Financial Stuff

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INSIDE

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MORE INFO ON WHO REALLY PAYS THE TAXES, BY NUMBERS!

According to ~~the~~ Motley Fool the average working American pays ~30% of their income in Federal, State, Local, Social Security and Medicare taxes. This does not include sales, property and other taxes due, dependent on our lifestyle and where we live. Of the ~150 million Federal Tax returns filed in 2017, ~50 million owed no Federal Tax. In 2017, the top 1% paid 37% of the Federal Income Taxes. The top 5% paid 58%. The top 10% paid 70%. The bottom 50% paid 3%. *(Source: IRS, Motley Fool, Kiplingers, WSJ)*

PLANNING 101

At 25 or 95, we all have a plan. It may be in writing, a file in the computer or a daily routine. Whether working or retired, we have 24 hours each day to spend doing something. New retirees often take a few months to settle into a new routine, but at some point it happens; planned or not.

Spend<Earn. *Fundamental number 1.* This never goes away. We all have a budget whether it's written or not. The barometers to watch are credit card and checking account balances. If you are not paying off your credit cards each month and your checking balance is falling, then you have a problem! Speaking of ~~Spending. We~~ all should have a good idea of how much we spend each month. Tracking it daily or weekly is rarely necessary, but monthly ~~is good until you know~~ what is happening. The key is to be flexible. This is especially true for retirement income from an IRA. If the markets are going down and you can cut back, then cut back. The less you take out while the market is falling, the easier it is for the account balance to recover when the market starts going back up.

Sell! Sell! Sell! None of us like to watch our account balances fall, but i~~ts~~ a part of the process. 2018 reminded us that it can happen often. The best action is usually doing nothing. If you can't handle the volatility, then increase cash, bonds and other low risk options.

Black Holes. Identify your spending weaknesses and plug them. Payoff high interest debt. The mortgage should be your only debt and nearly all of us should be making extra principal payments.

Extra Income. This can work well for people who retire sooner than expected without enough money. Life Happens. Even the best plan and/or goals can change. Life is change. Make the best of it. If you lose a good job and can't find one paying as much, then take any job while you're looking for a better one. Any cash flow is better than no cash flow.

Stay Busy. Rest, balance, vacations and sabbaticals are part of the routine, but everyone needs a function. What's the motivation for getting up in the morning? For the week? Month? Year? Set your goals high and start climbing. In retirement it may be as simple as reading 1 book a week and/or teaching a grandchild how to ride a bike.
(Source: Kiplinger, Horse's Mouth)

TO ITEMIZE OR NOT TO ITEMIZE

While our actual tax liability won't change much in 2019, there are many changes to the Schedule A. Thankfully, for many, they will no longer need to itemize. For medical deductions, they must exceed 7.5% of Adjusted Gross Income (AGI). State and Local taxes are now capped at $10,000. Interest on home mortgages remains deductible unless the loan amount exceeds $750,000. Investment (margin loans) interest is still deductible. Charitable contributions are still deductible. All deductions subject to the 2% cap are gone. Personal casualty and theft losses are gone. **What to do?** Complete the Schedule A and see where you stand against the new standard deduction amounts. There are no more *"exemptions!"* Make sure your payroll is not still using them! Most folks will be claiming Married with zero exemptions or Single with zero exemptions on their W4's. If you haven't corrected this get on it!*(Source: Kiplinger, IRS)*

> *We make men without chests and expect of them virtue and enterprise. We laugh at honour and are shocked to find traitors in our midst.*
>
> C.S. LEWIS

