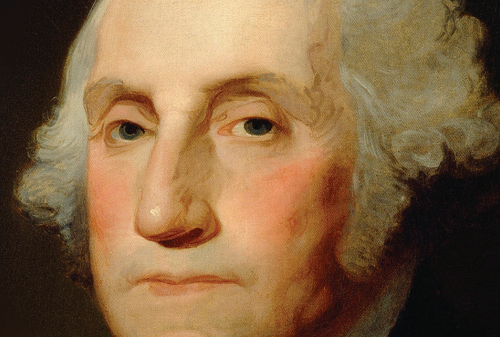




Financial Stuff

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JULY 2021



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CJ – Social Chairman

HOW MUCH CAN I SPEND IN RETIREMENT?

This is a redundant topic, but an important one. A recent study by the Alliance for Lifetime Income revealed a 16% chance of running out of money in 20 years with a 4% withdrawal, 2% inflation, and an investment strategy of 60% stock and 40% bond. The study found that the 16% chance of running out of money in 20 years doubled to 32% with a 5% withdrawal rate and 60% with a withdrawal rate of 6%. With the 4% withdrawal, the odds of running out of money increases to 50% in a 30+ year retirement. Increasing the amount invested in stocks helps reduce the risk of running out of money, but also increases the volatility of the account and the risk of running out of money sooner when there is a large market drop early in retirement. A 2% inflation rate may seem small, but it doubles the withdrawal amount in 35 years. 3% inflation, which is closer to the historical average, doubles the withdrawal in 23 years. The study revealed how annuities can reduce the risk of running out of money, but with interest rates at all-time lows, the benefit doesn't exist until 20+ years or longer.

If the average return of the portfolio is 4%+, then the annuities provide little to no value until 30+ years. The study concludes the best defenses for a long life are a more conservative withdrawal rate, working longer, saving more and possibly income annuities for expected retirements of 30+ years. We assume you are going to live forever and recommend flexibility in case you do! *(Source: Financial Advisor, Allience for Lifetime Income)*

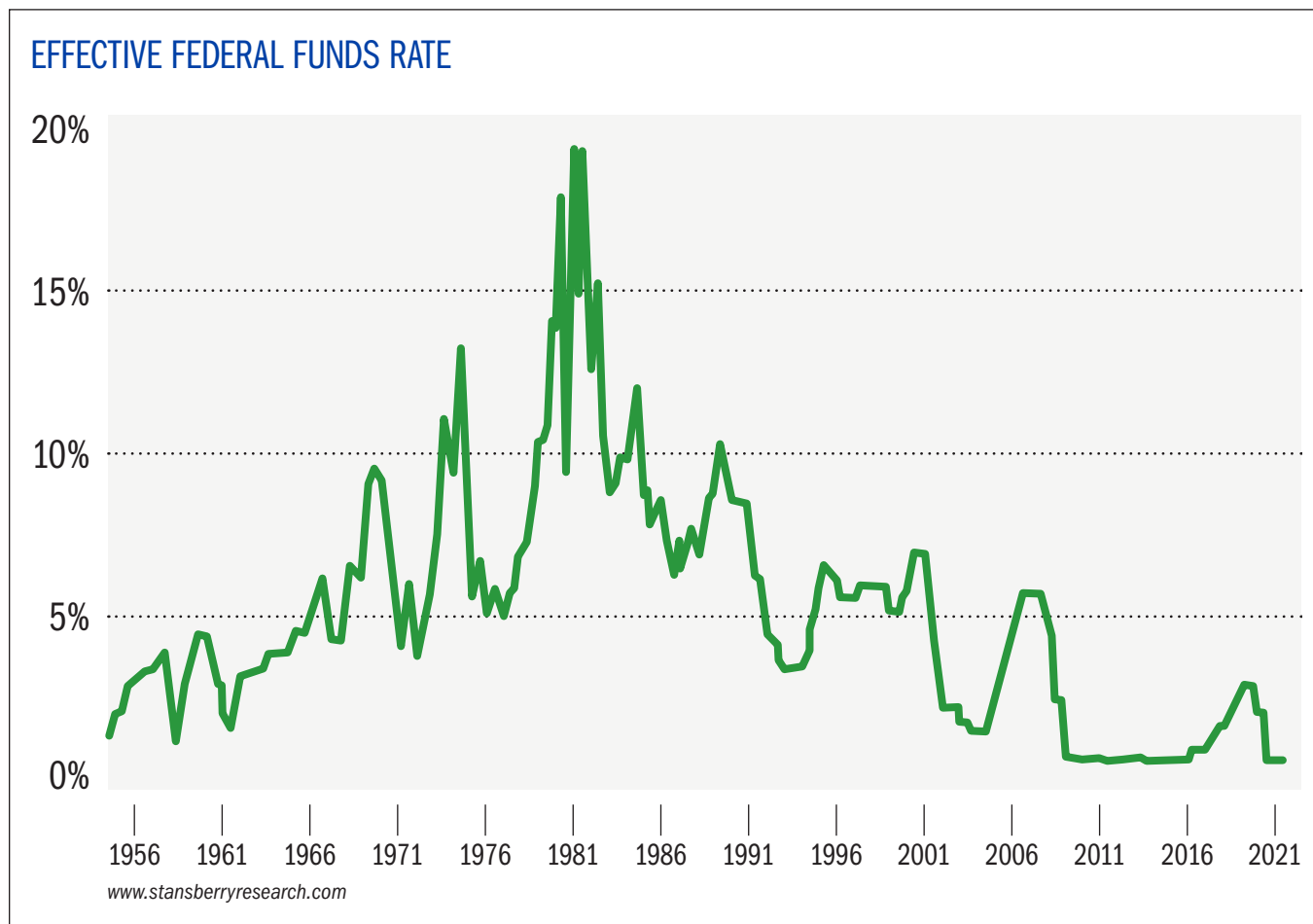
DEBT DOESN'T MATTER?

