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ASSOCIATES, INC.

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Managing YOUR Money

STAN'S WORLD

What's the plan if you live too long? Most of us assume (hope?) that we'll live to some undetermined ripe old age, but determining that number is obviously an impossible task. Yet, calculating life expectancy is one of the most important components when preparing a financial plan.

Financial planning programs are only as good as the data that's entered, the assumptions that are utilized, and how the output is interpreted. When John and I complete and present a financial plan to clients, the two questions that typically follow are: (1) What do these numbers really mean to me, and (2) Do you think we'll be able to successfully retire?

The default life expectancy assumptions utilized by our program are based on nationally published mortality tables¹ and vary depending on your age. For example, a male and female, both age 65, have life expectancies of 91 and 93, respectively. (That same male and female, at age 73, have a life expectancy of 92 and 94, respectively.) For the record, death is never mentioned by the software program. Rather, the program explains that plans merely come to an end. (While you may not view this as a big deal, let's be truthful: the expression 'end of plan' is less unnerving than seeing the phrase 'date of death,' especially when viewing something about yourself.)

Morbidity aside, lately we have been routinely asked to change the default 'end of plan' dates. Whether it relates to the lifespan of a parent, or perhaps a centenarian aunt, clients want to know whether or not their plans will work should they reach age 95, or even 100. (While the odds may still be stacked against a couple both living into their 90's, look for those odds to go up in the coming years.)

Planning for a 35 or 40-year retirement puts a lot of pressure on a portfolio. When the markets are up, of course, few wonder: "What can go wrong?" but an oft-used expression from Wall Street is trees don't grow to the sky. For years, I've used the expression: "The good news is we're all living longer, and the bad news is we're all living longer." For citizens of all ages, this makes the process known as financial planning critically important.



STAN'S WORLD (CONT'D)

You don't need a calculator to do the math. If you work for 40 years, can you support yourself in retirement for an additional 30-35? Not only do you have to factor in inflation, but living longer increases the odds of needing nursing care, an often unplanned for expense for elderly seniors. (And an exorbitant one, easily averaging \$100,000 - \$120,000 per person² along the east and west coasts.)

Money aside, this added longevity is changing how we even view retirement. Many seniors, for example, are now choosing to work full or part-time in 'retirement,' either because they want to, or because they need the income. Others take on jobs for the sense of camaraderie; they enjoy the new friendships and the socialization aspect. Some retirees may not have enough to do to fill their days at home, and working gives them a sense of fulfillment.

Seniors are also turning to charitable endeavors during their retirement years, and planning to have sufficient funds for charitable donations is yet another component to planning for a successful retirement. And let's not forget extended travel, either alone or with members of the family.

Planning for a successful retirement is complicated, and it's a constantly moving target. How your portfolio performs is certainly significant, but it's actually your plan that may ultimately prove the most complicated piece to your retirement puzzle.

BY THE NUMBERS⁴

- Over the last 25 years, the **S&P 500 stock index has gained an average of 4.9%** (total return) over the final 3 months of the year. 20 of the last 25 fourth quarters (80%) have produced a positive total return.
- The **S&P 500 has experienced 10 drops** of at least 5% during its bull market run that just passed 104 months in length on 11/09/17, but none since 2/11/16.
- This is the **second longest bull market for the S&P 500** since 1950, trailing only the 113 ½ month long bull that ended in March 2000.
- It was **10 years ago (10/09/17) that the S&P 500 peaked** at a then all-time record closing high of 1565. The very next day, the index began a painful 17 month tumble that resulted in a 57% drop of the raw index, it's worst bear market loss in the last 80 years. In the last 80 years, the S&P 500 has suffered through 4 bears, each with losses of at least 40%.
- It was **9 years ago (10/16/08) that Warren Buffet wrote his "Buy America, I am"** op-ed article in the New York Times. Buffet encouraged investors to "be fearful when others are greedy, and be greedy when others are fearful." Buffet's letter was released less than 5 months before the stock market bottomed on 3/9/09.



OUT OF GIFT IDEAS FOR THE HOLIDAYS? TRY STOCKS!

By: John Zeltmann

I loved McDonald's as a kid: the golden brown French fries, the milkshakes, the second-to-none birthday parties. And who could forget the prizes that came with the Happy Meals!

While the direct result of my fast food affinity was more than a few trips down the husky aisle of Caldor, my Aunt Mary (an elementary school principal) was busy searching for the silver lining of my obsession. And find it she did. In fact, her discovery lit the initial fire that one day led me to become a financial advisor.

