Financial Stuff

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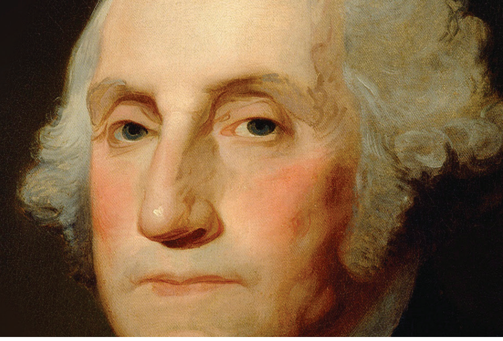


INSIDE

CJ – Social Chairman

RETIREMENT INCOME

There is never ending research on this topic. Exploring all the possibilities is good, but at the end of the day neither time, interest and/or money assumptions will match reality. The key is to stick with proven principles. New strategies and techniques are fun to consider, but don't be the first one in the water. You don't want to be living in your car before you die! One recent analysis revealed a 100% success probability for a portfolio that follows the IRS Required Minimum Distribution (RMD) table. This is no surprise since the withdrawals each year are calculated on the account balance. A similar strategy is the simple 4% withdrawal. If you limit the withdrawal to 4% of the account balance each year, then you will never run out of money. The majority of the research assumes a 4% increasing withdrawal, where the amount goes up each year with inflation. If the account drops while the withdrawals increase, then Houston we have a problem. The best strategy is flexibility. Something as simple as taking extra out in a good year and less in a bad year. The average American has a tough time with this. *(Source AAII, JFR)*

I CAN DO IT!

Like everything else, financial knowledge has become a commodity. The same is true for repairing cars, but hardly any can since it also involves tools and skills very few have. Investing is very mechanical at its roots. **BUT!** Wisdom is still sold separately. The financial industry continues to be squeezed by competition and government regulations. The end result is fewer people can afford professional advice and/or they are paying too much. Our $300 financial profile continues to cover the big picture very well for a very low cost. Very very few need more detail. We also continue to do free initial consultations. The majority of Americans do everything themselves. Statistics show they aren't good at it, but not due to the lack of free knowledge and resources available. *(Source: Nationwide, WSJ)*

A FEW NUMBERS

54 million Americans receive monthly Social Security benefits, including retired workers, dependents of retired workers, and survivors of deceased workers. 42 million Americans receive monthly assistance from the Supplemental Nutrition Assistance Program (SNAP), aka ***"food stamps."*** The average Social Security retirement benefit is $1,503 per month. The average SNAP benefit is $157 per month per person *(Source: Social Security Administration, SNAP, BTN Research)*

TAX SEASON!

The IRS continues to warn us about their problems impacting us. In addition to having 10 million 2020 returns yet to be processed, they have a growing list of ***"reconciling advance monthly child tax credit payments and economic impact payments."*** There are technical glitches on the ***"Where's My Refund"*** website. The ***"The Taxpayer Advocate Service,"*** set up to help taxpayers with disputes with the IRS, is turning away cases. While the tax law hasn't changed much from 2020 to 2021, the complexity of returns is worse than ever. Hundreds of pages of forms, schedules and attachments, combined with more and more sources of information; employers, health insurance, cryptocurrency, investments, charitable organizations, donor advised funds, limited partnerships… More and more information is not being sent until 3/15 or later, resulting in more taxpayers filing extensions. While the IRS is slower than ever on filings, they are rapid firing notices on all kinds of open issues. There is nothing wrong with filing early, but there is no urgency. The mess at the IRS is not going away soon. *(Source: IRS, Financial Advisor, Wall Street Journal)*

SOCIAL SECURITY & MEDICARE

The total number of Americans receiving Social Security today is 66 million. 86% of Americans 65+ are receiving it. The average benefit is $1,553 per month. The average male worker puts $300,000 into Social Security during his working years and collects $277,000 in retirement benefits. Had he invested $100 per month for 40 years at 7%, a total of $48,000, he could have withdrawn $1,500 per month for 20 years at 4%, for a total of $300,000. The average deposits made into Medicare are $72,000 in exchange for $191,000 in benefits during retirement. Much better than Social Security, but still a lousy investment. For a married couple, for $1.00 deposited into Social Security, they on average will receive $1.03 in retirement. For Medicare, they will receive $2.29 in benefits for every $1.00 contributed. *(Source: SSA, Tax Policy Center)*

DOWNSIZING SOONER THAN LATER?