2019 TAXES – PLAN FOR THEM NOW!

While the new laws took away tax deductions for most Americans, there are still many ways to reduce your taxes. For some breaks, all you have to do is claim them on your return. For example, the Earned Income Tax Credit (EITC), which can result in more than $6,557 back if you qualify. EITC depends on your income and family size. More importantly, it is refundable whether you owe any taxes or not. For most families, the EITC is much less than the full amount. It is estimated that 20% of Americans who qualify for the EITC do not take advantage. Another important credit is the Expanded Child Tax Credit for families with children 16 or younger, which can reduce your taxes by as much as $2,000. Education credits, like the Lifetime Learning and American Opportunity tax credits, can reduce your tax liability by as much as $2,000 to $2,500. Many Americans will no longer need to itemize their deductions, but it is important to add things up to see if it benefits you. The energy credit for installing Solar Panels is still available. Remember the breakeven on your actual cash investment is 20-30 years. The most important tax saving move is to contribute to your 401k or 403b at work. Especially if there is any employer matching. If your employer does not have one, then open an IRA. Dependent on your income level, you may qualify for a retirement plan contribution credit. What about investments? Your most efficient route to accumulate wealth is your retirement plan. For investments that are taxable, qualified dividends and capital gains are taxed at lower rates than ordinary interest. Paper gains (aka unrealized) aren't taxed, but Congress is looking at them! Most Americans have filed away their taxes by now and won't look at them again until next year. Wrong! Now is the time to do some planning. If changes are needed, then making them now will reduce the pain next April. Need help? Call us. *(Source: Retirement Daily, WSJ, Motley Fool, Kiplingers)*

IT'S ALL ABOUT THE MONEY?

Rich and/or wealthy is an attitude and not a number, ***but***… A household with a $1 million net worth ranks in the top 88% of households in America. A household with a $4 million net worth ranks in the top 97% of households in America. A household with an $11 million net worth ranks in the top 99% of households in America. *(Source: DQYDJ.com)*

PROTECT YOUR PRIVACY!

There are many things we need to do, but at the end of the day if someone wants your information and has access or the knowledge, then they can get to it. The most important step to take is simplification. Like hunting or fishing, the less visible the prey, the more likely the predator will move on. Here are some basic lines of defense.

1) **Secure your online accounts** (use strong passwords, two factor authorization, encrypt your emails, don't click on "curious links," protect your IP address and use virus/malware protection).
2) **Protect your credit** (check your score regularly, request free reports 2-3 times per year and possibly freeze your credit).
3) **Common Sense Privacy** (Turn off the tracking on your phone, minimize your social media activity, don't answer the phone if you don't recognize the caller, don't give out information to anyone unless there is a business reason to do so).
4) **Protect Your Home** (Stay up to date with any technology you are using, make sure the information is encrypted, use a decentralized network. There is much more one can do dependent on what degree you want to go to protect your privacy).

(Source: Advisor Perspectives, Nuveen Funds, Stansberry)

INVESTMENTS 101/201

With the markets bouncing around, its good to revisit the fundamentals to reduce the odds of making a mistake.

1) **YOU ARE A SAVER, NOT AN INVESTOR.** The objective is to make money. Do not lose sight of the amount of risk in your plan. ~~The odds of losing money as well as the odds of not making enough to offset the impact of taxes and inflation over time on your lifestyle.~~

2) **INCOME IS GOOD.** Investments can generate interest, dividends and capital gains (aka appreciate in price).

3) **BUY LOW, SELL HIGH.** It's pretty simple. Most can buy low. Very few sell high. The basic problem is most buy or sell based on fear and greed. Picture your investments as a garden. There is a basic plan to enjoy a successful garden. Investing works the same way.

4) **PATIENCE AND DISCIPLINE WORK.** Be disciplined with the emotions of fear, greed, discouragement and failure. Patience creates confidence and rationality. Like storms, they come and go. The best thing to do during a storm is usually nothing. Stick to what you know and understand. Time will take care of the rest.

5) **DON'T FORGET THE RULES**! Warren Buffet says, ***"Rule #1 is never lose money. Rule #2 is don't forget Rule #1."*** In a casino, the key is to never run out of chips. The second key is to use your chips wisely. Most investors like to go "all in" all the ~~time. And~~ then fold when it doesn't work. Picture taxis in New York. There's always another one coming. Investment opportunities are like taxis.