It was my 12th birthday. I had already received some "really cool" gifts that I "couldn't live without" - I'm being vague here because for the life of me I can't recall any of those ever-so-consequential gifts. Aunt Mary always gave great gifts, so I was really excited to see what she bought me. But when the large manila envelope finally arrived, my initial reaction was one of disappointment. "A manila envelope? I can't plug that into a video game console!"

Setting my disappointment aside, I opened the envelope and pulled out a large red folder with a McDonald's logo on the front. "Okay, she has my attention," I thought. Opening the envelope, I discovered I was the proud new owner of 2 shares of McDonald's stock. It took some time for my Dad to explain that I was now part owner of every McDonald's around the world.

Wait...WHAT?! Of course, I immediately called my friends and told them of my good fortune, suggesting we head over to the local McDonald's - my McDonald's - for a celebratory meal. I can still vividly recall walking into that McDonald's and feeling like I owned the place.

BY THE NUMBERS⁴

- A homeowner with a federally backed mortgage (e.g. a FHA insured loan) is required by law to purchase **flood insurance** if their home is located in a "FEMA-mapped 100-year flood plain," i.e. there is at least a 1% annual probability of a flood based upon flood plain maps assembled by the Federal Emergency Management Association.
- The **personal savings rate** in the US was 3.5% in July 2017. The personal savings rate in Germany was 9.7% in July 2017.
- The **last bank to fail** in the US and require a financial bailout occurred on 5/26/17 or more than 165 days ago. That's the 2nd longest stretch between American bank failures in the last 10 years, a decade that has seen 526 bank failures or 1 failure per week.
- 43% of 6,389 Americans surveyed admit that they "have **difficulty making ends meet.**"
- **Life expectancy** at birth for an American has increased 6.9 years over the last 40 years (i.e. life expectancy at birth is increasing by 1 year every 6 years).
- 15% of the US population is **at least age 65**, ranging from 19% of Florida's citizens to just 11% of Utah's residents.
- 74% of the **projected spending of the US government** over the next decade is mandatory spending (Medicare, Medicaid or Social Security) and interest on our debt.



OUT OF GIFT IDEAS FOR THE HOLIDAYS? TRY STOCKS! (CONT'D)

I share this story to convey the impression that equity ownership made on this 12-year-old. If you have a younger person in your life, consider a similar gift to try to make the same impression. The simple gift of two shares of stock in a company I was strongly connected to initiated an education in several facets of personal investment management, including public stock markets, ticker symbols, stock prices and where to find them, how to buy and sell stock, and on and on. A few years later, those two shares of McDonald's stock prompted me to take a piece of my summer job earnings in 1997 and buy 3 shares of Amazon and 5 shares of AOL. (In fairness, I also bought Worldcom; they can't all be winners, right?)

If you're interested in inspiring a younger person to learn a thing or two about investments, you have a couple of choices.

One option is to open a custodial account. Any money contributed to a custodial account is an irrevocable gift to the minor and can't be undone. Custodial accounts require the appointment of a custodian - this can either be a parent or a grandparent - who is responsible for managing the assets until the child reaches her age of majority (18 in New Jersey). The primary advantage of this method is convenience: open the account, fund it with cash, purchase the company stock, and tell your child or grandchild they're the proud owner of their favorite company. You can serve as custodian of the account, monitoring the investment for the minor until she reaches the age of majority. At that time, your custodianship is lifted and the account is owned outright by the former minor. That leads to the potential downside - you might not want to put too much money into this account because once the minor reaches the age of majority, it's theirs to do with as they wish. Provided you're comfortable relinquishing control, a custodial account may be the answer.

A second option is to open an account in either your name (or the parent's name if you're a grandparent thinking about gifting to a grandchild) and simply earmarking those funds as a gift to the minor. At whatever time you deem the "right" time to hand over the stock, simply transfer ownership of the account to your child or grandchild. At the time of transfer, you'll want to be mindful of gift tax rules, making sure you don't surpass the annual gift exclusion limit (i.e. \$14,000 per person in 2017).

There are tax advantages and disadvantages to each of the savings options noted above. If you're thinking about giving someone stock as a gift, let us know, and we can walk you through the pros and cons of each.

This holiday season, if you're wondering what to get "the kid who has everything", consider making him or her an equity interest owner in their favorite brand. Be it McDonald's, Nike, Disney, or Microsoft (Xbox), it might end up being the best gift they've ever received. And they may be someone else's financial planner in 25 years.