It's fun to talk about lifestyles. We see so many and hear about many more! Always important to follow the 3 fundamentals; ***"Spend<Earn, Be/Become Debt Free and "Divide Your Portions."*** When it comes to lifestyle decisions, always remember home and vehicle selection play a huge role. Many Americans buy more than they need. When retirement is drawing near, some think about downsizing. Nothing wrong with it when you're ready, but we all have to live somewhere and the difference in cost is often not as much as we think. There are retirees making this decision out of fear and that's rarely good. If expenses are tight and you can free up $2-300,000 to invest to help eliminate a monthly cash flow deficit, then that may work well. **BUT!** Moving can be one of the most stressful things we do. Another consideration is having a mortgage in retirement. Being debt free is always the goal. Downsizing to become debt free deserves consideration, but it is not the only variable to consider. High property taxes are no fun, but okay if you love your home and community. Maintenance, repairs and daily routine are important considerations. We have clients renting and owning in retirement communities. As a rule, they are very happy. **BUT!** Every now and then someone jumps a little early. Like a ***"red light"*** in drag racing. Everything is leading a change, but no need to rush it. Trying to decide? Let us know what you're thinking about. We very likely can provide some insights that will help. *(Source: Motley Fool, JFR)*

> *A fondness for power is implanted, in most men, and it is natural to abuse it, when acquired.*
>
> ALEXANDER HAMILTON

TAXES

49% (78 million) of the 158 million Form 1040s filed for tax year 2019 reported less than $40,000 of adjusted gross income. *(Source: IRS)*

RULE OF 72 – *AND THE REVERSE!*

When the interest rate is 3%, it takes 24 years for $1.00 to become $2.00. On the flip side, if inflation is 3%, then in 24 years $1.00 will be worth $0.50. With inflation at 6%, $1.00 will become worth $0.50 in 12 years. ***Inflation is the worst form of taxation.*** The politicians print money without our approval, while the poor and middle class are hurt the most. What to do? ***"Divide your portions."*** While we all need cash for savings and emergencies, it is one of the worst spots when the return after inflation is negative. *(Source: MFS, WSJ, Federal Reserve, JFR)*

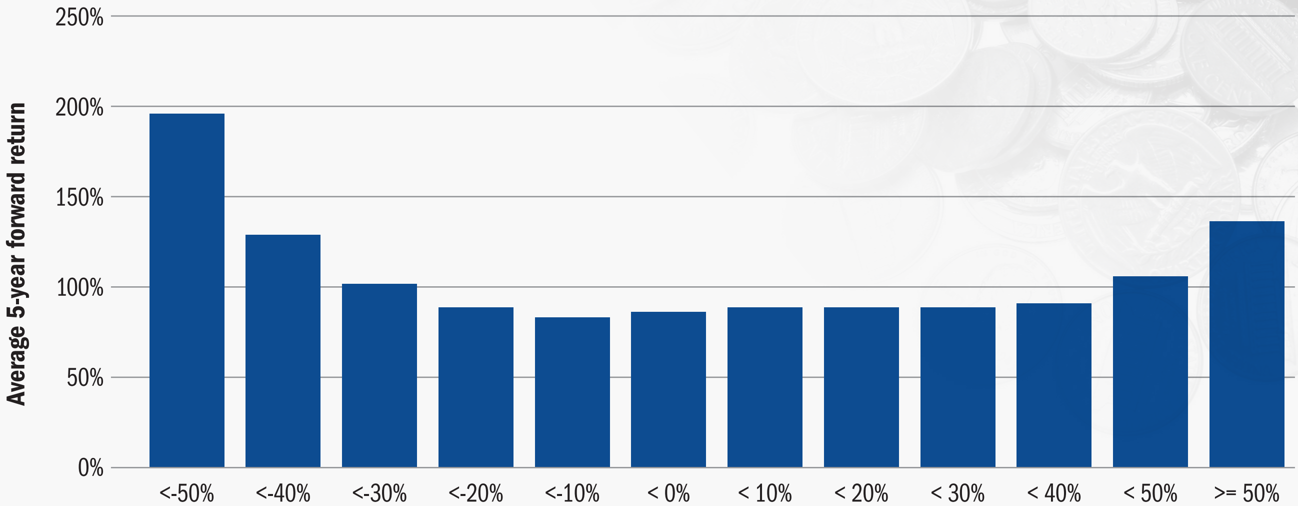
TIME IS MONEY

If you want $1,000 per month for the next 20 years, adjusted for 3% inflation, and assuming a 5% return, then you would need to invest $195,929. If you want the income to last for 30 years, then the initial investment needed rises to $269,006. The calculations ignore taxes and do not reflect any specific investment. *(Source: BTN Research).*

TIME OR TIMING?