6) **TIME HEALS ALL WOUNDS.** Money comes and goes, but each of us only has so much time. It took 15 years for some to get back to even after the tech bubble burst in 2000. If someone was planning in 2000 to retire in 2015, they might not have been able to.

7) **THE TREND IS YOUR FRIEND?** It can be while something is appreciating, but trends don't last forever. Pay attention to where you are in the trend and be ready to change strategy when the trend ends.

8) **SUCCESS BREEDS OVERCONFIDENCE.** "I have this formula." We tend to think we're better than we are. People go to college for years to become doctors, engineers, lawyers and even to be clowns! Most don't study anything before investing their money. If they start at a good time, they think they are smart.

9) **DON'T FOLLOW THE CROWD!** If someone is singing about their investment success at a party or wedding reception, then its usually best to do the opposite! It's hard to do the opposite of everyone else, but it usually pays off. Another saying is, "It's lonely at the top." Selling at the top and buying at the bottom is tough when your friends and many experts are doing the opposite.

10) **COMPARISON IS YOUR WORST ENEMY.** Investing is best compared to watching paint dry or grass grow. Market indexes and other benchmarks have little to do with your goals, risk and time horizon. If someone makes 12% they're happy. If someone else made 14%, then they're upset. Money in motion rewards the financial industry, but may not reward the investor. Benchmarks, indexes and style boxes create~~s~~ more things to compare with, but rarely help~~s~~ a portfolio grow more quickly. The only number that matters is the return needed to achieve your goals. Most of us are in denial about uncertainty. Why do palm readers exist? Focus on the cost/benefits of each decision. Eliminate variables. *(Source: Legg Mason, Advisor Perspectives).*

AUTOPILOT OR MANUAL?

Set It and Forget It? The most popular mutual fund is my least favorite. **TARGET DATE OR LIFECYCLE FUNDS.** They are taking over 401k/403b retirement plans, where they are approaching 30% of the account balances. And it's happening despite the growing popularity of passive investing; aka index funds. The concept of these investments is very good. Invest in a strategy that is appropriate for your age, risk tolerance and when you plan to retire. What's wrong John? The funds do not work as advertised. They are supposedly ***"customized"*** or ***"personalized"*** for each investor, when in reality they are one size fits all. Remember the ***"financial crisis"*** in 2008? You would think the 2010 target date funds would be all set. Right? ***Wrong!*** They had 45% in stocks on average and some as much as 55%. Some of the 2010 funds fell 33% when the S&P 500 stock index was down 37%. Why should individuals with different risk tolerances, financial situations and goals be in the same investment? ***They shouldn't!*** The investments are easy to use, but the people managing them know nothing about the investor and the investor knows little to nothing about what they are investing in. Retirement plans are the best tax shelter under current tax law, and the best way to accumulate wealth for retirement, but there needs to be a little bit more planning! *(Source: Wall Street Journal, T Rowe Price, AB Bernstein, Vanguard, Stansberry)*

> ***Comparison is the thief of joy.***
>
> **TEDDY ROOSEVELT**

WAIT! NOT YET!

A recent study found 37% of Americans retire before they want to. The reasons are many; health changes, buyout packages at work, layoffs, grandchildren, caring for an aging parent, etc. Social Security confirms how many continue to sign up at 62 and/or before Full Retirement Age (FRA). Very very few wait until age 70. As we've discussed before, life happens. While many hope to retire after age 62, many Americans retire sooner. Each year working between 55 and 65 can have a significant impact on your retirement plan. It is one more year for money to accumulate and one less year of withdrawals. As our life expectancies increase, the best way to prepare for retirement is to save more. *(Source: Health & Retirement Study, SSA, MFS)*

WHEN AND HOW MUCH MATTERS!

