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## Managing YOUR Money

### STAN'S WORLD

Seniors, many with the help of their adult children, will ultimately face a multitude of issues as they age. Addressing them sooner than later can contribute to a long, happy, and productive retirement.

A few years ago, I tore out an article from MONEY Magazine<sup>1</sup> with the headline: "A 65-year-old woman can expect to live past 85. Aging expert Joseph Coughlin says she'll need more than a financial plan for that." Coughlin, the Director of the Massachusetts Institute of Technology AgeLab is the author of more than 100 research papers on aging, so he knows a thing or two about this subject. The article mentioned a number of potential decisions that seniors will have to make as they age, and I've had the opportunity to witness the positive and negative consequences from some of those decisions in real time.

With two elderly mothers, my wife and I live in our own age lab. Our experience provides me the opportunity to share a little of what we've learned (and continue to learn). If you're a senior, or someone who is or will care for a senior, perhaps some of our experiences will be beneficial.

Let's focus on housing, often the biggest decision an aging senior will make. That's especially true for a married woman, who is likely to live longer than her spouse. With the children of boomers moving all over the map to secure jobs, the decision on where to move takes on even more significance because help may neither be just down the street or even in the same time zone.

Pearl's mother has chosen to age in place. She lives in a post-World War II 'Leavitt-style' house with a single bathroom on the second floor, thus requiring a lift to be installed on the stairs. A home-care aide comes to the residence to help with a number of daily living activities, but there is little personal interaction with others. (Pearl and her sister don't live in the same state as their mother.)



## STAN'S WORLD (CONT'D)

In terms of aging in place, Professor Coughlin offers the following: "What if you lose some mobility? If you live in a two-floor home, can you move your master bedroom downstairs? Are your kitchen and bathroom accessible? Think about the services you'll need one day and if you know where you'll get them. Who will change your light bulbs when you can't? Do you trust them? It's not just about having money to last a lifetime, but ensuring you have the tools to live better longer."

In contrast, my mother lives in an independent living community with approximately 2000 residents. There is communal dining for dinner, single level apartments, 24-hour EMTs and security, on-site doctor's offices, a suite of medical offices, emergency pull cords on the walls, etc. Recently, we added a home-care aide for the mornings who works through an agency which is part of the community. (There are also facilities on campus for assisted living and nursing care.)

Other quality of life offerings on-site include a theater, a variety of clubs, speakers, banks, hairdressers, physical therapists, restaurants, a pharmacy, a shuttle bus for local shopping, and much more. The caveat, of course, is the cost, as there's a buy-in in order to move into the community.

The fact that my mother has more available to her doesn't mean that an independent living community is the best decision for everyone. In her case, I can state that it not only is the best decision for her, but it puts her two sons at great ease knowing where she is and what surrounds her.

Retirement is about more than housing, but hopefully our ongoing experiences will get a few conversations started. As a planner, I worry about a lot of contingencies for our clients. As the son of an elderly parent, I need to know that a lot of those contingencies can be handled if, or when, they occur. When it comes to aging, everything is fine, until it's not.

## BY THE NUMBERS<sup>6</sup>

- The last time that the **S&P 500** was up on a total return basis for the 1st quarter yet finished down for the full calendar year was 2002. (The S&P 500 gained 6.1% on a total return basis in Q1 2017.)
- The **75-year average growth rate of the US economy** (i.e. Gross Domestic Product, or GDP) is +3.3% per year. However, the actual growth rate of the US economy has reached +3.3% or greater in only 2 of the last 16 calendar years.
- In 2016, the **US economy grew by +1.6%**, the 11th consecutive year that our domestic economy has failed to grow by at least +3%. In data tracked since 1930, the previous longest stretch of sub +3% annual growth was just 4 years.
- 69% of the **dams** in the US (62,700 of the nation's 90,500 dams) were built before 1970.
- **15% of the US population today is age 65 or older**, or approximately 1 of every 7 Americans. By the year 2047, 22% of the US population will be age 65 or older, or approximately 2 of every 9 Americans.
- The **US homeownership percentage** (i.e. owner households as a percentage of total households) was 63.4% in 2016, the lowest percentage nationwide since 1965 when the rate was 63.0%.



## HOW TO BECOME A HAPPY RETIREE

Writing in MONEY.com, Nancy K. Schlossberg<sup>2</sup>, a professor emerita of counseling and personnel services at the University of Maryland, reiterates the words of Coughlin: "Succeeding in retirement is about more than money."

As part of her new book: *Too Young to Be Old: Love, Learn, Work and Play as You Age*, Schlossberg groups retirees into six paths. "Any of these routes can be right for you (with one exception), and thinking about retirement this way can help you get comfortable with your new identity."

