JFR

Financial Stuff

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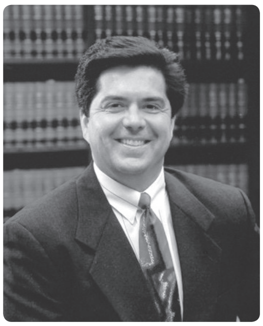
INSIDE



John F. Robbins, MBA, CFP®

SIMPLE OR COMPOUND INTEREST?

The average American doesn't understand how money works. Einstein declared compound interest the "***8th wonder of the world.***" He encouraged people to have it working for them rather than against. One example of interest is the rule of 72. If you want to know how long it will take for your money to double, then simply divide 72 by the interest rate. For example, suppose you own a bond that is paying 5%. 72 divided by 5 = 14.4 years for the value of your bond to double. If you have a 1% CD, then it will take 72 years to double in value. Some would have guessed 100 years, but that would be simple interest. Compound interest reduces the time to double significantly and why banks fight over as little as 1/8th of a percent. Back to the CD. After inflation and taxes, CDs are losing money today. On $100, the typical CD is losing $2.2 in purchasing power each year. As banks know, and Einstein realized, over time that's big bucks. *(Sources: Advisor IQ, Forbes)*

SOCIAL SECURITY "TAX TORPEDO"

The government started taxing Social Security benefits in 1993. Up to 85% is taxable today. For single payers the transition zone is between $25,000 and $34,000 of gross income. Below $25,000 and Social Security is tax free. Above $34,000 85% is taxable. Another important income level for single filers is $37,950, where the marginal bracket increases from 15% to 25%. For married filers, the transition zones are $32,000–44,000 of income and the 25% bracket begins at $75,900. One of our elderly clients was paying no income taxes until age 70 1/2, when they had to begin required minimum distributions (RMD) on their IRAs. A $10,000 IRA withdrawal caused $10,000 of their Social Security to become taxable, as well as some of their pension income. The end result being $3,000 due to the IRS. In these situations, having money in a Roth IRA instead of Traditional can help.

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

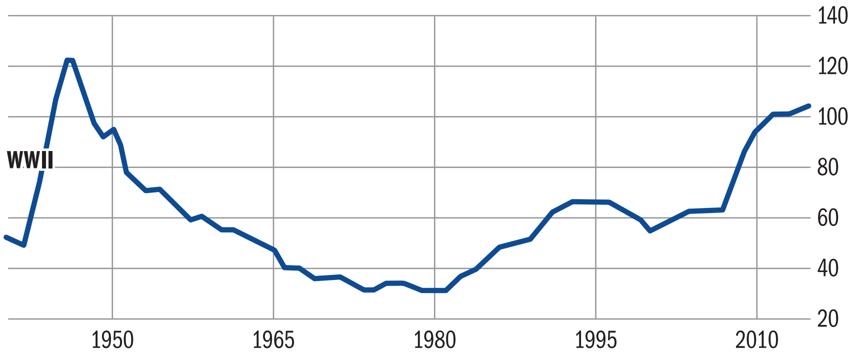
RISKS – THEY ARE A PART OF LIFE

The question is how best to handle them. As youngsters, taking risks was fun. As we age, not so much! The old saying, ***"the only guarantees in life are death and taxes"*** comes to mind. Insurance reduces or transfers many risks, but there are risks we must live with. One being early retirement. We assume we will retire on our own terms, but the odds are against it. Life happens; accidents, health problems, injuries, changes at work, family emergencies, etc. Some risks are self-inflicted. Spending more than you earn. Putting too much money in ***"guaranteed"*** or ***"no risk"*** returns while ignoring the risks of taxes, inflation and/or not ***"dividing your portions."*** How about elder abuse? Thankfully, we don't see it often, but it is out there and growing with our aging population. When money is on the table, many will do nasty things to get to it first. Living too long? It also is becoming more common and often has significant financial implications. These things, and more, is why we like to see you regularly. Like an annual physical, we need current information to properly serve you.

Life is not measured by the number of breaths we take, but by the moments that take our breath away.

