S.F. EHRLICH ASSOCIATES, INC.

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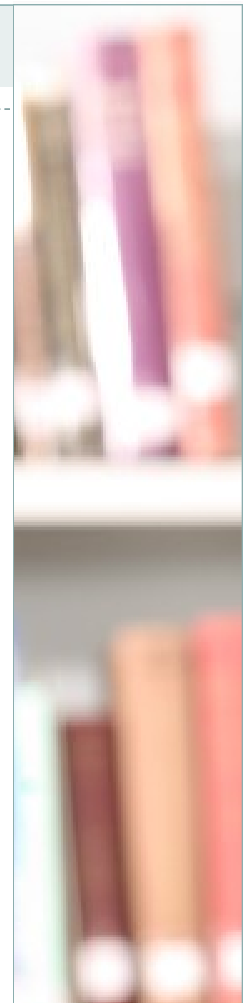
Managing YOUR Money



STAN'S WORLD

If nothing else, aging provides perspective. The longer you live, the more you realize there's only so much you can plan for in life. Conversely, you also learn that failing to plan can be life altering, but often not in a good way. If you're a senior (you can define how old that is), in or approaching retirement, it might be time to start pondering where to live the most golden of your senior years.

A few weeks ago, my 95-year-old mother was visited by her 90-year-old brother who resides in Denver. (The ages are good news for my children RE longevity, in addition to the fact that my wife's mother is approaching 96.) Spending more time than usual in the independent living community where my mother resides gave me a better chance to observe the population close-up. Did they appear happy? How many were challenged physically? Were they engaged in conversation? Is this the type of community we might want to move to at some point in the future? And how are we going to make that decision?

Through my work with clients over the years, and after watching the lifestyles of my mom and my wife's mother, I have concluded that aging in place (i.e. aging in your own home) should not be the only answer for most seniors. Like everything else in life, aging in place works, until it doesn't. My pitch is it should not be your only plan. I recognize that everyone is different, and we each have unique needs and preferences, but I also believe there are certain practical considerations that must be factored into these decisions.

Practical considerations include what happens when you get sick? If you have a spouse, the assumption is each of you will care for the other. The assumption, of course, is the healthy spouse will be able to medicate, bathe, and feed the sick spouse. Hiring a handyman to install grab bars or a handicap-accessible shower is the simple piece to aging in place; it's the people part that makes it so difficult.

If you assume an aide can be hired to assist your partner, where will you find that person? If you need help or less than eight hours a day, good luck. Who wants to drive to your home and then work for two hours? Or four? You're a one-off client; once the sick spouse heals, you no longer need the aide. Why would an agency send you the most competent people they have, assuming they even have anyone to send you?

STAN'S WORLD (CONT'D)

If you also assume that you'll be able to move into an independent living community whenever you're ready, think again. Independent living communities want to start with a healthy population so they can attract more residents to maintain an active, vibrant community. If one of you has health or memory issues, you may not be good candidates as a new admission.

Of course, let's not forget the money angle. If you've been aging in place and spending down your money with aides, you may not have sufficient funds to move to the community of your choice. Finances are carefully scrutinized when applying to an independent living community, and potential residents who are at or near the Medicaid level will not find a welcome mat. Medicaid may pay for some communities, but possibly not the one that you want to live in.

My mother's community is comprised of 2000 people. It's like a small town with restaurants, a pharmacy, medical offices, full-time security, 24-hour EMTs, a small market, bank branches, beauty parlors, etc. Should an aide be required, they even have their own homecare service with aides dedicated to their residents (ranging from one hour a day to 24 hours a day). They have their own secondary insurance plan, which includes a transportation department to take their residents to doctors who are off-campus. And let's not forget about the availability of continuing care, to include assisted living and nursing care, all on the same campus.

I'm not advocating that every senior should move into an independent living community the day after they retire, but I am suggesting that every senior should ponder when might be the right time to do so. We can't always manage our health, but we can do 'what-if' scenarios that plot next steps should the need arise. Perhaps, your decision will be triggered by age, such as turning 80, or 85.