As Hemingway said about going broke, *“It happens very slowly, then all of a sudden.”* This is the basic thinking behind *“Modern Monetary Theory,”* or MMT, which is popular in Washington today. Between 2015 and 2020, the interest expense on our National Debt increased from \$611 million a day to \$945 million. That's 55% despite interest rates at or near record lows. We had the same situation after WWII, but thankfully, many stars lined up for us. A growing economy is the best thing for a nation buried in debt. During the Bush Presidency, the National Debt doubled from ~\$4 trillion to ~\$8 trillion. During President Obama, we borrowed more money than all the previous presidencies combined as the National Debt nearly doubled again. Today, the National Debt is ~\$27 trillion. *(Source: Federal Reserve)*



INTEREST RATES – THE BIG PICTURE

The chart reveals how interest rates climbed until 1981 and have been falling since. In other countries around the world, interest rates have been negative since 2014. The Federal Reserve is trying to avoid that, but it is a battle. What will happen next?



“DIVIDE YOUR PORTIONS”

How much (“Spend less than you Earn”) you invest is critical, but so is how you invest it. 94% of the return is based on how the money is invested. Few investors have the appropriate allocation for their age, circumstances and risk tolerance. Diversifying helps limit the cost of making mistakes. There are more and more ways to allocate investments today than just 10 years ago, but the principles do not change. The basic asset classes are stocks, bonds, cash, real estate and other. Historical returns can range from 0% to 15%. With interest rates at record lows and the stock markets at all time highs, the projected returns for the next 10 years are well below the averages. Stock performance over time comes down to how much money a company makes. Stocks historically serve as a good inflation hedge over time. Bond returns are based on inflation, time and the ability to pay. Bonds have been in a bull market for 40 years, which is almost unprecedented.

Cash is paying nothing today, but it still serves well as part of the allocation strategy. The 3 most common strategies are Growth (80-90% stocks and 10-20% bonds), Balanced (60-70% stocks and 30-40% bonds) and Income (40-50% stocks and 50-60% bonds). Determining the best strategy for you and monitoring same is what we do. There are all kinds of free options out there today. The question is whether you can manage your own finances or are better served delegating the responsibility to a professional. (Source: AAIL, JFR)

*But let me offer you my definition of social justice:
I keep what I earn and you keep what you earn.
Do you disagree? Well then tell me how much of
what I earn belongs to you – and why?*

WALTER WILLIAMS

INFLATION IS DEAD?

Check out these price increases over the past 12 months.