- "**Continuers** modify their activities while continuing along a similar path. For instance, a retired museum director occasionally curates an art show.
- "**Adventurers** see retirement as an opportunity to pursue an unrealized dream or try something new, such as a retired teacher who turns her hobby of raising goats into her new life.
- "**Easy gliders** see retirement as a time to relax, and they take each day as it comes.
- "**Involved spectators** still care deeply about their previous work and receive satisfaction from following developments in their field.
- "**Searchers** are retirees who are looking for their niche. We might retire, then venture onto a new path, and then when that has played out, we might search again.
- "**Retreaters** come in two versions. After stepping back and disengaging from their previous routine, some get depressed and become couch potatoes. That's the exception – the retiree you don't want to be. Other retreaters use a moratorium to figure out what's next."

Adds Schlossberg: "You can follow any path or a combination of paths, and you can change course over time."

## BY THE NUMBERS<sup>6</sup>

- The **IRS audited just 0.7% of individual returns** in 2016 (i.e. 1 in 143). The number of people audited in 2016 (just over 1 million) dropped for the 5th consecutive year. (The IRS claims that for every \$1 spent conducting an audit, \$4 is returned in previously unpaid taxes.)
- 78% of **former professional football players** file for personal bankruptcy or suffer financial stress within just 2 years of retiring.
- The **S&P 500 bull market** that began on 3/9/09 is now in its **99th month**. The average bull market, to include the current one, has lasted 61 months since 1950.
- In data tracked since 1976, the February 2017 **unemployment rates in Arkansas (3.7%) and Oregon (4.0%)** are the lowest ever reported.
- 54% of Americans surveyed would **switch jobs** for a better retirement plan.
- After adjusting numerical data from the past for the impact of inflation, the **median household income** today (\$56,516) is lower than the median household income from 1999 (\$57,909).
- 94.7% of **home mortgages** are current and performing as of 12/31/16. Just 2.3% of home mortgages were seriously delinquent (defined as 60 days or more past due) as of 12/31/16.



## GUESSING WHAT'S NEXT: THE MARKETS AND THE ECONOMY

You may recall reading about the VIX Index in this space, which many view as a type of fear gauge for Wall Street. According to a recent New York Times article<sup>3</sup>, for the first time in more than 10 years, it dipped below 10, which means investors don't anticipate an imminent market decline. (The historical average of the VIX is around 20.)

With the market near record highs, and the VIX near record lows, contrarians must be licking their lips in anticipation of the wind-fall they think they'll make. Their logic: everyone is happy, so nothing good can come next. But contrarians are not always right; they just tend to take the opposing view.

Professional investors believe that Washington will ultimately take whatever action is necessary to cut corporate taxes, and the result will be a spike, or at least an increase in corporate profits. If investors are willing to pay \$20 for a dollar of profits, then an increase in profits means stock prices should theoretically move higher. (If earnings for a particular stock are \$3/share, and the price/earnings ratio is 20, that means the stock price is approximately 20 x \$3, or \$60. If earnings go up to \$4 a share, for example, and the price/earnings ratio stays constant at 20, that means the stock price could move up to 20 x 4, or \$80.)

Stock prices are ultimately driven by profits, whether current or anticipated. Continuing chatter about a corporate tax cut is helping to fuel the markets, and those who have bet against the market have not fared well (at least to date). Frankly, a corporate tax cut from 35% to 15% potentially adds a lot of profits to corporate America and to its shareholders.

There are headwinds, however, which can derail the profits express. As pointed out in Barron's<sup>4</sup>, those headwinds are the three D's: debt, deflation, and demographics.

## BY THE NUMBERS<sup>6</sup>

- **30% of American homeowners who are approaching retirement move.** Of the 30% that move, a great number of homeowners buy a more expensive home compared to the number of homeowners who elect to down-size in retirement.
- The **average decline for the S&P 500** during the 11 bear markets that have taken place since the end of World War II is 34%.
- The **top one-tenth of 1% of US taxpayers** based upon adjusted gross income **paid more federal income tax** during tax year 2014 than the federal income tax paid by the bottom 75% of taxpayers. (The top taxpayer of 1000 average taxpayers pays more in federal income tax than the bottom 750 taxpayers.)
- For tax year 2014, it took **\$465,626** of adjusted gross income (AGI) to rank in the **top 1% of taxpayers**, \$188,996 to rank in the top 5%, \$133,445 to rank in the top 10%, and \$77,714 to rank in the top 25%.
- Of the 44 million Americans that have accumulated \$1.31 trillion of **student loans**, 16% have at least \$50,000 of debt each. Collectively this group has incurred 56% of all college student loans.
- **Social Security** benefits are taxed by just 13 states as taxable income at the state level.