We can help with these types of decisions and discussions. Take some time to think about alternatives, long before one has to be implemented. In the end, it could mean the difference between a life lived alone, or a life lived to its fullest.

BY THE NUMBERS[2]

- The **highest closing value** during the year for the **S&P 500** has occurred in the final 4 months of the year (i.e. September – December) in 11 of the last 14 calendar years.
- The **average interest rate paid by the government** on its interest- bearing debt was 2.279% as of 7/31/17. The average interest paid on interest-bearing debt was 5.041% as of 7/31/07 (10 years earlier) or 2.8 percentage points higher. Every 1 percentage point increase in the cost of debt on our nation's $14.4 trillion of publicly held debt is equal to $144 billion of annual interest expense.
- 42 million Americans owe $1.34 trillion in **student loan debt**. 60% of borrowers fully repay their student debt within 8 years of beginning repayment.
- There are 18.8 million military **veterans** in the US. The size of our active duty military is 1.3 million.
- The 3 months of October-November-December rank 2-3-5 in terms of **average monthly performance for the S&P 500** (i.e. October is the second best month, etc.). The 3 months have jointly gained 4.9% per year (total return) over the last 25 years, or 54% of the S&P 500 index total return over the entire 25-year period.
- Between 6/30/16 and 6/30/17, **average home prices** increased in 48 of 50 states. Washington's 12.4% average home price gain led the nation.

TAX-SMART IDEAS FOR GIVING TO CHARITY

Are you planning on making charitable donations this upcoming holiday season?

Consider using something other than cash. Cash is popular because it's the easiest to give; you can either open your wallet or write a check. And cash is perfectly suitable when you're giving $50 or $100 to the neighborhood kid who's raising money for his school's dance-a-thon. But if you're talking bigger numbers (let's say, at least $1,500 to an individual charity), we should consider some potentially more tax-efficient methods.

Donate Appreciated Investments

One alternative is to make your donation using appreciated investments from your portfolio. With this strategy, you donate an investment, directly to a charitable organization, that has appreciated in value since the time of purchase. Provided you meet the appropriate requirements, you'll still be eligible to claim the donation as a deduction (as long as it's not too large relative to your AGI…see more on that below). You also remove the appreciated value, and its embedded tax liability, from your portfolio.

Assume George, for example, purchased $10,000 of XYZ stock years ago, and that investment has grown to $20,000. Let's also assume George wants to donate $20,000 to his alma mater in the current tax year. George has two options. He could write a check and mail it directly to the university, in which case he'd be able to claim a $20,000 deduction on his tax return (subject to IRS limitations, of course) and also accomplish his charitable goals. Alternatively, he could use the $20,000 of XYZ stock, transferring the stock from his taxable investment account directly to the university. George gets the tax deduction on his tax return and he removes the embedded $10,000 gain from his portfolio. Assuming George is in one of the higher tax brackets with a corresponding 20% capital gains tax rate, he just removed a $2,000 tax liability from his balance sheet. (Note that an actual accountant might cringe at this math as it's a rough estimate – but you get the point – there's real tax savings at stake here).

BY THE NUMBERS[2]

- In the last 50 years, the S&P 500 has suffered 25 **tumbles of at least 10%** (i.e. 19 separate 10% corrections and 6 separate 20% bears), or 1 every 24 months. The last of the 25 drops ended on 2/11/16, or 19 months ago.
- The percentage of **home mortgage loans** that are delinquent (defined as being at least 1 monthly payment late but not including those loans in the foreclosure process) was 8.44% at the end of the 2nd quarter 2011. That number has fallen to 4.24% as of the end of the 2nd quarter 2017.
- 9 years ago, Treasury Secretary Hank Paulsen announced the government's plan to take control of mortgage giants **Fannie Mae and Freddie Mac**. The Treasury Department pledged up to $200 billion of financial support in anticipation of future mortgage defaults. While Fannie Mae and Freddie Mac actually received $187 billion of aid, they have paid back $271 billion, for an $84 billion profit for taxpayers.
- 53% of **owner-occupied homes** in the US are owned by Americans who are at least age 55. A decade ago, age 55+ homeowners owned just 43% of all homes.
- The **personal savings rate** in the US fell to 3.8% in June 2017, its lowest level since August 2008.
- 1 in every 7 automobiles in Houston was destroyed by **Hurricane Harvey**.

