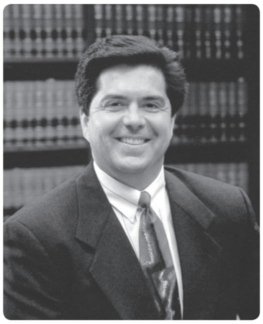
Financial Stuff

A publication of JFR FINANCIAL SERVICES, INC. | JUNE 2017

INSIDE



John F. Robbins, MBA, CFP®

HOW MUCH CAN I SPEND?

The *"experts"* keep trying to move the bar so everyone will be okay in retirement, but it is not that easy. Deciding how much income your retirement funds can generate is a key, if not the key factor, when determining whether or not you'll run out of money before you die. Four percent is the most popular number, which assumes the draw is going to increase over time to adjust for inflation. More recently they have added the variable rate plan where you withdraw 3-4% each year and take out more only in good years. The problem with any strategy is timing. If you retire near a market peak, then survival normally involves cutting back when the market corrects. These types of decisions are why most of you have us in the boat! As the weather changes, we know how to adjust and keep going. Life happens. Adjusting to change is a part of life. However, the initial plan is important. How much you save for retirement. How much you need in retirement. How much you want to leave behind. When you retire. These are factors we deal with every day. Like going to the doctor when you don't feel good. Sometimes it's best to let an expert help. Investment risk, investment performance, inflation, taxes, economy, government… They are all important factors with any financial plan, but who you hire to navigate is just as important as your withdrawal rate. More and more of our clients are spending more years retired than working, so adjusting for inflation in retirement is also becoming more and more important. Most who are living off their retirement savings have two primary goals: Having enough to live on month to month and enough extra to have some fun without running out before they die. The term *"realistic"* comes to mind when planning for retirement.

> *Don't go around saying the world owes you a living. The world owes you nothing. It was here first.*
>
> MARK TWAIN

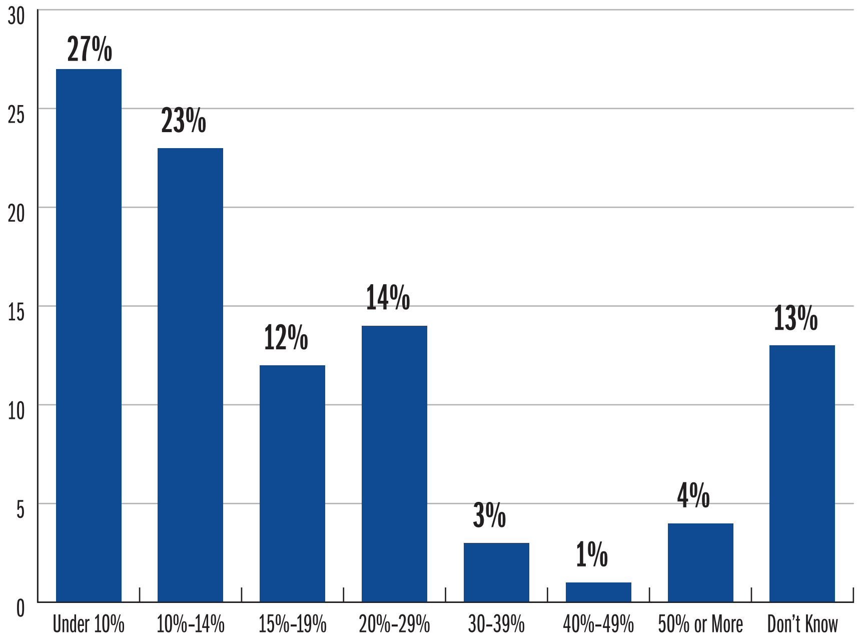
TAX FREEDOM DAY?

Did you know what we pay in taxes continues to increase? According to the Tax Foundation, "Tax Freedom Day," when we as a nation have earned enough to pay our taxes (local, state and federal) increased by one day to April 24th for 2017. This means nearly one third of our labor goes to the government. Americans will pay $3.3 trillion in federal taxes and $1.6 trillion in state and local taxes, approximately $5.0 trillion, or 31% of the nation's income. Have we always paid this much? Below are some numbers.

YEAR	TAX FREEDOM DAY	TAX BURDEN
1920	February 13	12%
1940	March 7	18%
1960	April 11	28%
1980	April 21	30%
2000	May 1	33%
2010	April 9	27%

HOW MUCH ARE HOUSEHOLDS SAVING?