## GUESSING WHAT'S NEXT: THE MARKETS AND THE ECONOMY (CONT'D)

In terms of demographics, Barron's notes that the first Baby Boomers turned 70 in 2016. When Ronald Reagan was president, that cohort was in its peak earning years, spending money and helping to fuel the economy. But the economy is slowing, and this large segment of the population is long past its peak earning days.

Per Barron's, the highlight number for the economy (Gross Domestic Product, or GDP) grew at a very sluggish 0.7% in Q1, 2017, far below the growth needed to propel the economy forward. The Fed is raising rates, and the economy is slowing; tough obstacles for even an overly optimistic stock market to overcome. But like the Energizer bunny, this market just keeps chugging

### BY THE NUMBERS<sup>6</sup>

- Of **metropolitan areas** with populations of at least 1 million, Salt Lake City (3.0%) has the lowest **unemployment** rate nationwide while Cleveland (6.6%) has the highest.
- 2 of every 5 homeowners (41%) between the ages of 65-74 and 3 of every 5 homeowners (63%) at least age 75 own their **home free and clear of debt**.
- The **zip code with the highest median home value** in the US (\$6.2 million) is 94027 in **Atherton, CA**, home to many Silicon Valley executives.
- By 2030, the US could face a **shortage of as many as 104,000 medical doctors**, including 43,100 primary care physicians.
- Only **three banks have failed** in the US year-to-date and required a bailout from the Federal Deposit Insurance Corporation (FDIC). As of this date in 2010, 50 banks had failed.
- As of the end of 2016, there were 118.6 million households in the US, split 64/36 between **homeowners** (75.6 million) and **renters** (43.0 million). Since the end of 2011, the number of homeowners has increased by 300,000 while the number of renters has increased by 4.2 million.





## APPS THAT CAN SAVE YOU MONEY

If you have a smart phone, you've probably used it for all the obvious tasks: phone calls, text messaging, e-mail, FaceTime, directions while driving (or walking), etc. In addition, the reporters at MONEY Magazine have identified their top apps<sup>5</sup> to save you money while shopping:

- **Flipp:** "The app covers weekly ads from some 800 retailers, including supermarkets, dollar stores, pharmacies, and big retailers such as Target and Walmart. If you add your loyalty-program numbers, some discounts will automatically be applied when your loyalty card is scanned at checkout, without any physical coupons."
- **Amazon:** "You can see prices and product information for items you scan, take a photo of, or say out loud to your phone. In a store or on the go, you can access Amazon's massive volume of user review and side-by-side product comparisons."
- **RetailMeNot:** "Smart shoppers consider the list price merely a starting point that they'll inevitably be able to beat with a few clicks of a mouse or swipes of a smartphone. The RetailMeNot app is a must-have for savings, with promotional codes, coupons, and other discounts at 50,000-plus restaurants and major retailers, and deals for physical stores and online purchases alike."
- **Paribus:** "Many stores offer refunds if the price of an item drops soon after you purchase it. But no one wants to keep shopping around after buying something, so many potential refunds go unredeemed. Enter Paribus, which not only tracks items you have purchased online but automatically requests refunds if the price drops. Customers don't pay for the service, but Paribus takes a 25% cut of the refunds it retrieves."
- **Walmart:** "Simply scan store receipts, and the Savings Catcher feature checks whether competitors offer lower prices. If they do, you'll see the difference refunded to you in the form of Walmart credit."

## BY THE NUMBERS<sup>6</sup>

- **Property taxes** represent 31.3% of the total tax revenue collected by states, greater than the 23.3% of tax revenue collected from sales taxes and the 22.9% of tax revenue that comes from individual state income taxes.
- 13% of American workers (i.e. 1 out of 8) with total household income of at least \$100,000 believe they will **live to age 100**.



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*If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.*

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Footnotes:

<sup>1</sup> Wang, Penelope. "A 65-Year-Old Woman Can Expect to Live Past 85. Aging Expert Joseph Coughlin Says She'll Need More than a Financial Plan for That." Money, Nov. 2012.

<sup>2</sup> Schlossberg, Nancy K. "How to Become a Happy Retiree." Money, May 2017.

<sup>3</sup> Thomas, Landon. "Political Risks Growing But Investors Stay Put." New York Times, 3 May 2017.

<sup>4</sup> Forsyth, Randall W. "Trump's Tax Challenge." Barron's, 1 May 2017.

<sup>5</sup> Leonhardt, Megan, et al. "36 Apps That Will Save You Money." Money, 30 Mar. 2017.

<sup>6</sup> "By The Numbers." Direxion ETFs & Funds, 10 Apr. 2017 through 1 May 2017.

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