TAX-SMART IDEAS FOR GIVING TO CHARITY (CONT'D)

When donating appreciated securities, keep the following in mind:

- *Where is the investment held and how is it invested?* The donation should be made from a taxable investment account. Doing so allows you to get the tax deduction as well as eliminate the embedded gain from your portfolio. If the donation is large enough, we should also pay attention to what asset class the security is invested in as it may be necessary to rebalance the portfolio following the delivery of the security.
- *How large of a donation are you considering?* The IRS imposes limits on one's ability to give to a charity. If you're donating cash, your deduction is limited to 50% of your Adjusted Gross Income (AGI). If donating securities, your deduction is limited to 30% of AGI. In rough non-accountant-speak, if your AGI is $100,000, your cash deduction is limited to $50,000 and your stock deduction is limited to $30,000, still large enough numbers to make a difference in the world.
- *How long have you held the position?* In order to get the full tax benefit described above, you must have held the position for at least one year and a day. Otherwise, your deduction will be limited to the cost basis, not the market value of the position at the time of donation.

Donate Your Required Minimum Distribution from your IRA

An alternative to using appreciated stock is donating your required minimum distribution directly to a charity, also known as a qualified charitable distribution (QCD). For those who are charitably inclined and over the age of 70 1/2, a rule was passed in late 2015 via the Protecting Americans from Tax Hikes (PATH) Act allowing a qualified charitable distribution directly from an IRA to a charity as a means of satisfying one's required minimum distribution for a given tax year. A qualified charitable distribution is viewed as a "perfect" pre-tax deduction since it satisfies your RMD obligation for the year but without including the distribution in your Adjusted Gross Income (the inclusion of which can impact various tax factors such as taxation of Social Security and the phase-out of itemized deductions and exemptions). Important note: when executing this strategy, you don't also get the benefit of a charitable tax deduction; you're simply lowering the taxable portion of your IRA RMD by the amount you donate to charity, thereby lowering your taxable income.

Some things to remember:

- *The Money Trail Matters* - When processing a qualified charitable distribution, the funds must flow directly from the IRA account to the charity. If the funds flow from the IRA account to the IRA owner and are then forwarded to the charity, the distribution will be reflected as income on the IRA owner's tax return, thus increasing their AGI accordingly.

TAX-SMART IDEAS FOR GIVING TO CHARITY (CONT'D)

- *Your Age (Really) Matters* - In the year in which you turn age 70 1/2, you must begin taking required minimum distributions from your IRA. Thus, it stands to reason that the qualified charitable distribution strategy only makes sense for someone who is actually required to take distributions from their retirement accounts. But it's important to note that the IRA owner must actually be over the age of 70 1/2 when the distribution occurs or it will be considered a taxable distribution on her tax return.
- *What Type of IRA do you have?* Traditional IRAs are eligible for qualified charitable distributions; employer retirement plans, SEP IRAs and SIMPLE IRAs are not.
- *How much can I donate using a qualified charitable distribution?* The maximum amount an individual can process as a qualified charitable distribution from her IRA is $100,000.

So which one is better - donating appreciated investments or a qualified charitable distribution? It depends on your tax situation, so this has to be coordinated with your accountant. Why? As you're probably aware, one's tax return has a lot of moving pieces, many of which are related. While both of these ideas can be extremely tax-efficient methods of supporting your favorite charity, it's important to get the final approval from your accountant to make sure you're taking full advantage of any available tax benefits.

If you're thinking about helping out a charity or two this year, let us help you walk through the decision-making process. In addition to determining the appropriate amount to give, especially as it relates to your overall financial plan, we can also come up with ideas on how best to accomplish your charitable goals.