Lumber	+265%	<div style="width: 265%;"></div>
Crude Oil	+210%	<div style="width: 210%;"></div>
Gasoline	+182%	<div style="width: 182%;"></div>
Heating Oil	+107%	<div style="width: 107%;"></div>
Corn	+84%	<div style="width: 84%;"></div>
Copper	+83%	<div style="width: 83%;"></div>
Soybeans	+72%	<div style="width: 72%;"></div>
Silver	+65%	<div style="width: 65%;"></div>
Sugar	+59%	<div style="width: 59%;"></div>
Cotton	+54%	<div style="width: 54%;"></div>
Platinum	+52%	<div style="width: 52%;"></div>
Natural Gas	+43%	<div style="width: 43%;"></div>
Palladium	+32%	<div style="width: 32%;"></div>
Wheat	+19%	<div style="width: 19%;"></div>
Coffee	+13%	<div style="width: 13%;"></div>

(Source: US Department of Labor)

IDENTITY THEFT 101

As an outdoorsman, it is very important for prey to stay as quiet and invisible as possible. It is the same for our financial and online activity. Don't have any more accounts than necessary. Pick your favorite credit card and get rid of the others. Check your statement each month. Make sure your credit card company is also monitoring your account for unusual transactions. For any internet connections, change your passwords frequently. Avoid using WiFi or hotel internet connections unless you have to. Don't stay online any longer than you have to. Keep your cybersecurity software updated. When you are surfing the internet, be selective on the sites you visit. Do not open strange email. Do not open any attachments unless you know who they are from and confident there aren't any problems. Use cash to limit the activity on your credit and debit cards. Set alerts on your accounts. Again, keep a low profile and don't leave any footprints that predators can take advantage of.

(Source: WSJ)

ANNUITY PROS AND CONS

The most important word to remember in this topic is "insurance." With life insurance, if you die young, it is very

likely life insurance was a good deal for you. With annuities, you normally need to live a long time for them to pay off. Annuities are popular today as 10,000 baby boomers turn age 65 every day. ~17% of the American population is 65 and older today. By 2030, all baby boomers will be at least 65 years of age. This very large group is moving from saving money to spending it. Given their spending habits, they need to protect their income just in case they live a long time. With the markets at all time highs, there is also a desire to protect the gains. Moving a portion of your stock investments into guaranteed annuities may help protect your principal as well as retirement income. Another benefit of annuities is they are tax deferred. With income tax rates on the rise, deferring some of your taxes may be a good way to preserve wealth. And what's that word again? "Insurance." Whether it is protecting principal, guaranteed income, long term care and/or death benefits, insurance products like annuities may be a good solution dependent on your financial situation. As the number of Americans with defined benefit pensions continue to decline, and interest rates remain at historic lows, guaranteed payouts from annuities are very attractive in some cases. Don't buy an annuity due to fear. Consider the costs and benefits. We can help. **Call us.** (Source: Lasalle Street, Kiplingers, US Census)

REMEMBER THE SIGN "UNCLE SAM WANTS YOU!"

Well now it's "The IRS Wants You!" They should use the same poster. The IRS doesn't have the money or personnel to do everything they want to do to increase how much they collect from us, but the new administration has given them their marching orders. The biggest target is private business owners like myself. There is a large amount of "unreported (pass through) income" that isn't taxed. Washington is proposing that banks be required to report deposit and withdrawal activity to the IRS. More audits for partnerships, not just the partners.

Cryptocurrency The IRS wants more stringent reporting on transactions. Interestingly, this project is referred to as "Operation Hidden Treasure."

Non-Filers The IRS is targeting individuals with \$100,000+ of income that do not file tax returns. Offshore Accounts. This is not a new topic, but they are working to improve the reporting by requiring banks to provide more information.

Estate Taxes Washington hasn't proposed anything yet, but they are looking to tighten the noose on estates by increasing reporting requirements.

(Source: Ed Slott, Financial Advisor)

CHANGE OF PLANS?