GEORGE CARLIN

US GOVERNMENT DEBT TO GDP



Source: US Bureau of Public Debt

Republics are created by the virtue, public spirit, and intelligence of the citizens. They fall, when the wise are banished from the public councils, because they dare to be honest, and the profligate are rewarded, because they flatter the people, in order to betray them.

JOSEPH STORY (1833)

WHAT IF MY PENSION PLAN GOES BROKE?

That can't happen John. My pension is ***"guaranteed."*** This is not without precedent. It's already happened and continues to happen. Most corporate and government pensions are woefully underfunded. How about the Teamsters? 400,000 participants in 37 states recently received a letter informing them that their pension would be cut in half. FYI Social Security is broke too. What happened? 40 years ago pensions were set up with the assumption that the average return over time would be 7.5%. A reasonable number when the yield on the 10 year Treasury was 5%, corporate bonds were paying 7-8% and stock returns were averaging 10%. If you needed to accumulate $100,000 in 30 years, then the plan needed to put away ~$80 per month. Today, the average return is expected to be 4.5%, which requires ~$160 per month. The other reason pension plans are going broke is longevity. 40 years ago retirees lived 5-10 years, compared to today where someone retiring at 65 can expect to live 20-30 years. ***What to do?*** Keep an eye on your pension plan. If you will need money to live on if your pension check gets cut in half, then start saving. Look for ways to generate income.
(Source: Palm Beach Letter and Fidelity)

IS THERE ANYTHING "NEW" UNDER THE SUN?

Computers, Smart Phones, Robots... There is no question technology is ***"advancing"*** society, but we still have problems. There is nothing that is truly ***"no risk"*** and/or ***"guaranteed."*** We still experience market crashes and surprises. Like bad storms, they are often impossible to anticipate. In 1907 the Dow lost 50% in just a few weeks. Combined, Black Monday and Black Tuesday of 1929 resulted in the Dow losing 25%. In just 2 days! On Black Monday in 1987, the Dow lost 20% in one day! In 2010 we had the Flash Crash, where the Dow lost 9% in just a few minutes. A few stocks were down by more than 80%. In every instance, governments work to ensure such financial trauma never happened again. Oops. Life happens. Humans keep getting in the way. We swing back and forth between greed and fear. The Good News! Stick with the fundamentals, including ***"Divide your portions."***
(Source Financial Advisor, Wall Street Journal)

THE BEST LAID PLANS...

Whether it's passing money to children or handing over the reins of a business, the process rarely goes well. The primary reasons are poor communication and little to no preparation. Like the sex talks in junior high, it's easy to put them off or simply assume they'll figure it out on their own. Relationships and interdependence within families is often overlooked or ignored. By the time the parents realize their kids are fragmented into independent, self-interested individuals, it may be too late to reverse. Like a well run business, the keys to transfer involve education, communication, values, purpose and structure. Like learning to do chores as youngsters, when the children have time and hands-on experience, they can be prepared to step in when the day comes. Lasting legacies, and the hard work that created them, are more likely to be passed on when the children become involved while you're alive. When cash is simply laid at their feet, without understanding how it was created and/or managed, the likelihood of it surviving is very low. Statistics show that family wealth, and family owned businesses, have a 90% probability of not making it to the third generation.
(Source: Wilmington Trust)

WHAT ARE THE ODDS?

A recent study by Legg Mason revealed that the average return on the S&P 500 for the past 100 years (1926-2016) was 10%. The index was up 70% of the time with an average return of 19%. The index was down 30% of the time with an average loss of -13%. So how do we capture the return in the up years and avoid the down years? Millions of professionals around the world continue to try and figure that out! The important lesson is that the market has recovered every time after a bad year or bad years. The study also revealed the best return was realized by investing 100% in stocks. What about bonds? Over the past 100 years, the average return for bonds was 5%, with the best year up 33% and the worst down -8%. A 50% stock and 50% bond portfolio averaged 8% since 1926, with the best year up 32% and the worst down -23%. The best year for stocks was up 54% and the worst down -43%. *(Source: Legg Mason, Thompson Investment View).*

THAT'S NOT FAIR!