What percentage of total household income did you (or your spouse) save last year for retirement?



Source: Employee Benefit Research Institute

RETIREMENT IS GETTING EXPENSIVE!

Record low interest rates, combined with increasing longevity, are resulting in the need to save more for retirement. In some instances, as much as 40% more. A low-return outlook and rising longevity will require today's workers to boost their savings by 40 percent or more to maintain their lifestyles in retirement. The same factors create challenges for today's retirees relying on bond ladders or annuities for income. With stocks at, or near, all time highs, projected returns are very low. We use very conservative projections when helping people retire, but it's still important to realize the economic environment we find ourselves in today. Life expectancies have jumped 10% since 2000, according to the Society of Actuaries. On average, a 65 year old men can expect to live to 87 and women 89. Even longer for those in higher wealth households. With interest rates falling and longevity rising, the cost to buy $1 in retirement income has risen by 50% since 2000. The amount a 35 year old needs to save for retirement has jumped from 14% to 24%. This will be impossible for most, but the basic message for all of us working is save more for retirement! As the chart above reveals, most Americans aren't saving enough.

For those retired, make sure you have enough to live on until age 95 or even 99. Just in case! What about Social Security? 61% of retirees rely on Social Security for 50%+ of their income, according to the Social Security Administration. The various fixes include cutting benefits, delaying the start date, raising taxes, eliminating the cost of living increases, needs based calculations similar to what is already in place for Medicare… In addition to the question of ***"what about the children?"*** we now can ask ***"what about the seniors?"*** If Congress ever gets to work again, they'll have plenty to do. *(Sources: CBO, Social Security, Morningstar, Vanguard)*

> *If some among you fear taking a stand because you are afraid of reprisals from customers, clients, or even government, recognize that you are just feeding the crocodile hoping he'll eat you last.*
>
> RONALD REAGAN

WHAT'S THE SECRET?

The key to building wealth ***(aka 'getting rich!')*** is not more income. The key is spending less, aka ***'Spend Less than you Earn.'*** There are a few things where money makes us happy, but most spending brings little pleasure. Our society makes us think expensive luxuries like a new car, bigger house, spending money in general will make us happy. 70% of our economy is dependent on personal consumption *(Source: Federal Reserve, Congressional Budget Office)*. The problem is it doesn't provide joy and happiness. Saving money, on the other hand, does increase happiness. Becoming financially independent improves our quality of life. We sleep better when we have enough money. We smile more. So why are most Americans miserable? Why do they spend all their money today, as well as go into debt spending money that may not come tomorrow? Being in debt leads to bondage and bitterness. Why do we try to 'keep up with the Jones' when they are two paychecks from being broke? A recent study revealed half of Americans would have trouble coming up with $500 for an emergency. Remember principle number two, ***'Be/Become Debt Free.'*** What really makes you happy? Traveling? A good book? Develop a lifestyle where you spend only on things that make you happy and cut back on everything else. Live in a smaller house. Drive a car for 10 years instead of 3. Our time, health and relaxation are the true treasures. How does one increase these areas of life? Are you saving 10% of your income? That should be the minimum. And then work on increasing it to 15%. 20% is even better. It can be done! Get a better handle on your finances. Get rid of things that cost money, but do nothing for you.

WHAT IF I (WE) CAN'T MAKE DECISIONS?

We don't like to think about it but it's important to be prepared for illness, incapacity, disability, etc. The first question is who will make financial and medical decisions on your behalf if/when needed? Do they know your wishes? Are the necessary documents in place so they can? Do they know where everything is? Also remember to share this information with your financial professional, tax preparer and/or attorney as needed. Keep copies of the following in a safe or safe deposit box, and make sure your loved ones or trusted friends know how to access it if/when necessary.