There are 76 million baby boomers, born between 1946 and 1964, with 10,000 turning 65 each day until 2029. 3+ million boomers retired in 2020. There are 46 million Americans collecting Social Security, 10 million more than in 2010. No question the pandemic is impacting the numbers. The markets at or near all-time highs helps as well. Before you retire, make sure your finances are in order. Most importantly, account for risk. Stocks will go down a few times over the next 20-30 years. Do not plan on withdrawing an increasing amount from your retirement accounts each year to offset inflation. Have a plan where you can cut back in down markets to protect your principal. Having two budget numbers helps; the baseline expenses and the extra for fun, etc. While you will spend less in retirement, that may not be the case on any given day or year. Bucket list, health care, home improvement... Assuming a 4% withdrawal each year is fine, but again with the caveat of cutting back in years when the market is down. With interest rates at all time lows, the annuity factor is at 32; i.e. take how much you have for retirement and divide by 32. Just 10 years ago the number was 24. That's a 24% drop in income. (Source: Bloomberg)

QUICK ANNUITY EXAMPLE

Based on current interest rates, a 65 year old man with \$250,000 today can buy a single life annuity and receive \$1,250 a month. This is a 6% payout on his investment, **BUT!** it will be 16.7 years before he gets all of his investment back. If he dies before the 16.7 years has passed, then the insurance company keeps the money. If he lives to age 85, then he will receive a total of \$300,000 and an average return of 1.8%. If he lives to age 90, then his average return increases to 3.4%. If this same man is 55 today and wants to generate the same income at age 65, then he will need to invest \$1,800 a month for a total of \$216,000. A fixed annuity may be appropriate for someone's retirement income, especially if the individual is very risk averse. However, remember inflation. Even at 2% inflation, \$1.00 today is worth \$0.67 in 20 years. (Source: Kiplingers, Immediate Annuities)

TAX LAW CHANGES?

What's that old saying about death and taxes? We started getting calls last summer about what to do when Joe Biden becomes President. Higher taxes, falling markets, more regulations, etc. Very real concerns regardless of who is President, but like most planning, it's best to focus on things we can control. When it comes to taxes, they've been going

up overall for 100+ years. Sheltering money in retirement plans and annuities to defer taxes until tomorrow is a no-brainer. For most of us, our income in retirement will be less than it is today. Buy and hold is an effective way to reduce taxes no matter what the rate. Long term gains are less than short term. For the moment anyway! When we use various scenarios for taxes in retirement, we review the retirement plans, Social Security, pension income (if any), annuities, liquid investments, as well as the projected tax rates over the life expectancy. It is logical to assume taxes tomorrow will be more than today, but don't conclude paying all or most of the taxes today is best. The best option is usually a careful multi-year withdrawal plan from a combination of your retirement plans and other assets. (Source: Financial Planning, WSJ, JFR)

THE WIDOW'S MITE

Years ago we had picnics and dinners for widows and their friends. The outings were well attended thanks to 7 or 8 widows who helped spread the word. Time caught up with all of them and the gatherings came to an end. We still have a special place for helping widows. One important area is taxes. Under the current tax laws, when one spouse dies, the survivor not only experiences a drop in income, but also an increase in taxes! That's not a good combination. Many couples have not planned for this. Many don't realize that one of the Social Security checks goes away at death. It is very common for one spouse to handle all the finances. If this spouse dies first, then the survivor is not only grieving their loss, but they are also faced with a pile of paper they know little to nothing about. This can be a challenging pile. Thankfully, we are here to help. We help survivors get organized all the time. Without a dependent child, the surviving spouse files as a single taxpayer beginning in the year following the death of their partner. And at higher tax rates. Some "experts" use this as a reason to convert traditional IRAs into Roths while both spouses are still alive. This may be a good move, but maybe not. What's important to remember is the IRS gets paid up front. The primary decision is whether it is less expensive to pay the IRS today versus tomorrow. Social Security planning is also an important part of the equation. All roads cross at age 78 when it comes to collecting early versus waiting. After 78 you begin to benefit from waiting to file, whether it be Full Retirement Age (FRA) or age 70. The most important asset in a premature death is knowledge. Whenever we talk about the loss of Social Security and/or a pension, you can feel the air go out of the room.

Couples should understand how their financial picture will change at the first death. It's a much easier discussion when I can tell them that we've planned for this and they will be okay. We are crunching these numbers for clients constantly. Don't hesitate to call. (Source: *Private Wealth, Social Security, IRS*)

HOW MANY BUCKETS?