The charts below provide good pitures of how time is more important than timing.

STOCK ADVISOR PICKS: How does recent short-term performance relate to future long-term performance (2002–?)



Average 6-month trailing return

Source: Motely Fool data as of Jan 16, 2022

What this chart says: The average Motely Fool stock pick is pretty good, but even after stocks drop (i.e. if they drop a little) then they go up a lot. No guarantess, but history is on the side of time.

IT'S NOT ABOUT THE MONEY?

The American College of Financial Services conducted a 25 year survey from 1994 to 2018. Not surprisingly money plays a big role in our happiness and/or contentment up until a net worth of ~$4 million. Also important is relationships; not just family, but also friends, peers, neighbors… The other critical factor is health. While the findings are not news, it does reinforce the importance of a balanced lifestyle where these 3 pillars reinforce one another. Most Americans have no retirement savings and they watch 4-6 hours of television each day. Billions around the world would happily change places, but here in America we have better options! Some of the common hindrances to happiness are family problems, getting children out of the house, addictions, disappearing after retirement instead of moving on to a new routine. *(Source: American College of Financial Services, Financial Advisor)*

WE CAN'T BEAT THE CLOCK

It's going to run out for all of us at some point. In 1900, the average life expectancy in America was ~47. Today it's ~77. Children being born today could be the first ones to be expected to live to 100. Regardless of when, the longer we live the more money it takes. The financial industry is constantly tinkering with how best to plan for tomorrow, which is a good thing. **BUT!** There will always be mysteries. As a result, the keys to a successful financial life are ***Spend<Earn, Be/Become Debt Free and "Divide Your Portions."*** The green line, retirement withdrawal rates, how much to save, etc. are all very important indicators, but not as important as being flexible. Simple math suggests half of us will live past 77. Some of us will have long-term care expenses. We keep it simple and assume you will live forever! According to the American Academy of Actuaries, there is a 90% chance a non-smoking male will make it to 70. If they are in average health, then there is a 50% chance they will make it to 85 and a 25% chance to age 90. For female non-smokers, there is a 90% chance one in average health will see 75. A 50% chance she will see 88 and a 25% chance to see 94. For couples, there is a 90% chance one or both will see 82, 50% chance to see 92 and a 10% chance for one or both to make it to 100! *(Source: Financial Advisor, American Academy of Actuaries, CDC)*