GENERAL INFORMATION

- Personal identification
- Home Information
- Financial accounts
- Vehicle(s) Information
- List of trusted family member(s)
- List of trusted friend(s)
- List all insurance policies and where they are located
- List contact information for insurance agents, financial professionals, attorney
- Review insurance coverage periodically and make sure coverage is adequate and up-to-date

MEDICAL INFORMATION

- Health Care Power of Attorney. Consider a family member or close friend who is aligned with you emotionally, understands your wishes, and is able to make medical decisions on your behalf if necessary.
- Make a list of your doctors
- List any medications you are taking
- Update your health care directive

OTHER STUFF

- Do you have an up-to-date will or estate plan?
- Do you have the appropriate POA?
- General POA (for a certain purpose and expires at a set time)
- Financial POA (ability to manage your money)
- Durable POA (broader authority if you become disabled)
- Health care POA (medical/treatment decisions)

FINANCIAL INFORMATION

- Financial Power of Attorney. Identify a family member or close friend you trust.
- Identify all sources of income and financial accounts. List where they are held.
- Are your accounts titled correctly?
- Simplify accounts where possible and streamline bill-paying.
- Make sure your beneficiary designations are up-to-date.

ARE YOU OKAY?

It is important for all of us to recognize when someone else is having a problem. The following are signs of dementia.

1. Memory changes that disrupt daily life
2. Challenges in planning or solving problems
3. Difficulty completing familiar tasks
4. Confusion with time or place
5. Trouble understanding visual images and spatial relationships
6. New problems with words, or speaking or writing
7. Misplacing things and losing the ability to retrace steps
8. Decreased or poor judgment
9. Withdrawal from work or social activities
10. Changes in mood and personality

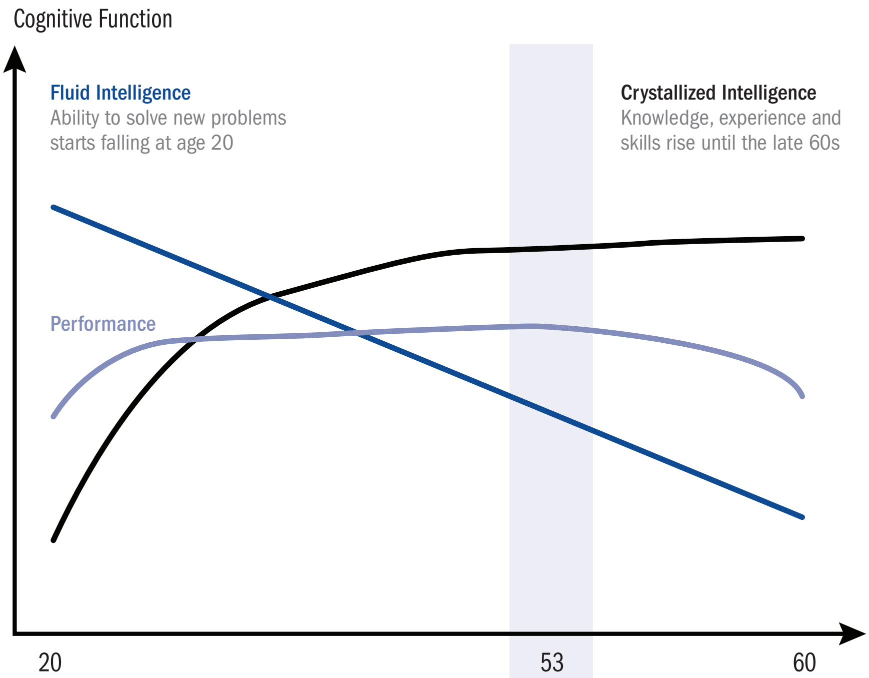
It is seldom that liberty of any kind is lost all at once.

DAVID HUME (1711-1776)

WHAT ABOUT THE LITTLE ONES?

When a child is on the way, the last thing on most parents minds is money. At some point, budgeting is. Kids cost money. A common figure is $200,000 not including college. Ouch! Thankfully, over a 20-25 year period everything seems to work out; especially once they produce some grandchildren. Ha! The first decision is usually staying at home or going back to work. One topic many new parents miss is life insurance. As a rule of thumb, the amount of coverage needed is 10x income. Thankfully, the cost of life insurance is benefiting from increasing life expectancies. As long as you're healthy, the cost of life insurance in your 20s and 30s is very inexpensive. Don't forget coverage is needed for mom and dad. Speaking of death, who gets the little ones if the Lord calls you home early? Not a fun topic, but better for you to put it in writing than a judge. If you don't have a will and powers of attorney, then you need them.

ARE WE ALL GOING CRAZY?