BY THE NUMBERS[2]

- 42 million Americans owe $1.34 trillion in **student loan debt**. Just 1 in 20 borrowers (5%) had outstanding loans of at least $50,000 in 2002. Today, 1 in 6 borrowers (16%) have outstanding loans of at least $50,000.
- The **3 best gain days** (by percentage) for the **S&P 500** dating back to 1950 all occurred during October. 5 of the 7 largest loss days (by percentage) also occurred during the month of October.
- 61% of American male workers age 25-70 have experienced at least 1 stretch of time that lasted as long as 12 months when they **received no earnings**.
- The US imports 22% less oil than it did just a decade ago. **Oil imports** averaged 7.9 million barrels a day in 2016, down from 10.1 million barrels a day in 2006.
- Total **petroleum exports** from the US have quadrupled over the last decade, rising from 1.3 million barrels a day in 2006 to 5.2 million barrels a day in 2016.
- 3.3 million American **students graduated from high school** in 2017. An estimated 18.7 million undergraduates are enrolled either full-time or part-time at colleges and universities across the US. 30 years ago (1987), 2.7 million students graduated from high school and 11.0 million undergraduates were enrolled in college.

WHERE A $100,000 SALARY WILL TAKE YOU THE FURTHEST

We don't always get to choose where we want to live, either during our working life or later. Jobs may take us to cities with a high cost of living, and family, friends, and health may keep us in or near those same communities when we retire.

Wealth is relative. If you have a net worth of $5 million in Manhattan, you'll likely do okay, but not nearly as well as if you were living in Hattiesburg, MS. To help figure out how far your dollars will go, FORTUNE Magazine[1] used assorted analytical data to examine the cost of living in 381 US metropolitan areas. In their search to determine where families of three would do well with an income of $100,000, they discovered that "...in Johnson City, TN, routine expenses would eat up only 62% of that income (while) a family in DC...would spend 105% on just the basics."

If you plot the 381 regions on a map, the least costly cities are primarily in the South and Midwest, while the costliest cities are on the coasts and upper Midwest (i.e. Northern IL to MN).

If you're looking to relocate, especially for purposes of retirement, understanding the cost of living in prospective communities may be crucial to the success of your retirement. You may not find a Top 10, but you also don't want to discover you relocated to a region that might crimp your lifestyle.

America's top 10 cities to stretch $100,000 of income

- Johnson City, TN
- Morristown, TN
- Cleveland, TN
- Hattiesburg, MS
- McAllen, TX
- Jackson, TN
- Chattanooga, TN
- Lafayette, IN
- Jackson, MS
- Brownsville, TX

**anyone else noticing a Tennessee theme?*

America's worst 10 cities to stretch $100,000 of income

- Washington, DC
- Stamford, CT
- San Jose, CA
- San Francisco, CA
- New York, NY
- Lexington Park, MD
- Kahului, HI
- Honolulu, HI
- Boston, MA
- Santa Cruz, CA

[1] "Where a $100K Salary Will Take You The Farthest." Fortune, 1 Aug. 2017.

BY THE NUMBERS[2]

- With 57 people in a room, there is a 99% chance that 2 people in the group have the same **birthday**.
- The S&P 500 peaked on 10/09/07 before beginning a **17-month bear market** that saw the index fall 57% before bottoming on 3/09/09. An investment in the S&P 500 on 10/09/07 (the pre-crash peak) is still up 100% 10 years later, an annualized return of 7.2% per year.
- For every $1 spent on **wages and salaries** in the private sector, employers spend an additional 44 cents on benefits. Average compensation is $23.15 per hour while the cost of benefits averages an additional $10.11 per hour.

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 20 years.

Did we mention? *If you have a friend or family member who you think might benefit from a discussion with John or Stan about financial planning and asset management, please pass along our phone number and e-mail address. Long-term growth is not only important to portfolios, it's also critical to a business.*

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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S.F. Ehrlich Associates is a fee-only financial planning and asset management firm. Managing YOUR Money is compiled entirely by Stanley F Ehrlich and John Zeltmann. Questions or comments are always welcome (and encouraged!) and should be sent to stan@sfehrlich.com.

[2] "By The Numbers." Direxion ETFs & Funds, 21 Aug. 2017 through 25 Sept. 2017.