When it comes to basketball, as many as possible! When investing, the primary plan is “*divide your portions.*” This can be approached with everything in the same bucket or separate. Most “*experts*” agree that 6-12 months worth of cash is enough for emergencies, but what if you are living off your money in retirement? Based on history, 6-12 months would still be sufficient, but a retiree may prefer 3 years of living expenses in cash. So, let's assume 3 years worth of cash and our retiree has 15 years worth of living expenses saved. In the old days, when cash paid 5-6%, it was easier to leave cash in the bank or money market. Today, the cost is a 0.25% return, or in a few instances, you may be getting charged to have money in the bank! The first step up in risk, ultra short-term bond funds, may be paying 1%. Short-term strategic bond funds may be paying 2%. Traditional bond funds may be paying 3%, but probably closer to 2%. If you want 5%, then you must accept more risk. So, a conservative plan today would require a 1-2% return on your first bucket. In 3 years the money is gone and you turn to the next bucket. This will have 7 years worth of living expenses plus 3 years with an average return of 5%, thanks to being able to invest in income funds as well as bonds. 10 years plus 3 equals 13. Your last bucket, 100% invested in stocks, should more than double in 13 years, which will give you another 12-13 years of income. If you retire at 62, then we're out to age 87 or so. Not bad. Some of us make it past 87, but not too many. Questions? Call us. We are crunching numbers every day! (Source: *AAIL, WSJ, Kiplingers, Capital Group, Fidelity*)

GIVE A CHILD A FISH OR TEACH THEM TO FISH?

Most parents want to help their children financially, but just handing them money is not the way to go. Helping children learn the value of money and how to save for tomorrow are the best gifts. Having the kids help pay the bills is a good exercise. Like managing time, managing their own money is a great way to teach budgeting, balancing a checkbook, saving for tomorrow, credit/debit card... Saving for college and/or retirement is a great way to learn about investments, 529 plans, Roth IRAs, etc. As long as the youngster has earned income, they can make a Roth IRA contribution. For the little ones with no income, a Uniform Gift to Minors Act (UGMA) or

Uniform Transfer to Minors Act (UTMA) custodial account are good options. These accounts allow you to give minors a gift and invest it for them. The downside is when they turn 18 or 21 they become the owners of the account. (Source: *Lasalle Street, Broadridge*)

SOCIAL SECURITY “MAXIMIZATION”

The new filing rules have been simplified. For anyone born before 1954 there are still a few extra features, but the options for those born after 1/1/54 are much less complicated. For all of us the basic mystery is when we're going to die. The other issue is whether to spend the government's money first or your own. As always, all roads cross at age 78. After that, you start to begin to benefit from waiting. The articles and strategies recommending you do this or that in order to pocket an extra \$100,000 all assume the rules don't change and either you or your spouse live a very long time. They also usually ignore how much your own money will grow while you're not spending it. **BUT WAIT!** What if you made a mistake filing one way or the other? It may be possible to correct the error by repaying the benefits received and/or suspending your benefits. (Source: *Social Security, Kiplinger*)