A person with $1 million invested in the S&P 500 retires on Jan. 1, 1973 and begins to withdraw $100,000 annually in inflation adjusted dollars. He or she would have run out of money in 9 years at the end of 1981. Another person retires on Jan. 1, 1982 with the same strategy and has $4.59 million after 37 years on Dec. 31, 2018. While the past is no predictor of the future, it represents a clear picture of how unpredictable the markets can be in the short-term and the importance of flexibility. We have conversations regularly with clients concerning withdrawal rates. In today's environment, if you are withdrawing more than 6% from your account, the odds of outliving your money are very high if you are less than 75 years old. *(Source: BTN Research, Thomson HySales)*

MOM AND DAD, CAN WE TALK?

Most Americans spend 25 or more years raising children. Just when they see the light at the end of the tunnel, along comes mom and dad needing help! Or if they escape helping their own parents, the day comes when their children need to help them. Get ready for tomorrow! Have you conducted a ***"what if"*** game plan for your life and your family's? Have your parents shared their thoughts? Maybe they did some estate planning, but haven't looked at the documents in 20 years. Much has changed in 20 years. Who is going to do what? There are legal documents to help get everything organized. ~~And remember~~ most or all can be changed if needed. What insurance do you have? There are many kinds: Health insurance, disability, long-term care, longevity insurance… Reviewing the coverage often identifies risks that may need to be addressed. Who do we call? It's good to have your legal documents and insurance organized and for family members to know where they are. Include a list of who needs to be called for what. What if you're not here? Sometimes not everything gets organized and/or written down. It's good to talk and be aware of someone's wishes. A common one today is burial or ~~cremation. And~~ where! *(Source: USAA, SSA, Kiplingers)*

> ***Opportunities are usually disguised as hard work, so most people don't recognize them.***
>
> ANN LANDERS

TAX FREEDOM DAY!

April 16th? What about the tax cut 90% of us received in 2018. A few numbers. In 2018, the cost of government was $5.42 trillion or $34,600 per American worker. $900 billion of this spending was borrowed money. Include this money, another $5,700 per American worker, and Tax Freedom Day 2019 = May 8. What's another 22 work days amongst friends? The total money spent by government per worker in 2018 was $40,300. Thankfully, the average American enjoyed a tax bill of $1,400 less in 2018. In 1900, Tax Freedom Day was January 22, with Americans paying 5.9% of their income on taxes. The worst Tax Freedom Day was during WWII in 1945 on May 25. We have been trending closer to this date ever since. At $5.42 trillion, Americans spend more on taxes than food, clothing and shelter combined. The burden will only continue to grow. The largest threat to increased taxes is the National Debt. It is possible to balance the Federal Budget quickly, but our ***"representatives"*** are unwilling to do so. 66% of the taxes we pay come out of our paychecks. *(Source: Daily Signal, Heritage Foundation, CBO)*

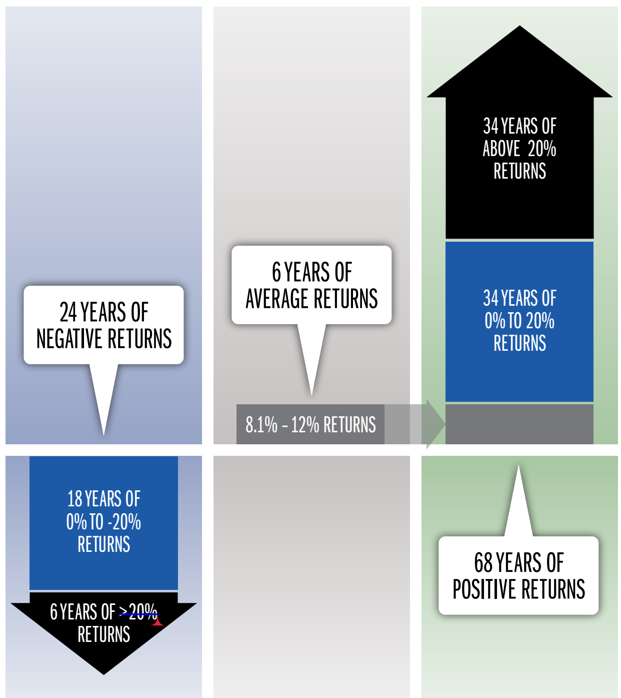
WHO GETS MY STUFF?