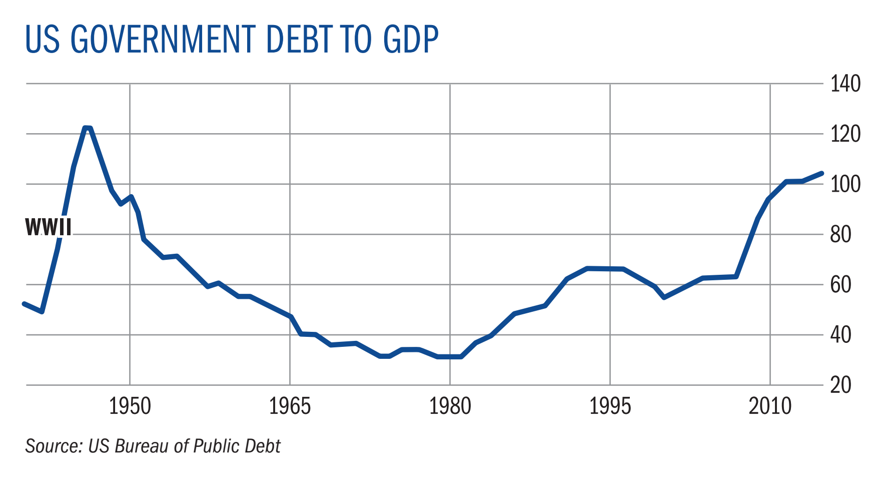
Source: Agarweal, Driscoll, Gabaix, Laibson (2009).
The information contained above is for illustration purposes only.

Financial decisions are one of the first skills to deteriorate with cognitive decline. In fact, financial decision-making peaks for most people in their 50s. Investing skills usually start to decline in one's 60s and 70s. More and more Americans are financially illiterate, but they think they're smart! As a result, the elderly are more vulnerable to poor financial decisions and fraud. In many cases, they don't even realize until it's too late. While the numbers in the study are generalizations, people need to prepare for tomorrow. A study conducted by State Street in 2015 revealed 20% of Americans over 50 haven't talked to anyone about the financial or health risks associated with getting old. Less than 50% have discussed even one risk. Granted it's not fun to discuss mental and physical decline, but the day is coming and we should prepare. Fortunately, knowledge and technology are constantly improving. There are also simple ways to reduce the risks associated with aging; exercise, good sleep, diet, stress management, mental exercise, having fun… A Met Life study estimates financial fraud at $3 billion annually, and possibly more, so there is tremendous incentive to get our affairs in order. The susceptibility to fraud may be more directly related to overconfidence than age. It reminds me of children saying, ***"I can do it!"*** There are benefits to becoming like children again as we age, but also costs. Come and see us to ensure you have a plan in place for the years ahead!

It won't happen to me! Very few Americans plan for the day when they may/will lose their decision-making abilities. As the baby boomers age, cognitive decline is a growing challenge. Today there are 45 million people 65+ and will increase to 66 million by 2027. They represent close to 20% of our population, with a net worth of $100 trillion. There are two forms of intelligence: fluid and crystallized. Fluid intelligence, which generally peaks around age 20, describes our ability to learn, process information and solve abstract problems. Crystallized intelligence, defined as wisdom, experience and knowledge continues to improve before leveling off in our late 60s. This is around the time cognitive decline begins and becomes more commonplace in our 70s and even more so in our late 80s.

BUDGETING 101

Young parents often have more rings in the fire than they can handle. Thankfully, managing finances doesn't need to be complicated. Step one is to figure out where the money is going each month. Establish automatic payments. If your employer matches a percentage of your contribution, you should try to contribute at least enough to take advantage of the maximum match! How much is in savings? 3-6 months living expenses is a good baseline. 9-12 months is even better. Once the monthly necessities are under control, go back to the debts for a closer look. Pay high interest loans first. If they cannot be paid off quickly, then pursue options to reduce the interest rate on any loans exceeding 7%. If there are no options, then pay the highest interest debt off first and work your way down to where just the mortgage is remaining. Once there, make a plan on when you can be debt free. Preferably prior to retirement. Should I use my retirement funds to pay off debt. NO! It rarely makes sense. Your retirement funds are the most expensive source of money prior to retirement. Speaking of which, once all of your priorities are covered and the high interest debts paid, it becomes time to prioritize retirement savings. While working, retirement plan contributions are nearly always your best tax shelter. How much should I save? It depends on how long you will be working and how much you will need in retirement. A good rule of thumb is 10-15% of your gross income, increasing to 20-30% when the kids are off the books. Emergencies? That's where having 3-12 months living expenses in savings comes in. What about college for the children? I still can't believe how expensive college has become! Regardless, the key is to start saving what you can. Like anything else, the sooner you start, the less it takes. As always, come and see us for help!