SIMPLE PLANNING FOR SINGLE WOMEN

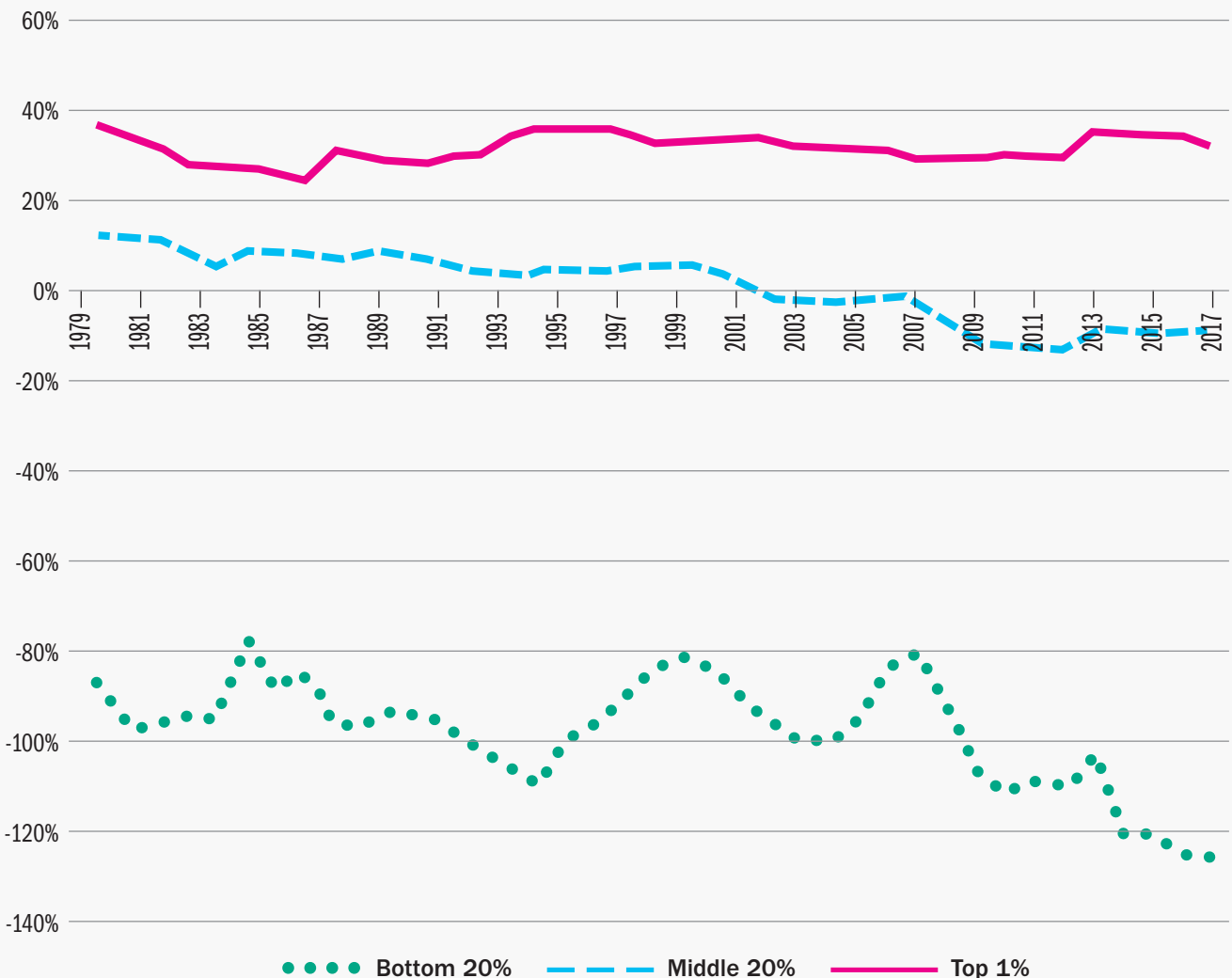
The fundamentals are the same for all of us. The first step is “*spend less than you earn.*” We've seen many examples over the years where a mother's love can result in financial tragedy. When you become responsible for all aspects of day to day life, along with tomorrow, it will involve saying no. Most financial advice today is created for couples. Create a plan where you can monitor your cash flow and keep it under control, including saving for the future. As you pay off debts, this will free up money for the future and lifestyle adjustments. The goal is to have one debt, the mortgage, and a plan to pay it off before retirement. Getting out of debt is not as difficult as it seems. The initial targets are the debt with the smallest balance and the one with the highest interest rate. Having a good emergency fund is important. Instead of 3-6 months, try and build it up to 9-12 months. As you are able to more easily handle emergencies, you will sleep better and feel more in control. Retirement is also important. Save at least 10% for retirement and preferably 15%. If you are working and have children, then disability insurance is very important. Having an estate plan is also critical. Who makes decisions if you are unable to? Better for you to dictate who helps rather than a judge. Financial planning can be successful for any woman dedicated to herself and surrounded by others who will help motivate you to achieve your goals. (Source: *Financial Advisor*)

TAXES—FROM ONE HAND TO THE OTHER?