Naming IRA Beneficiaries. IRA owners can name anyone they desire as a designated beneficiary. An ongoing debate is whether to name a trust as beneficiary, with the hope that the trust will distribute the funds accordingly. ***"Look-through"*** trusts as an IRA beneficiary is tricky given the many IRA rules and regulations. Qualified retirement plans and IRAs are not subject to probate if there are beneficiaries. Virtually any individual and/or non-individual can be named. However, the regulations require post-death required minimum distributions (RMD). If a trust is named, be careful what kind of trust it is and how the retirement plan custodian deals with trusts to allow for the funds to be distributed over time as a ***"stretch"*** IRA. The beneficiary must be ***"designated,"*** which is defined as a human being with a life expectancy. If a trust is named the beneficiary, then the trust must be a ***"look through"*** or ***"see through"*** trust. The primary reason for naming a trust as the beneficiary is to retain control of the funds after death. The terms can be simple or complex as long as the RMD is satisfied. Common reasons for naming a trust as beneficiary is to provide for someone who is a minor, disabled, creditor protection, unable to manage money wisely, second marriage, etc. To qualify as a ***"look through"*** trust, it must be valid under state law, irrevocable upon death of the account owner, the individual beneficiaries must be specifically identifiable in the trust document. If the beneficiary is a charity, then the stretch provisions are not an option. The trust documentation must be provided to the retirement plan custodian no later than October 31st of the year following the owner's death. If the trust is the beneficiary, then the RMD must be made to the trust and then distributed to the individuals from the trust. Naming a trust as beneficiary generally eliminates the ability for each trust beneficiary to manage their own distributions. If the trust fails the ***"look through"*** test, then there is no life expectancy and the funds must be distributed within 5 years of the account owner's death. *(Source: Wealth Management, Financial Advisor, VanEck Funds)*

BUMPY RIDE, BUT...

As the chart below reveals, stocks go up more than they go down. If you're waiting for things to settle down, then the odds are you will miss out. The average annual return for stocks from 1925 to 2017 is 12.1%. It performed near the average just 6 out of the 92 year measuring period. The market went up 74% of the time, 68 years out of 92. Half of the up years, 34 out of 92, were more than 20%. *(Source: Jackson National, S&P 500)*

UPS AND DOWNS OF THE EQUITY MARKET



Ibbotson SBBI US Large Stock Index for the 92-year period ending 12/31/2017.

Source: Ibbotson Associates SBBI Data, IbbotsonSBBI US Large Stock Index, ©2018 Morningstar, Inc. Chart is for illustratiove purposes only.

SOCIAL SECURITY ONLINE

10,000 baby boomers turn 65 each day! 45% of them rely on Social Security alone to get by. That's scary. As we all get used to doing things online, Social Security is keeping up with the trend.

1) Request a replacement Social Security Card.
2) Change your address.
3) Request an income verification letter.
4) Review your statement.
5) Check your earnings history.
6) Use the planner. What if I retire at 64 instead of 65? Or 68 instead of 70? What if I get hurt and have to apply for benefits at age 50?
7) Apply for benefits.
8) Change your direct deposit.
9) Report income if you're still working.
10) Check the status of an application.
11) Request a SSA-1099.
12) Apply for Medicare.
13) Request a replacement Medicare Card.