We see everything here, which helps us better help you. For example, how much do you need to live on? Most of us have a good idea, and when life is constant, the numbers work well. We sleep better. We're happier. The problem is life changes. Often unplanned and out of our control. Changes in health, income, weather, economy, etc. We need to be prepared. Many Americans try to ignore problems, or assume it's someone else's problem, but usually best to address them. It's easier to handle a storm when your house is in order. It's best to accept the fact that life isn't fair. To live life as a journey instead of a destination. When one chapter doesn't go well, turn the page and start a new one. A few years ago an unexpected change during a hunting trip left me alone in the Alaskan wilderness, 163 miles from the nearest road. There wasn't any immediate problem, but the beauty of being in the middle of God's creation was being interrupted by 'what if' questions. What if no one comes back to get me? What if my batteries go dead? What if I can't make a fire? What if a grizzly bear, or wolf, decides I'm lunch? What if the weather changes? It was an incredible experience, but it could have been better had I not been distracted. Finances can be very distracting as well. For good and bad reasons. We are here to eliminate the financial distractions so you can better enjoy the life you are blessed with today. Distracted? Afraid? Concerned? Come and see us. Let us help answer the 'what if' questions distracting you.

RETIREMENT SAVINGS CHECKPOINTS

Lower forward-looking returns may require higher savings going forward

Value assumes you would like to maintain an equivalent lifestyle in retirement.

	$50,000	$100,000	$200,000	$300,000
CURRENT AGE	CHECKPOINT (X CURRENT HOUSEHOLD INCOME)			
25	—	0.2	1.0	1.4
30	—	0.8	1.8	2.2
35	0.3	1.5	2.6	3.2
40	0.8	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 tax 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: $100,000 x 2.3 = $230,000

MODEL ASSUMPTIONS

Assumed annual gross savings rate: **10%**

Pre-retirement investment return: **6.0%**

Post-retirement investment return: **5.0%**

Inflation rate: **2.25%**

Retirement age –
- Primary earner: **65**
- Spouse: **62**

Years in retirement: **30**

10% is approximately twice the U.S. average annual savings rate.

This chart is for illustrative purposes only and must not be relied upon to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital market assumptions (10-15 years) and an 80% confidence level. Household income replacement rates are derived from and inflation-adjusted analysis of: Consumer Expenditures Survey (BLS) data (2011-2014); Social Security benefits using modified scaled earnings in 2017 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums.

CALIFORNIA DREAMING: *Lessons on how to resolve America's public pension crisis.*

This book came out recently. The topic is one of several ***"bubbles"*** that will find a pin and pop at some point. Illinois is getting the most attention today, but unfunded pensions and other government debt is a national crisis. The book refers to California as the ***"granddaddy of them all."*** While Illinois is ~$250 billion in the hole, California owes twice as much. The current estimate nationwide for unfunded public pensions is ~$5 trillion. Money that should be in the bank earning interest. How did our ***"representatives"*** put us in this position? A combination of generous pension payouts, other ***"free"*** benefits, failing to fund pensions, borrowing from existing plan balances, record low interest rates, retirees living longer and optimistic return assumptions. Assuming 8.5% returns when bonds are paying 2.5% isn't good math. Governments can only spend what they collect from us. It's important to remember free markets did not cause these problems. Detroit, Puerto Rico, Russia, etc. ***All the problems were caused by people in power violating proven principles.*** Bad government policy, poor investment management, pointing fingers at others, kicking the can down the road… Instead of trying to raise taxes, why not try Spend<Earn, Be/Become Debt Free and ***"Divide Your Portions."*** As of today, Illinois has no budget and is technically bankrupt. They are not alone.

THE TAXPAYER: That's someone who works for the federal government but doesn't have to take the civil service examination.

RONALD REAGAN

HOW MUCH CAN WE SPEND?

A recent Fidelity study revealed the withdrawal rate on retirement funds should be 5% or less given our increasing life expectancies and time spent in retirement. The study reinforced that while you cannot control the markets, you can control how much you spend (aka Spend<Earn). The study looked at couples retiring at age 65 in different market conditions. They used a portfolio of 50% stocks, 40% bonds and 10% short-term investments. In bad markets, a 7% withdrawal rate lasted 15 years, a 5% rate 24 years and a 4% withdrawal 36 years. They were making inflation adjusted withdrawals. The odds of a 65 year old couple living to 100 are very, very low, but there is a 50% chance that one or both will make it to 92. The simple conclusion of the study is how much you withdraw is probably the most important factor behind how long your money lasts. We have a few clients spending through their funds today and some who have been retired for 30+ years. Fidelity's study does a good job of analyzing the many risks retirees face; inflation, market volatility, taxes, health, longevity, etc. There are risks we can manage and control, but there are risks we have to live with. The study does not conclude that a 4-5% withdrawal rate is a magical formula, but it does reveal withdrawing more than 5% increases the odds of outliving your money dramatically. Thankfully, the withdrawal rate is controllable. As we learned in 2000-2002 and 2008-2009, being able to spend less during bear markets is a very good thing to do.
(Source: Fidelity Investments)