ESTATE PLANNING FOR SNOWBIRDS

If you live in two states during the year, check to see whether your estate planning documents are consistent with the rules in each state. Make sure your real estate is titled properly and your bank accounts in your "winter" location are registered to avoid probate in a foreign state! Your will and trust will usually be okay, but your power of attorney and health care proxy may need a little tweaking. Something as simple as one state requiring two signature witnesses instead of one. Or another state may require that all the signatures be notarized instead of just yours.

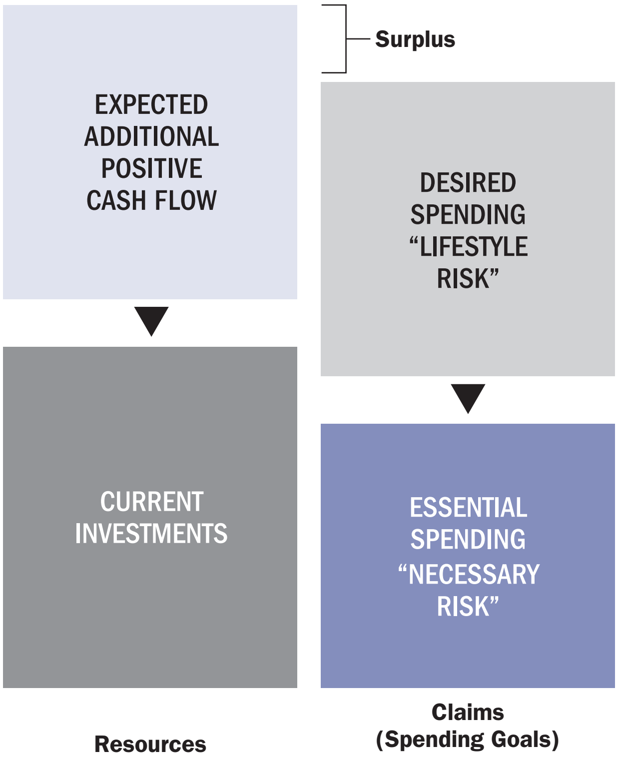
BE/BECOME DEBT FREE– WHY DOES IT MATTER?

Many reasons. Especially today. Our government, as well as most of the others around the world, have been printing money for years. It is still working today, but at some point it won't. We got a big warning sign recently. Capital One Financial's first quarter 2017 earnings were not good. They are a major source of consumer lending in America; credit cards, auto loans, etc. The primary alarm was/is they wrote off 5% of their loans, which probably exceeds projections. If the default rates climb just a little more, then they will be losing money. The basic problem is our money supply is being manipulated. As a result, both business and consumer are making mistakes. Consider subprime lending. Someone who shouldn't borrow money is allowed to do so in exchange for a high (the Bible calls it usury) interest rate. Suppose Capital One helps someone buy a car in exchange for 20% over 6 years. On a $10,000 loan, the payment is $250 per month for a total of $18,000. What do you think the car (aka collateral) will be worth in a year? Or 6 years for that matter? In these situations, Capital One can expect a default rate of 20-30%, which results in a profit of just 2%. When savings accounts are paying just 0.2-0.9%, a 2.0% profit doesn't sound too bad. Especially when you can borrow money at 2% to make it happen. Business and consumer are employing the age old principle of OPM (Other Peoples Money). But! Subprime lending is tough. If the default rate jumps a bit more, then Capital One will be losing money. Interest rates have risen before. What if the used car inventory increases? Oops! It already is. Ford Motor is projecting the value of used cars to drop by 50% in a year or two. The good news is subprime lending is a small part of our economy over time, but like the mortgage crisis in 2006, where 40% of mortgages were subprime, our financial companies are writing bad loans again. Don't blame them. Or the borrower. They are both confused by low interest rates reducing the cost of money. It's simple math. Low interest rates increase the margin (spread) on loans, which creates the illusion of easy profit. Here's the problem. Auto and student loans are responsible for 90% of the increase in debt since 2012. In addition, 25% of car loans are subprime today. But that's okay because they can always repossess the car and sell it. Right? 33% of cars traded in today are worth less than the amount due on the loan. Like 2008, when homeowners walked away due to negative equity, the stage is set for it to happen with car loans. Why pay on a car loan when the balance due is more than the car's value? And how about student loans? According to the Wall Street Journal, 40+ million Americans have student loans. Combined, they owe ~$1.5 trillion. Depending on your definition, 25-40% of student loans are in default. We've never seen numbers like these before. Our consumer debt is 20% of GDP; a record high. Why? The cost of money is too low. Borrowers and lenders are too confident. Investors as well, who have borrowed more money than any time in history to buy stock at record prices and levels. What happens when interest rates rise? Be prepared.