50 YEARS AGO

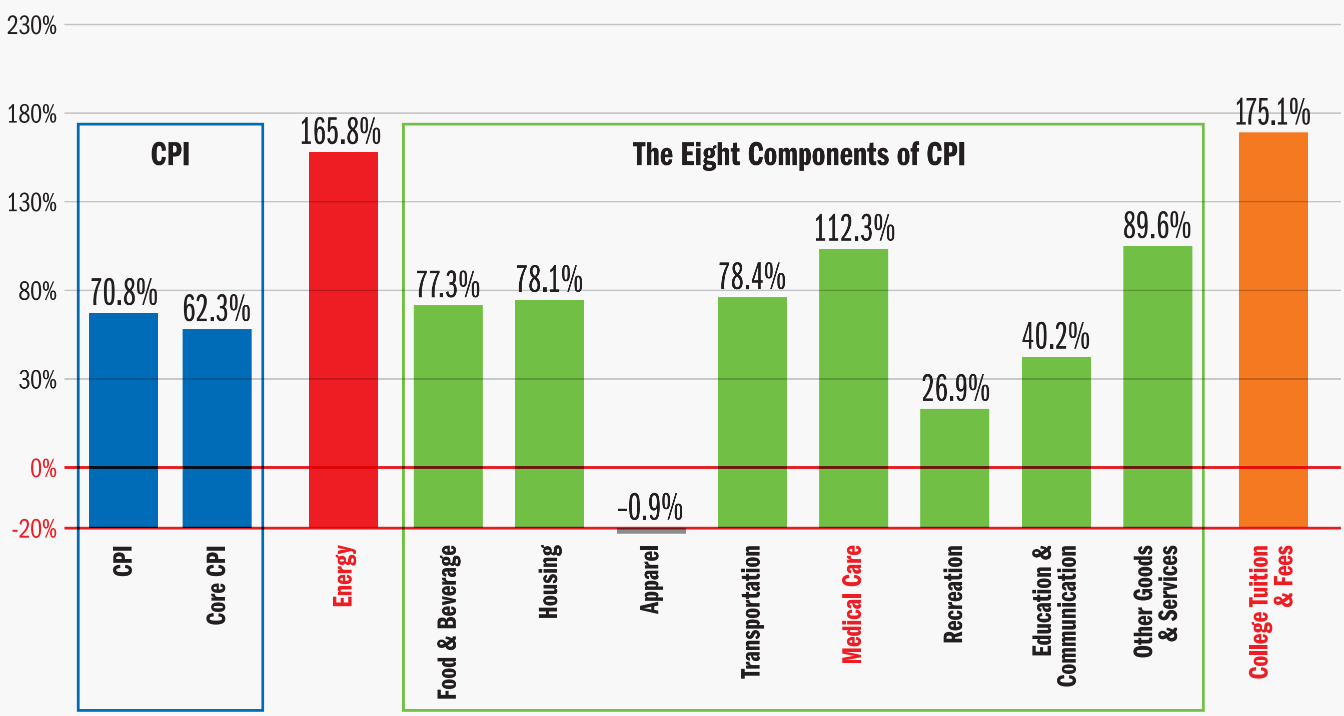
October 18, 1971 – ***Opening day for Disney World in Florida.*** Admission was $3.50 for adults and $1.00 for children. Today, the cost of a ticket is $109.00 for adults and $104.00 for children.

INFLATION IS DEAD

We aren't hearing this today. Even the term *"transitory inflation"* has gone away. While our *"representatives"* may not respect inflation, the rest of us need to. Inflation is real and for the moment is getting worse. As the chart reveals, over time inflation compounds against us. Just like a high interest credit card where someone makes the minimum payment. It's not going away. **Why John?** We print too much money because government spends too much. Academics, economists, politicians, *"experts,"* etc. will argue why forever, but let's keep it simple. 50 years ago (Dec. 1971), the M2 money supply was $710 billion. In 1971, gasoline cost $0.36 per gallon and milk $1.18. Today, the M2 money supply is $21.48 trillion, which works out to an average growth rate of 7% for M2 the past 50 years. Inflation averaged ~4% since 1971. $1.00 in 1971 is worth $0.15 today. The average cost for gasoline and milk today is about the same at $4.21 per gallon. The average price increase for gasoline since 1971 is 5% and 2.5% for milk. Inflation will likely slow down at some point, but the increased costs will not drop. The *"sweet spot"* for M2 growth is unofficially 6%. In 2020, and again in 2021, M2 increased by 20%. 40% in 2 years! **Not good**. *(Source: Advisor Perspectives, Wall Street Journal Federal Reserve, CBO)*

> *...the race is not to the swift and the battle is not to the warriors, and neither is bread to the wise nor wealth to the discerning, nor favor to the skillful; for time and chance overtake them all*
>
> SOLOMON

INFLATION SINCE 2000: *Inside the Consumer Price Index*



Source: Advisor Perspectives, April 2022
Green Bars are the eight components of **CPI**. **Core CPI** excludes **Food** and **Energy. Energy** is a major subcomponent of **Transportation** and a minor subcomponent of **Housing**. **College Tuition & Fees** is a subcomponent of **Education & Communication.**

ECONOMY

2020 was the 10th year in the last 72 years (1950-2021) that the US economy contracted. Our economy has rebounded the following year with positive growth 8 out of 10 times, including +5.7% growth in 2021 following its 3.5% contraction in 2020 *(Source: Commerce Department).*

TIME IS MONEY

How long to become a millionaire? 30 years if you average 10% and save $500 per month. Assuming 3% inflation, the present value of your $1,000,000 will be $400,000. *(Source: JFR)*

TIME *VS* TIMING

Since 1950, the S&P 500 index on any given day has been up 54% and down. In any given month, it has been up 61% and down 39%. In any given year, it has been up 74% up and down 26%. In any given 10 year rolling period, the S&P 500 Index has been up 89% and down 11%. The S&P 500 index consists of stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value *(Source: BTN Research).*

FIRE!