GIVING MONEY AWAY

The Bible says it is better to give than receive. The question is how best to give money away and/or to be a good steward. Let us help you! We have helped hundreds of people, churches, non-profits and businesses over the years. It all starts with a plan. What are the principles to work by? What is the objective? What are your resources? By resources I'm referring to time, money and other people. My primary suggestion would be to give money over time as opposed to lump sums. Creating a mission statement will help. The mission statement can be brief or long, but should clearly state your desires. How does your philanthropy fit into your financial plan? For larger estates, a properly drawn plan can save significant money in income and estate taxes. By distributing the estate over time, charitable donations can also help preserve the estate. What about giving money away now? There are situations where it can be advantageous for you, the charity and your beneficiaries. Remember that all assets are not created equal! Giving cash is the most common contribution, but sometimes donating appreciated assets is the best option. Who can I trust to help? Dependent upon the goals, it may be necessary to have more than one person. Do you want the money to last for 10 years? 30? Forever? Charitable legacies do not just happen. They take work, but can be a wonderful legacy if planned for properly. What tools are best? What about taxes? Tax planning can result in money normally going to the government to charity instead. How much does this cost? Legal, accounting and investment costs are real and can be significant. Make sure you understand how much your plan will cost. Control is another important factor. You want full control while you are alive and someone you can trust to handle things after you are gone. Some common planning strategies do not allow children to get involved at your death. Who needs to know? You can remain anonymous or be recognized. Is it possible to keep an eye on the charities? Yes! It takes time and effort, but the information is available and should be reviewed at least annually. Especially in a day when 20-30% overheads are normal and considered efficient. When I was first learning about charitable giving, any charity with an overhead exceeding 10% was automatically rejected. How times have changed. *(Sources: Fidelity, Vanguard).*

If Congress can do whatever in their discretion can be done by money, and will promote the General Welfare, the Government is no longer a limited one, possessing enumerated powers, but an indefinite one, subject to particular exceptions.

JAMES MADISON (1792)

"ROBO ADVISORS" AND COMPUTER "ALGORITHMS"

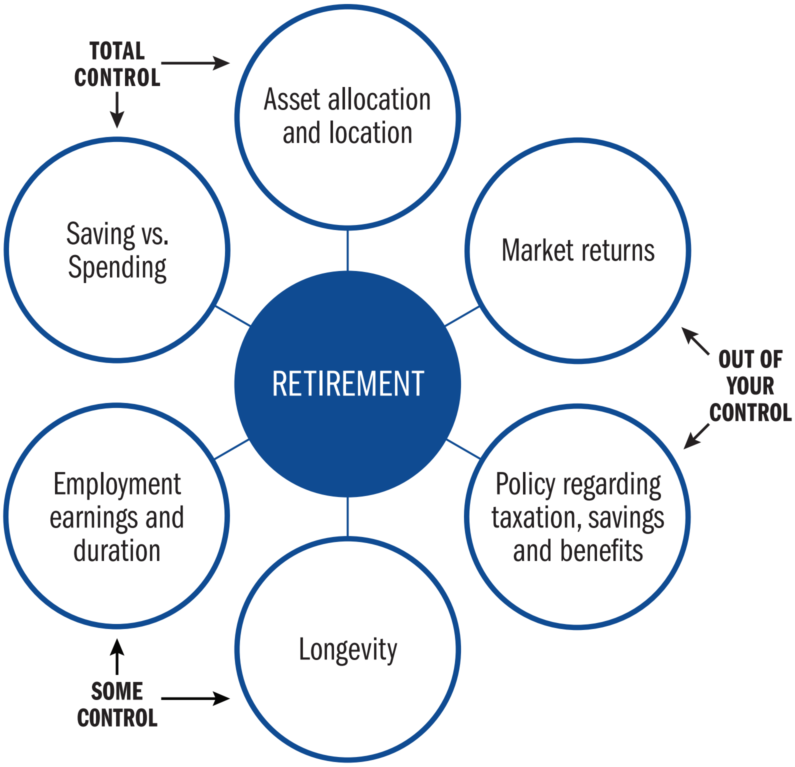
When Thomas Edison invented the light bulb, he put the whale oil industry out of business. Is this what is happening to investment management? It is all going to be done by computer "algorithms?" A computer is only as good as the formula or program it follows. The results of the portfolios being managed by computers are vastly different. A 1-2% difference over time, is significant. Picture the many things being done by machine in health care today. The machines still need to be operated by humans. Many experts are using the term "commodity" to describe money management today. While computers are less expensive, and doing more of the work, they are not commodities. According to Morningstar, the range of 5 year returns for US Large Stock mutual funds and ETFs was 3.35% to 17.22%. The expense ratios for this group of funds ranged from 0.01% to 2.16%. Clearly, there are large performance differences despite the introduction or robo advisors, low cost ETFs and computer "algorithms." Humans are still necessary! Which investments to use, when, how much, what rules to follow... These individual decisions still matter. The quality of the decisions will greatly impact the results.
(Source: Morningstar, Wealth Management).