I've spent 47 years in the media. By the way, I hate the word "media." Call it for what it is – gossip, tittle-tattle, self-righteous bloviation, light diversion, lots of advertising and catering to advertisers, plus histrionic reports (variable in accuracy) of other people's tragedies, disasters, and woes – 'If it bleeds, it leads!' – so that viewers, readers, and listeners can feel pity from a comfortable distance or schadenfreude or relief that it didn't happen to them.

PJ O'ROURKE

TIES BACK TO "3 RISKS:" ESSENTIAL AND DESIRED SPENDING



$$\textbf{Funding Ratio} = \frac{\textbf{Resources}}{\textbf{Claims}}$$

Source: www.halberthargrove.com

WHAT IT TAKES TO MAKE $1 MILLION

How much you need to invest each year at various growth rates to have $1 million in 10 to 35 years

	HOW MUCH TO INVEST EACH YEAR		
HOW MANY YEARS TO INVEST	10 PERCENT GROWTH RATE	9 PERCENT GROWTH RATE	8 PERCENT GROWTH RATE
10	62,745	65,820	69,029
15	31,473	34,059	36,830
20	17,460	19,546	21,852
25	10,168	11,806	13,679
30	6,168	7,336	8,827
35	3,689*	4,635	5,803

**This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.*

> *Truth is so rare that it is delightful to tell it.*
>
> EMILY DICKINSON

> *No arsenal or no weapon in the arsenals of the world is so formidable as the will and moral courage of free men and women.*
>
> PRESIDENT RONALD REAGAN

RETIREMENT SAVINGS CHECKPOINTS

	CURRENT HOUSEHOLD INCOME			
CURRENT AGE	$50,000	$100,000	$200,000	$300,000
25	–	0.2	1	1.4
30	–	0.8	1.8	2.2
35	.03	1.5	2.6	3.2
40	.08	2.3	3.7	4.3
45	1.5	3.3	4.9	5.7
50	2.4	4.5	6.4	7.3
55	3.4	5.9	8.2	9.3
60	4.5	7.5	10.4	11.7
65	6.1	9.8	13.3	14.8

HOW TO USE:
Household income is assumed to be gross income (before taxes and savings).
Go to the intersection of your current age and your closest current household income.
Multiply your salary by the checkpoint shown. This is the amount you should have saved today, assuming you continue contributions of 10% going forward.
Example: For a 40-year-old with a household income of $100,000, you should have already saved $230,000 for retirement. *Source: J.P. Morgan Asset Management's* ***Guide to Retirement.***

FINANCIAL INDEPENDENCE FOR RETIREES

And those getting closer! We see what works and what doesn't. ***Spend<Earn*** can also be referred to as spend only for things you need. Popular research suggests you'll need 100% of your current income in retirement. This may be true for some, but not for most. Many can get by just fine on as little as 50% of their working income. The more typical range is 70-80%. Being flexible helps too! I'm reminded of a couple who decided not to retire since it would require eating out just 3 times a week instead of 5. If your current routine requires a 7% withdrawal from your IRA instead of 4%, then, depending on your age, look for ways to cut back. It can be done! ***Be/Become Debt Free*** becomes more important in retirement. Risk tolerance decreases in retirement and you will feel more secure being debt free. One way to feel more secure debt free. ***Divide Your Portions***, a.k.a. not putting all your eggs in one basket, is very important in retirement. The most common mistakes we see are having too much in the bank or company stock. Savings accounts and CDs are paying less than 1% today. Remember the parable of the bad steward who buried his talents in the backyard. And when it comes to concentrated investments, nothing is guaranteed in life. We can't assume anything will continue to exist forever.