(Source: Social Security, CBO, US Census)

GOVERNMENT FORECASTS

They say palm readers were created to make economists look legitimate. ***And for good reason!*** Economic forecasts are rarely accurate. Let's look at the not too distant past. In January 2008, the Congressional Budget Office (CBO) predicted budget surpluses for 7 years beginning in 2012 and continuing through 2018. In reality, there was a deficit every year for a total of $4.7 trillion. ***Oops.*** More recently, in January 2019, the CBO predicted $1 trillion dollar annual budget deficits for the next 8 years, 2020-2027. 2019 will likely end with a $1 trillion deficit as well. Prior to today, the Federal Government suffered $1 trillion deficits just 4 times; 2009, 2010, 2011 and 2012 during the ***"Great Recession."*** *(Source: CBO, US Treasury)*

SOCIAL SECURITY

According to a recent survey by Transamerica, 76% of working Americans do not believe Social Security will be there for them in retirement. *And for good reason!* With no changes, according to actuaries, Social Security benefits will need to be cut by 20-30% to keep the system solvent. Washington will make adjustments at some point, but there is no magic cure. It's simple math. In the meantime, most Americans don't realize Social Security is designed to replace just 40% of your income. Most retirees need 80% to maintain their lifestyle. If your current take home is $7,000 per month, then Social Security at age 62 will be ~$2,000 per month and increases ~8% each year you continue working up to age 70. If you need $5,000 per month and want to retire at 62, then you need ~$750,000 of retirement money to generate the additional $3,000 per month of income needed to supplement your Social Security check. Assuming a 40 year window and a 7% return, you'll need to save ~$300 per month. If you have 30 years, then you'll need to save ~$650 per month. For a 20 year window, the required savings jumps to ~$1,500 per month. If you decide to work until age 67, then your Social Security will be ~$2,800. If you now have 35 years to save, and only need ~$660,000 to achieve your income goals, then the monthly savings requirement drops to ~$400 per month. As always, the most important key is Spend less than you Earn. It's also important to remember that many Americans planning to work past 62 often retire sooner for one reason or the other. *(Source: Transamerica, Social Security Administration, Motley Fool, Retirement Savings)*

ROTH OR TRADITIONAL? CONVERT OR NOT?

The tax laws remain as complicated as ever. One ongoing debate is whether to save for retirement pre tax (Traditional) or after tax (Roth). Pay taxes tomorrow (traditional) or pay taxes now (Roth). The most common logic for a Roth is ***"taxes will be higher tomorrow,"*** so I'd rather pay taxes now. The recent tax law ***"cuts"*** that expire in 2026 have the debate raging again. Many believe today's ***"low rates"*** will soon go away. **Don't be fooled! A Roth is not perfect.** The IRS likes Roths because they get paid today. We have helped many clients convert to a Roth, but we have also told more that converting was not their best option. The unpaid taxes in your account can make alot of money to pay taxes with in retirement. For most, your taxes will be lower in retirement than while you're working. Before you convert today, remember converting can push you into a higher bracket. Some make the mistake of converting and then investing the money in less risky options. For example, having a stock allocation while you're working and shifting to CDs. Another question is how long will it take to recover the taxes paid today? Paying taxes today immediately reduces the Roth balance as well as how much the account will accumulate to over time. Think of it like a track race where the runners on the inside lanes start further back than those on the outside. Your account needs time to recoup the taxes being paid today. **Free money?** Another weakness for Roth accounts is there is no cost to withdraw money compared to Traditional where you must pay taxes. Free money is easier, and more tempting, to spend. Traditional withdrawals can cause more of your Social Security to become taxable, increase your Medicare premiums and/or push you into a higher marginal bracket. Your Roth withdrawals should be planned to help ensure you don't run out of money, just like Traditional retirement funds. **What about withdrawals before retirement?** Once again, the Roth is more tempting because the principal can be withdrawn tax free and without penalty. **Traditional or Roth retirement money is intended for retirement!** The money is designed to be left alone for long periods of time, where it will compound. We've talked many times over the years about how important the ***"last double"*** is for retirement. $500,000 is worth much more than $250,000. When you use any retirement fund for emergencies or whatever today, you're putting your retirement in jeopardy.

(Source: Retirement Daily, Thomson Reuters, Kiplinger)

THE NEW TAX LAWS – MUCH ABOUT NOTHING?