> *There is no investment idea so good that it can't be destroyed by too much money.*
>
> BARTON BIGGS

THE RETIREMENT EQUATION

A sound retirement plan

Make the most of the things that you can control but be sure to evaluate factors that are somewhat or completely out of your control within your comprehensive retirement plan.



Source: The Importance of Being Earnest, J.P. Morgan Asset Management, 2013

INFLATION IS NOT DEAD

Despite what we hear in the ***"news,"*** inflation is like carbon monoxide when it comes to our money. A silent killer, yet many Americans do not respect their enemies! Inflation is a top concern for retirees, but 2/3s are not planning for it. 50% plan to simply spend less. Being cheap is not a financial plan! When more and more Americans are spending 30+ years in retirement, planning for inflation is very important. 1/3 of Americans are panicked or very worried about inflation. More than half of Americans are worried about the cost of health care, but again have done nothing to prepare for it. What is the best plan? The only way to increase the return on investments is to take more risk.
(Source: Allianz survey July 2017)

> *I have never understood why it is greed to want to keep the money you have earned, but not greed to want to take somebody else's money.*
>
> THOMAS SOWELL

DIVIDE YOUR PORTIONS

Many things are happening every day, ***BUT!*** One thing that doesn't seem to change is human nature. When it comes to investing, most repeat the same mistakes over and over. A common mistake is chasing what's hot today. Stocks have been rallying since early 2009. The third longest rally in history. We are beginning to get calls about Bitcoin, China, etc. This doesn't mean the bull market will end soon, but it is a sign that the end is near. Another mistake is following the crowd. What's my neighbor doing? What are they talking about in the ***"news?"*** Yet another mistake is letting fear and/or loss aversion determine how your money is invested. There are people who bailed out near the bottom in 2009 and their money is still sitting in the bank. Another common mistake is living for today, which explains why most Americans can't come up with $500 in an emergency! It's normal to focus on today, but unless you're planning on working until you die, it's not a good plan. We also have a tendency to focus on specific moments in life. ***"I remember when..."*** This may be important, but getting stuck in the past can result in poor decisions today. Another common problem, especially in retirement plans, is lack of diversification. The United States is by far the strongest economy in the world, but today is just 13% of the global economy. A properly diversified portfolio should have investments all over the world today.

