the manager owns the fund's performance improves by .03 to .05 points, adjusting for risks. Some 43.2 percent of fund managers have positions in the funds they manage. In 2005 those funds had an average return of 8.73 percent, while the average return for those funds in which the managers had no investment was 6.28 percent. That's a significant difference.

3. Always remember rule No. 1 and rule No. 2.

Until recently, penalty-free 401(k) withdrawals were limited to plan participants, spouses and dependents. Your company's lawyer probably needs a diagram to scrape gum from the sole of his shoe. Last year, according to my daughter Hilary, who is also an attorney, changes in the pension law allow the 401(k) owner to include primary beneficiaries. So even if your dad isn't a dependent, and you include him as a plan beneficiary you should be able to take a penalty-free distribution.

Two conditions that must be met: (1) The need must be immediate and "heavy," which satisfies the hardship rule and (2) your dad must be unable to get the money by selling other assets (excluding a home or a car).

But be mindful that you can only withdraw contributions to the account, not earnings and you will not be permitted to make additional plan contributions for six months after taking a distribution. I've sent you a copy of those changes.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@comcast.net.

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