“Tax the rich” is back. It’s important to remember the popular arguments do not include transfer payments; Social Security, Medicare, Medicaid, Welfare, Food Stamps, Unemployment, Education, etc. Keep in mind also that Social Security and Medicare, according to the Supreme Court, are neither guaranteed nor a right. The payroll taxes being collected are considered “General Revenue” from a legal standpoint. After subtracting all the benefits received, the bottom 60% of American households pay no Federal taxes. Based on data from 2017, the top 1% of Americans on average paid \$620,000 in federal taxes on a \$2 million income, for a net rate of 31%. The average middle-income household earned \$61,700, paid \$10,500 in taxes, but received \$16,800 of transfer payments. As a result, their net tax rate was -10%. The average

bottom 20% household paid \$300 in taxes on an income of \$15,900 and received \$20,300 in transfers. Their net tax rate was -126%! Below is a chart revealing the 40-year trend. The United States has the most progressive tax system in the world, with the top 40% of taxpayers paying 100% of the taxes and the bottom 60% paying nothing. When someone complains that tax cuts only benefit the rich, they are correct! Only the rich pay Federal taxes in exchange for nothing. It’s human nature to want more for less and politicians simply equate more for less requires us to vote for them. Thanks to our never looking at the numbers, politicians can use the same lies again and again. The end result is “fair” taxation equals “more” taxation. State and local taxes are a separate argument. (Source: IRS, CBO)

AVERAGE EFFECTIVE NET FEDERAL TAX RATES



Source: IRS, CBO

TO ROTH OR NOT TO ROTH

Like everything else today, there are passionate pro and con debates. The main mystery is we don't know what the tax rates will be tomorrow. For the moment, many are looking at converting based on the assumption that President Biden will raise taxes. Higher taxes overall are likely in everyone's future given all the government spending the past 20 years. **BUT!** Rushing to convert to a Roth now could backfire. The Biden tax increases may not become law. And even if they do, the next administration, or Biden himself, could reverse them in the future. One guarantee involved with converting today is the IRS gets their money now. How much money would be made on that money over time if it stays invested? The decision is now irreversible. Prior to the 2017 tax law changes, you could "recharacterize." The compromise may be to convert a portion of the traditional IRA to a Roth each year to keep your income in a lower tax bracket. One given is to not pay the taxes out of the retirement account. Keep 100% of the money invested and use liquid funds to pay the taxes. People wanting to leave money tax free to their children are probably the best candidates, but again the question is at what cost? Under the most recent tax law changes, most inherited IRAs must now be emptied within 10 years of the original holder's death. Tax laws are always changing. One of my favorite questions is "What if Roth IRAs become taxable based on income and/or ability to pay?" Another is "What if you end up in a nursing home and the IRA withdrawals are tax free?" Call us! We are crunching Roth numbers all the time. (Source: Advisor Perspectives)

Forgiveness is the fragrance that the violet sheds on the heel that has crushed it.

MARK TWAIN

MORE BITCOIN INFO

Bitcoin is the most popular digital "currency" created through advanced cryptography. Unlike traditional "currency," Bitcoin is not backed by any government or bank. In 2008, an anonymous programmer ("Satoshi Nakamoto") created the code and the "mining" began. According to the program, the supply is limited to 21 million bitcoins. I haven't heard anyone ponder the possibility of the program being changed. Part of being a "currency" is serving as a medium of exchange. The mining presently consumes ~1.0% of the world's electricity and will increase significantly as the miners work closer to the 21 million limit. There is a large incentive (currently 6.5 bitcoin) to solve the formula that creates a Bitcoin.

And the payment will increase as the 2 million remaining requires more computing power to accomplish the task. In the meantime, governments around the world are cracking down on cryptocurrency. It is a threat to their power, control and, most importantly, their ability to collect taxes. Another definition of currency is "store of value." As many as 4 million of the 18 million Bitcoins already created have been lost or stolen. The vast majority of Bitcoin is owned by very few people. What happens if they decide to sell? Like gold, Bitcoin has a "negative carry," which means you can lose money simply by owning it. Another problem, so far anyway, is Bitcoin does not hedge against stock market risk. While it classifies as an "alternative" asset, it often goes up and down with the stock market. Blockchain technology is an intriguing development and already being used by companies. It takes huge amounts of energy to maintain the blockchain. Utility companies get paid to produce the power, but what about everyone else? Time will tell. (Source: Capital Group)

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FOR OUR ANNUAL CLIENT DINNER & FAMOUS DESSERT BAR

TUESDAY, AUGUST 17, 2021
CRYSTAL GARDENS, SOUTHGATE, MI



Please RSVP by Tuesday, August 10, 2021.

For questions, please call 734-692-1421





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JULY 2021

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Business Planning and Development	Estate Planning	Employee Sponsored Retirement Savings Plans
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