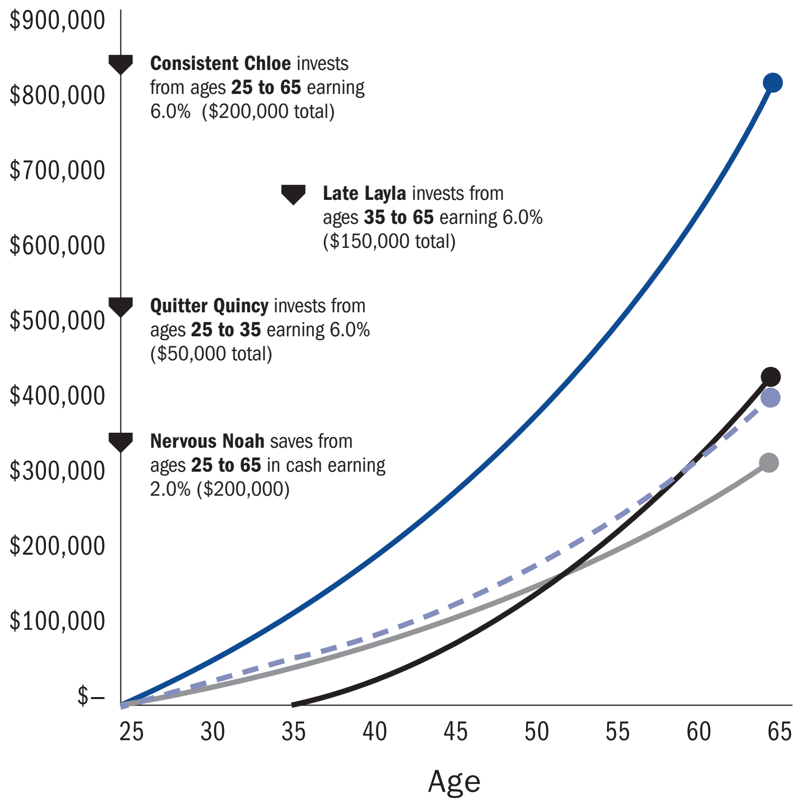
TAXES GOING UP AGAIN?

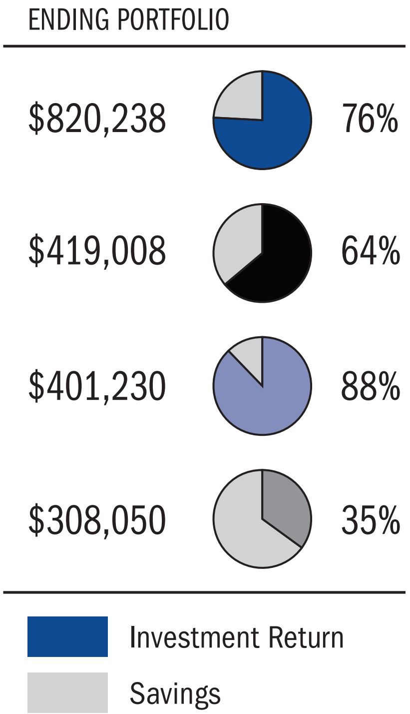
Aren't our ***"representatives"*** working on decreasing them? Government is bigger than ever at all levels, along with the taxes collected to pay for it. It appears the possibility of nationalizing retirement plans is off the table for the moment, but they are close to eliminating some of the benefits for Stretch IRAs and Roth IRAs. Who knows what will happen, but there is no question retirement plans are an area Washington is constantly looking at.

THE BENEFIT OF SAVING AND INVESTING EARLY

Account growth of $5,000 invested/saved annually

Saving Fundamentals. Saving early and often, and investing what you save, are some of the keys to a successful retirement due to the power of compounding over the long-term.





Source: J.P. Morgan Asset Management.
The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 6.0% annual return and cash assumes a 2.0% annual return. Source: J. P. Morgan Asset Management. Long-term capital Market Assumptions. Compounding refers to the process of earning return on principal plus the return that was earned earlier.

WHAT IF...

Hurricane season serves as a reminder of the many things in life we do not control. The same can be said for our financial lives, but we can prepare for many of the risks we may face.