REMAINING DILIGENT ON IDENTITY THEFT

The Equifax data breach has kept the topic of identity theft near the front pages. A recent article in the New York Times³ highlighted the 10 steps you should consider to help protect yourself:

- File your taxes as soon as possible to reduce the chance that a criminal will get your refund.
- Ask your doctors' offices for copies of your medical files, just in case criminals try to file a claim in your name and mess up your records.
- Go paperless so you can easily monitor your accounts, but don't fall prey to e-mails that look like they're from your bank or credit card company.
- Dedicate one computer or prepaid cellphone for all your financial activity. "...keeping your online banking and bill paying separate from your daily web browsing and email use makes your information harder to track."
- Open a My Social Security account with the Social Security Administration. "Doing so will stop thieves from creating their own account in your name, and redirecting your benefits."
- Freeze your credit files at all three major credit bureaus (Equifax, Experian, and TransUnion). And don't forget "the lesser known Innovis."
- Sign up for free fraud alerts from the credit bureaus.
- Read your credit reports. "Pull a free report from each of the big three bureaus every four months, in effect becoming your own monitoring service. You can access one free report annually from each bureau at annualcreditreport.com. (12 months divided by 3 credit bureaus = 1 every 4 months.)"
- Consider free credit monitoring but understand the terms first. "Credit Karma will monitor your credit files at Equifax and TransUnion at no cost, but earns money by making offers for credit cards and other financial services for its customers."
- Keep as few accounts as possible (i.e. less to track).

BY THE NUMBERS⁴

- The **budget deficit** for the US in fiscal year 2017 was \$666 billion. The US has run a budget deficit in 52 of the last 57 years fiscal years. The only surplus years were 1969, 1998, 1999, 2000, and 2001.
- **Japan**, a country that has strict immigration policies and a low birth rate, had a population of 128 million in 2010. Japan's population is projected to fall 34% to 85 million by the year 2100.
- The **population of the US** reached 300 million on 10/17/06. The population of the US reached 326 million on 10/17/17. Thus, over the last 11 years, the population of the US has grown an average of 2.36 million citizens per year as a result of births, deaths, and immigration.
- The US has suffered 218 **weather and climate disasters** since 1980 in which the cost of damages exceeded \$1 billion (inflation adjusted value in 2017 dollars), an average of nearly 6 separate billion dollar or more disasters per year.
- Less than 5% of **global fixed income securities** that are investment grade have a current yield greater than 4% today. Before the 2008 global real estate crisis began, 80% of investment grade fixed income securities worldwide had a current yield greater than 4%.

**BY THE NUMBERS⁴**

- In August 2009 the United States had 6.4 **out-of-work Americans per job opening**. In August 2017 the United States had 1.2 out-of-work Americans per job opening.
- The **state and local sales tax in Chicago** is 10.25%, the highest rate of any major US city. The state and local sales tax in Portland is 0%.
- 15 **state governments** are not financially prepared for the next US recession. The modeling that was used in this study assumed that a state would need 10% of its annual budget set aside in cash to weather a moderate recession. The 15 states include North Dakota, Illinois, and New Jersey.
- 24.8% of **unemployed Americans** have been out of work for at least 27 weeks as of 10/31/17, i.e. jobless for more than 6 months. 45.5% of unemployed Americans had been out of work for at least 27 weeks as of 4/30/10 or 7½ years ago.
- The **111.4 million households** that existed in the United States on 9/30/09 were split between 75.3 million owners and 36.1 million renters. The 119.1 million households in the United States on 9/20/17 were split between 76.2 million owners and 42.9 million renters.
- 34% of American **households headed by seniors** at least age 65 receive 90% or more of their annual income from their Social Security retirement benefits.
- The Supplemental Nutrition Assistance Program (SNAP) formerly known as the **Food Stamps** program, provides support to 40 million low income and disabled Americans. An individual with no other income source can receive a maximum SNAP benefit today of \$192 per month or \$6.31 per day.



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

Managing YOUR Money is compiled entirely by Stanley F Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

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.*

CLIENTS: *Please remember to contact S.F. Ehrlich (a) if there are any changes in your financial situation or investment objectives, (b) if you wish to impose, add or modify any reasonable restrictions to our investment management services, or (c) if you've changed your permanent residence.*

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¹ "2012 Individual Annuity Mortality Tables." American Academy of Actuaries, 2012.

² "2016 Annual Cost of Care Study." Genworth, 2016.

³ Siegel Bernard, Tara. "Is It Time to Consider an Identity Protection Service?" The New York Times, 30 Oct. 2017.

⁴ "By The Numbers." Direxion ETFs & Funds, 2 Oct. 2017 through 6 Nov. 2017.

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