"Financial Independence Retire Early" The latest and greatest idea? No. Just the same things with different wrappers. In order to retire early, one simply needs to save more. Or spend less. They have all kinds of terms – Lean, FAT, Barista, Coast, Slow FI… The underlying financial principles are **Spend<Earn, Be/Become Debt Free** and ***"Divide Your Portions."*** With FIRE they're doing it quicker. One important factor involved with retiring at 50 instead of 65, or 40 instead of 60, is to consider the ***"What If"*** possibilities. What if I run out of money? What if I get sick? What if I have to go back to school? What if, like so many professional athletes, I accumulate enough to FIRE, but then spend too much? What if I get tired of retirement? It costs less to live in Ecuador, Portugal, etc., but what if you get there and don't like it? ***"Coast Fire"*** is being on the glide path to normal retirement. Why do we need another term for that? ***"Barista Fire"*** means one needs to save more to reach their goals. ***"Fat Fire"*** is someone who likes to spend money now, but also wants to retire early. *(Source: Kiplingers, Wealth, WSJ)*

EMOTION

A wonderful gift from God, but it can also cause trouble! In sports, what greater feeling than to make the winning shot or stop the other team from scoring. **BUT!** Sometimes emotions hurt instead of help. We think about what could go wrong and start to shake! The joy when grandpa and grandma pull into the driveway to visit. Emotion in investing is nearly always a no-no. While it is exciting to see our investments rise, the euphoria can lead to mistakes. When the markets are falling, we get fearful. Fear causes mistakes. When we're afraid it's important to remember the facts. Markets do drop, ***but over time they go up.*** A good investment plan involves being prepared for a bumpy ride. Optimism is good, but it can cause trouble when we get too conservative. Inflation and savings accounts being a good example today. We lost 8% of our purchasing power over the past 12 months while our cash sat ***"safely"*** in the bank or credit union. Keeping up with inflation is critical over the long term. 3% inflation erodes 46% of purchasing power in 20 years. What about anxiety? We have prescriptions for it! We can get counseling. Often it has roots in a chemical imbalance, but we can create it ourselves. Very often when it comes to investing. Don't plan with anxiety. Stick to the facts. There will always be something to be anxious about. Don't dwell on unknowns. Focus on what you can control. Stick with a long term plan. Make sound decisions a lifestyle. Review your plan periodically. Learn from mistakes. *(Source: Nationwide, Jackson National, JFR)*

EVERYONE DIES

The mysteries are what, when, where, how, and why. Life insurance exists to remove some of the mysteries. Life (Death) Insurance can be very simple. Will someone need money if you die early? Or die late? Term (Temporary) Life Insurance does a good job of ***"transferring an unaffordable risk for an affordable premium."*** The cost of this coverage has declined dramatically over the years as our life expectancies increase. What about estate planning? The most common approach is an Irrevocable Life Insurance Trust (ILIT). These can get complicated, but the primary benefit is the death benefit exists outside of the estate. At death, the proceeds can be used to pay taxes. Another creature is Second to Die Insurance, which can be very affordable for couples since the insurance company can underwrite the coverage based on two lives instead of one. Like any insurance, the premium cost is based on the risk. At some point the premiums will total the death benefit. Buy Sell Agreements can be funded with life insurance and are a necessary part of planning for closely held businesses. **Illiquid Assets?** What if someone in the family has a multi-million dollar asset that can't be easily sold? A vineyard next to Lake Michigan worth $33 million? Life insurance policy that will remain in force until 100+ years old may be the only way to keep an asset in the family. As always, we are here to help with your ***"What If…"*** situations and ***"Happy Problems."*** *(Source: Financial Advisor, Financial Planning)*

> *Nothing so strongly impels a man to regard the interest of his constituents, as the certainty of returning to the general mass of the people, from whence he was taken, where he must participate in their burdens.*
>
> GEORGE MASON (1788)