1) **WHAT IF I DIE?** Death brings your financial worries to an end, but what about those left behind?
2) **WHAT IF I GET HURT** (Disabled)? The odds of becoming disabled are much greater than most realize. If you are still working, then how will you replace the lost income?
3) **WHAT IF I LOSE MY JOB?** Like getting hurt or sick, how will you replace your income if/when you are unable to work?
4) **WHAT IF I GET DIVORCED?** Breakups can often be nasty from a financial perspective. Most importantly, call and let us help. There are steps that can make these situations much less stressful financially
5) **WHAT IF FAMILY MEMBERS GET SICK OR INJURED?** The Baby Boomers aren't called the *"sandwich generation"* for nothing. It is becoming common for couples to have kids in college and caring for parents at the same time. Are you prepared?
6) **WHAT IF "MOTHER NATURE" STRIKES?** Michigan doesn't have hurricanes, but there are floods, fires, tornadoes, etc. Are you prepared? Extra money helps, but most do not have enough to handle all of the *"what if..."* situations. And are you ready to handle problems physically or emotionally? How best to prepare? The first step is to identify the risks you are exposed to. Do you need insurance? Do you need to prepare? Can you eliminate the risk? What is the worst-case scenario? ***Be prepared!***

TAKING CARE OF MOM AND DAD

We may not like it, but nearly all of us will be a caregiver at some point. Unexpected circumstances or old age, it's important to prepare now. It's another one of the *"what if"* questions in life. For those who are caregivers, or have been, they will have stories about how stressful the position is; financially, physically, emotionally and spiritually. Now is the time to prepare. And if you're already there, now is the time to make sure you have all the bases covered.

1) ***Talk about it!*** *Discussing the possibility with aging parents or family will likely be difficult, but worth it. How much money do they have? What are their income sources? Do they have insurance? Who are the professionals helping them today? What are their wishes if their health deteriorates?*

2) ***Is their estate in order?*** *We are being asked regularly about Medicaid Planning; i.e. how do we make sure the government doesn't get our money? Make sure your parents and/or family have their affairs in order and have answered all the "what if" questions.*

3) ***Get organized!*** *Where are all the financial records. Is it all organized and easy to access if/when needed?*

4) ***Know what's important to them.*** *For example, most of us want to live/die at home no matter what, but "what if" that isn't possible? While it may not be possible to meet all their needs, wants and desires, knowing what their wishes are helps.*

5) ***Get professional help.*** *We see it all here. The most common problems in these situations is lack of communication and wrong information. "My neighbor said..." The options available for each of us becomes pretty black and white once the financial information is organized. The most common needs are financial and legal advice. Speaking to a professional caregiver helps if you do not understand all of the options available.*

6) ***Can the government help?*** *There are possibilities. The most common option overlooked is veterans assistance. How does Medicaid work? The most common misunderstanding about Medicaid is not understanding it is a form of welfare. The benefits are substantial, but only if you qualify. And like all welfare, there are hidden costs that can be significant.*

7) ***Start helping now?*** *While your parents or family are still able, why not get involved with their finances before they need help? Observing how they are managing their affairs today can be of tremendous value when the day comes to take over.*

8) ***The enemies are real.*** *We all are targets today, but we become more vulnerable as we age. Make sure your parents' routines and affairs are as simple as possible. Like a hunter looking for footprints, if the bad guys aren't seeing much, then they'll move on to better opportunities.*

9) ***Don't forget you!*** *The caregiver role is tremendously stressful and expensive. Don't leave your current life and routine without a full understanding of the costs. It's usually better to keep your job and get help than to simply quit. Set boundaries for yourself on how much you do each day and week. The physical and emotional demands being a caregiver are enormous. Eating less, sleeping less, too much television, too little exercise…*

ELDER ABUSE

Americans over 50 control 70% of our Nation's wealth. When it comes to crime, the criminals go where the money is. As our seniors age, dementia, disability, etc. makes them easy targets. There are countless scams, unethical businesses and unscrupulous individuals preying on seniors every day. The bad news is more than 90% of the abuse is committed by care givers and family members. A child is added to the checking account to help pay the bills and a year later there's no money in the account. Or grandpa gives some things in the house to a caregiver and a year later he/she is the primary beneficiary in his Will. We've talked about the phone scams in previous newsletters. Do not give anyone your personal financial information unless you know who it is and why they need it. Another increasing crime method is via the internet. Phishing emails, which have gotten me a couple times, look official. Again, be very careful about any information transmitted or exchanged via the internet. Confirm who you are communicating with. Sign your elderly family members up on the *"Do Not Call Registry."* It won't eliminate all of the scam calls, but a good number of them. The less information floating around about you, the better. *(Source: NCUA, IRS, Social Security)*

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OCTOBER 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.