The most frustrating part for us as tax preparers is the returns are more complicated than ever with little to no benefit. While 90% of taxpayers will see their taxes drop, its not by much. The other benefit for many is they will no longer need to worry about keeping their receipts. Until they need them in a year when they have lots of deductions! The Best Ways to Cut your Taxes.

1. **Max Out Your 401k.** And for nearly everyone this is before tax contributions, not after tax. If you are in the 22% marginal bracket, plus 4% for State, saving $1.00 costs just $0.74. With an after tax or Roth Contribution, you'll need to earn $1.26 to save $1.00 after taxes with the hope that down the road you can withdraw the money tax free for less. Nearly a $0.50 swing today for the hope of a benefit tomorrow. Best to go with the pretax. And don't forget the employer match. Take full advantage of any matching money. ***It's free!***
2. **Max Out Your IRA.** The numbers are similar to the 401k. If you don't have a retirement plan at work, then the IRA becomes a critical part of your retirement plan. If you have modest income, then you will qualify for a retirement contribution credit.
3. **Contribute to an HSA.** If your company provides it, then this money can be contributed before taxes, accumulate tax deferred and withdrawn tax free when needed for medical expenses. Hard to beat that! Again, if there is matching, take advantage!
4. **It's Deductible?** Maybe! Maybe Not! Millions of Americans will no longer need to itemize in most years. Getting over the new hurdle is challenging. What still is deductible are medical expenses, charitable contributions, mortgage interest, property taxes and other local taxes, business expenses and college/education expenses.
5. **Bundle Deductions?** If you are close to the standard, then it may be worth timing your deductions so you can get over the hurdle one year, but not every year. Charity being the clearest example. Instead of giving monthly, you give nothing for one year and then double the next. The best way to give to charity if you're over 70 1/2, is out of your IRA via the Required Minimum Distribution (RMD).
6. **Dependents.** For upper income clients, we saw several cases this year where they saved money having their college age children file individually. For most, the child tax credit was increased to offset the loss of the personal exemption.
7. **Credits! Credits!** Credits are better than deductions since they provide a dollar for dollar reduction in your tax bill. Some credits are fully refundable whether you owe money or not. Some only if you owe taxes. The most common credits are the child tax, credit for other dependents, child and dependent care, earned income, savers credit, electric vehicle, federal adoption and education credits. What to do? Some of you enjoy researching the tax law yourselves to squeeze every nickel out of the rules that benefits you. Let us know if you need help! *(Source: IRS, Horse's Mouth, Motley Fool)*

WHAT IF I HAVE TO RETIRE EARLY?

A recent Fidelity study revealed of early retirees between 50-64, more than half retired before they planned to. Of those, 30% retired due to a health event involving them or their spouse. We have seen these situations many times over the years. Part of planning for tomorrow involves planning for today. One question is what happens to my benefits when I retire? How much will I need to spend each month on essentials? Have no idea? Go through your checkbook and credit card statements and add everything up. What will my retirement income be? When should I sign up for Social Security? There is all kinds of information and advice on this topic today. The basic problems are we don't know when we're going to die or when the government is going to make changes to the system. ***"Maximizing"*** Social Security formulas involve assumptions that are not set in stone. What will I pay for health insurance? Long-Term Care? Out of Pocket Health Expenses? The Fidelity study revealed a 65 year old couple will need $280,000 for health care during their 25 year joint life expectancy. And their estimate assumes no changes to Medicare, which, like Social Security, is also broke. What to do? Come see us. We are working with these situations constantly. *(Source: Fidelity, SSA, Medicare)*