EYE ON COMPLIANCE

The financial planning and investment management industry has many watchdogs. For us, this includes, but is not limited to: Security & Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), State of Michigan (and any other state we do business in), LPL Financial Compliance directives, Certified Financial Planner Board of Standards. As you can imagine they all have rules we need to follow if we want to stay in business. Let's review a few:

- **Annual Review & Profile Update:** This is exactly what it says! We are required to know our clients personally and financially. We are required to keep this information up-to-date and at least annually prove we are doing so. Please work with us to schedule your annual meetings and reviews!
- **Cash and/or Trade Requests:** These must be done verbally, we must verify your identity. Unless you have given written permission (we have a form) and/or a Power of Attorney is in effect nobody but you can request money and/or changes.
- **Legal Advice:** We are not attorneys. We cannot provide legal advice.
- **Personal Representatives / Successor Trustees:** Registered Representatives and/or Financial Advisors are NOT allowed to serve as a Personal Representative or Successor Trustee for anybody except direct family. This is considered to be a conflict of interest.
- **Paperwork:** We may accept faxed, e-mailed and electronically signed paperwork. However, pre-signed and/or non-dated paperwork is NOT permitted. Having somebody sign for you is not permitted. There is a limited time period for us to leave paperwork "pending." If it is not signed in a timely manner, we are forced to delete all and start over *(that's not good)*.

JFR FINANCIAL SERVICES, INC. – PRIVACY STATEMENT

As our customer, you have trusted JFR Financial Services, Inc. to help you work towards financial success and security. To maintain that trust, we are committed to protect the privacy and security of the personal information that we collect about our clients. This notice is intended to help you understand how we collect, handle and safeguard that information. Federal law gives consumers the right to limit some but not all information sharing. The same laws require us to inform you of how your personal information is collected, shared and protected. The types of personal information that we may collect include:

• Social Security Number	• Driver's License Number	• Annual Income
• Assets	• Retirement Assets	• Investment Experience
• Debt	• Investment Experience	• Net Worth
• Liquid Net Worth	• Trusts, Wills, POA's	• Date of Birth
• Address	• Phone Number	• Employer

All financial companies need to share customers' personal information in order to conduct business. The list below explains reasons why data is shared and whether or not you can limit our sharing.

Reasons we can share your personal information	Does JFR Financial share this?	Can you limit this sharing?
Our everyday business purposes, to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	YES	NO
Marketing – To offer services to you	NO	N/A
Joint marketing with other financial companies	YES	NO
Everyday business purposes for our affiliates' regarding your transactions and experiences	YES	NO
Everyday business purposes for our affiliates' regarding your creditworthiness	NO	We don't share
For non-affiliates to market to you – for clients with accounts established with LPL	NO	We don't share
Non-affiliates to market to you. Example, should we choose to change broker/dealers we may share your info with a new broker unless you instruct us not to.	YES	YES

JFR Financial Services, Inc. collects your personal information when you: open a new account, apply for any kind of insurance, enter into an investment advisory (RIA) account, review your personal data as needed to create a financial plan for you, update compliance required profiles and whenever you seek financial advice. Your information is shared with our affiliates, investment and insurance companies only to complete applications and to maintain accounts.

JFR Financial Services, Inc. protects your personal information from unauthorized access by utilizing the latest state of the art security measures on our computers, files and storage. We utilize a paperless data storage system that has additional technical safeguards. The back-up system we utilize is also safeguarded to comply with all federal regulations.

John F. Robbins, *President and Chief Compliance Officer*

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JUNE 2017

HOW JFR FINANCIAL SERVICES CAN HELP YOU.

We are in business to serve you! More specifically, we are in business to help you work toward your lifelong financial goals. Services available through JFR Financial Services include:

Financial Planning and Consulting	Estate Planning
Retirement Planning	Public Speaking and Educational Seminars
Personal Coaching	Insurance: Life, Health, Disability, Long-Term Care
Business Planning and Development	College Funding Programs
Real Estate Investment Trusts	Management Training Classes and Consulting
Mutual Funds*	Fee-Only Investment Consulting and Asset Management
Stocks*, Bonds*, Brokered CD's*, Money Markets*	Employee Sponsored Retirement Savings Plans
Asset Management	Retirement Plans: IRA, SEP, 401k, Keogh, 403b
Annuities, Fixed and Variable*	Full-Service Brokerage Accounts*

We have the knowledge, tools and experience to help. Call us today at 800/315-2945 or 734/692-1421.