JOE NAMATH, MIKE DITKA, JIMMY JOHNSON — *"CALL NOW!" "IT'S FREE!"*

The seniors being targeted by these ads often already have very good Medicare insurance. Perhaps Medicare Parts A, B and D, combined with a Medicare supplement. This combination provides very predictable costs. The coverage does not have networks. Contrary to the rumors, 99% of providers accept Medicare. The medical providers make the healthcare decisions, not the insurance company. No prior authorization from an insurance company is required. Not so with most of the companies being pitched on TV! With Medicare Advantage, the predictable costs are gone. Coverage is limited to approved networks. Prior authorization requirements are also common. Without authorization, you are required to pay 100% of the cost. ***No instant replay!*** If you take the pass from Joe Namath and want to go back to your prior coverage, then you likely will have to go through underwriting. All Medicare Advantage plans are not bad. **But!** One mistake can be very expensive. If you're wondering about your coverage, then get in touch for a review. *(Source: Advisor Perspectives, Financial Advisor)*

MANAGING A WINDFALL

Trillions of dollars will likely be passed in America over the next 30 years. If you receive money, don't start spending it right away. Make a plan first. If you know its coming, but not when, then don't spend it until its in your hand. Like investing, with a plan, implementing is pretty mechanical. ***The first step is a step back!*** Review the situation. The best plan usually involves spreading the money around. It can be very emotional. We may feel like we don't deserve it. We often handle free money differently than money we work for. ***Separate the emotion.*** The plan can be as simple as a list of items labeled now, soon and later. Just like shopping with a little one! Are there taxes to be paid? Are you in debt? What are the interest rates? Paying off credit card balances is normally step one. Should I pay off my mortgage? Maybe. Maybe not. It depends on the interest rate and other financial priorities. A bucket list vacation? Maybe. But sleep on it first. How do I handle requests from friends and family members? A simple no in most cases. However, like the expensive trip, if someone really needs help, then consider the pros and cons. As a rule, once you turn on the spigot, there will be more requests. Build on your plans for tomorrow. ***Allocate more money to retirement. Especially if you haven't saved enough already.*** Maybe delaying Social Security is a good use for some of the money. If you're going to invest, then take your time. Be specific with the money spent. Don't just put it in your purse or wallet and spend it. Perhaps create a memory for the person who left it to you. As always, we are her*e to help. (Source: IBCFP, AARP, WSJ)*

RICH & POOR

The bible says there will be both until the Lord returns. The ongoing debate is what roll government, Wall Street, The Federal Reserve, neighbors, etc., play in who wins and loses. It's popular to debate wealth inequality, but its almost always wrapped in politics instead of facts. Like any economic condition, the gap goes up and down over time. Today the gap is growing. It's amazing to see how nearly half of our citizens would struggle coming up with $500 for an emergency. Or that 80% live paycheck to paycheck today. The basic issue is capitalism. It's an incredible force. You're either flowing with it or against it. Remember Blockbuster in 1998? It was tremendously profitable. Guess who wanted to work with them? Netflix! They said no. Where are they now? Blockbuster is bankrupt and Netflix is worth $8 billion. These events are happening constantly and will continue. The pace is no longer linear, but exponential. In 1900, knowledge doubled every 1,000 years. Now every 3. The same for computers. 50 years ago a digital camera weighed 4 pounds and cost $10,000. Today they weigh 14 grams and cost $10. Telephones are still popular, but think of how long it took for them to become commodities. Compare that with Google or Facebook. Everything happens more quickly today. How we work. How we invest. How we live. When it comes to investing, the key is to be in the boat with the current. Not the one trying to go against it. *(Source: WSJ, IBD, JFR)*

IT'S ALL ABOUT THE MONEY!

A common concern or fear when markets are falling is ***"I don't have time to get it back."*** Makes sense. **BUT!** Let's look at the numbers. Let's suppose someone is 70 years old and withdrawing $2,000 per month from an account that has fallen from $550,000 to $475,000. If the account averages 3%, then the account will be gone in 30 years, ~100 years old. If he/she wants the account to grow back, and reduces the monthly draw to $1,500, then it will take ~12 years if the account averages 5%. If they stop the withdrawals, then the account would grow back in ~3 years at 5%. The account would need to earn ~22% in one year, or ~11% for 3 years, to get back to $550,000 and continue the $2,000 monthly withdrawals. *(Source: W&S Financial, JFR)*

LEARN FROM THE BEST!