INFLATION IS NOT DEAD

Nearly 60 years ago Motel 6 got their name by charging $6 for a room. Today, and dependent on where you stay, the cost is at least $50 and in a few places more than $100. Has the experience of staying at a Motel 6 improved since 1962? Better mattresses? Towels? Or is it simply the purchasing power of the dollar has fallen by 90%? Not that much according to the Federal Reserve, but they can only provide estimates. For those of us buying things with our own money, we know inflation is real. What to do? When things are uncertain or scary, holding extra cash is good. How much is up to you. 3-6 months living expenses is a well established norm, but some prefer 9-12 months. A few of you have 3-7 years worth! And what is cash today? A jar in the basement? A non-interest bearing checking account? A savings account that charges you to keep it open? Gold? Maintaining purchasing power on cash is a challenge today. As the cost for a room at Motel 6 reveals, earning nothing is not a good option. 2-3% is about all we can get today on no/low risk investments such as CDs, Treasuries and short-term bond funds. Not enough to keep up with inflation, but better than putting your cash under the mattress. We all need to sleep at night and extra cash usually helps with that. As always, ***Spend less than you earn, Be/Become Debt Free and "Divide your Portions."***
(Source: CBO, Federal Reserve, Motel 6, Google)

WHAT IF I LIVE TOO LONG?

There are many variables to financial planning. One of the biggest is life expectancy. In all likelihood you will be gone before 90, but we all know people in their 90s and a few in their 100s. And the numbers are increasing. Lifelines are no longer playing out as they did in the second half of the 20th century. 10-20 year retirements are now becoming 30-40 years. One variable that isn't changing is human nature. We are not investors by nature. Nearly all of us ***"live today, for tomorrow we die."*** As more Americans seek out financial advice, there is more knowledge to help people avoid making mistakes. **BUT!** That doesn't change how we're programmed. Today there are 40 million Americans over 50 who can see retirement approaching. There are also close to 45 million Americans already retired. Statistics show 90-95% of Americans will run out of money at some point in retirement. All the articles and research on the ***"great wealth transfer"*** of $40 trillion or so over the next 30 years may not happen. The rich are getting richer at the moment, but they are a small group. The problem is hard work and setting aside 10-20% for tomorrow is not the normal lifestyle in America. Paycheck to paycheck is the most common routine. Legislation from Washington does little to ***"fix"*** human nature. Especially when their primary goal is keeping more of our earnings for themselves. Combined with ***"life isn't fair,"*** we are in a challenging situation. The Good News is there are things we can do. Education is a part of increasing one's longevity. Or as I like to refer to as curiousity. We all know education is not delivered equally and probably never will be. Note the inverse correlation to smoking and education that has been in place since cigarettes were invented. Those who are in good financial condition normally eat healthier, get their sleep, annual checkups and exercise more frequently. 30 years ago there was virtually no research on retirement planning. A few weeks ago Israel reported the printing of a human heart with the patient's own cells. Longevity is likely going to continue increasing. **BUT!** Since human nature works against investing for tomorrow, it is unlikely many more Americans will begin to do a better job at it. The most common mistake is people retire and move most or all of their money into ***"guaranteed"*** or ***"no risk"*** investments like bonds. When you in effect freeze your assets, you are also freezing your income. Picture financial suicide on the installment plan. The longer the retiree lives, the less the fixed income is worth. At 3% inflation, $1 worth of goods in 1989 costs $2.40 today. The primary goal of retirement income should be to maintain your purchasing power, not growth or income. Welcome the ***"Target Date"*** and ***"Lifestyle"*** funds. In less than 10 years they could represent 50% of retirement plan assets, but they don't do what they're supposed to do. Instead of guaranteeing your retirement lifestyle, nearly all of them are reducing your lifestyle. The best inflation hedge for the past 50 years has been stocks. Their dividends have grown by 6% per year, twice the rate of inflation. The cost of living in America has increased 9 times since 1960, while cash dividends from the S&P 500 have increased 27 times. The S&P 500 index is up 50 times. The focus shouldn't be on what your account is worth on any given day. It should be on how much income it can provide. The definition of wealth is not your net worth, but an income you can't outlive and leave behind. *(Source: Private Wealth, Morningstar, Inside Retirement, MSCI)*

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HOW JFR FINANCIAL SERVICES CAN HELP YOU.

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