Warren Buffett, Charlie Munger, George Soros, Ray Dalio, Nassim Taleb, Albert Einstein and Steve Jobs have something in common. The key to their success was learning what to avoid. Success requires not doing what others do. Or as Jesus recommended, the narrow gate. Most of us are vulnerable to positive advice. It's not fun to listen to Grumpy Gus. **BUT!** The key to success is not be stupid and/or think we're smarter than everyone else. Mistakes can look good at first. They can be popular. What we tend to forget is all the stuff we can't see and/or don't know. Another advises to correct mistakes. ***"I'm always wrong. All the models are flawed. If you keep looking, then you'll find the flaw. Figure out what not to do."*** Another said figure out what you don't know. We feel led to do something when the best option is do nothing. If we make a mistake and try to fix it, then that may be two mistakes! One recommends focus and simplicity. Simple can be more difficult than complex. Make your thinking clean and simple. Simple is the absence of complex. Addition by subtraction. A mapmaker wrote long ago, ***"The key to a good map is what you leave out. If a map is too literal and precise, then it confuses people."*** Got anything in your life that shouldn't be there? Getting rid of it may help you see more clearly. Or like the old saying, ***"Less is more?"*** *(Source: Wall Street Journal, Investors Business Daily, Forbes)*

SCIENTIFIC METHOD:

Principles and procedures for the systematic pursuit of knowledge involving the recognition and formulation of a problem, the collection of data through observation and experiment, and the formulation and testing of hypotheses.

MERRIAM WEBSTER DICTIONARY

WHO'S GETTING WHAT?

$30 to $70 trillion will be passed on over the next 15 to 30 years. Many Americans are counting on it to maintain their standard of living. In addition to how much, what matters; Cash, Stock, IRA, Real Estate, Insurance, etc. are all taxed differently… Equally important is how the money will be distributed, ***and by who.*** Many don't find out until mom and dad pass. It's best to communicate what is going to happen, but many families don't talk about money with each other. Often for good reason! If the money has strings attached, and the children aren't told, then there could be trouble for them. The recent changes for IRA beneficiaries will cause problems. Today's estate tax thresh hold (~$12 million) eliminates taxes for most Americans, but states have their own limits, which usually are much lower. Our representatives are considering a drastic reduction, perhaps as low as $3 million. People receiving an inheritance in their 60s, 70s or 80s can lead to the IRS getting 2 whacks at the same apple as opposed to just one. There are ways to eliminate this risk. Like most things involving money, a little planning goes a long way. Another reason why we like to review your finances once a year! Finally (no pun intended), as mentioned many times before, don't count on an inheritance until the money is in your name and under your control. *(Source: Forbes, Kiplinger, CBO, WSJ)*

2019 IN 2022

The ***"SECURE Act"*** became law in 2019, but the IRS has just recently publicized its ***"interpretation."*** The main changes are moving the RMD age from 70 ½ to 72 and the elimination of the ***"stretch"*** provision for non-spouse beneficiaries, both of which reduce the attractiveness of leaving retirement accounts behind. Dependent on your situation and goals, there may be strategies back on the table; when to take Social Security, Roth Conversions, cash flow planning, capital gains tax rates versus ordinary income, spousal IRAs versus beneficiary IRAs when the surviving spouse is younger. The bad news is if the IRA is left to a ***"non designated beneficiary"*** (Trust for example), the money must be withdrawn in 5 years or less. Eligible designated beneficiaries (EDBs) include spouses, minor children of the IRA owner, disabled or chronically ill beneficiaries, and beneficiaries who are less than 10 years younger than the owner. You can't make this stuff up! Everyone else is a ***"non-EDB"*** who must liquidate the account in 10 years. **But Wait!** If the account owner died after their RMDs started, then the beneficiary must continue the RMD within the 10 year window! **But Wait!** If the account owner died in 2020, then the beneficiary may have been required to take a RMD in 2020 and 2021 that they didn't know about until March 2022! Wow. If you think this is confusing, just read what strategies the ***"experts"*** are recommending people do under the new law. **The Bottom Line?** The IRS will collect more money. How much is dependent on the circumstances. They throw us a crumb by delaying the RMD from 70 ½ to 72, but they stand to collect more money by eliminating the Stretch IRA provision. The logical options to consider are converting the IRA to a Roth dependent on the tax consequences, making charitable distributions, leaving the IRA to a Charitable Remainder Trust and purchasing life insurance with your RMDs. *(Source: IRS, Private Wealth)*

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JUNE 2022

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

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