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ASSOCIATES, INC.

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Managing YOUR Money

STAN'S WORLD

Whether we're driven by the season, the holidays, or a new year, this is often the time of year for reflection. As long-time readers of Stan's World can attest, I'm a big fan of volunteerism. Numerous studies have validated the physical, spiritual, social and emotional benefits of volunteerism, and I've been a beneficiary.

Especially valuable, at least for me, is that volunteering also provides perspective. We need perspective, because there may be times when we think we need more, when in fact that may not be true.

Pearl and I periodically work shifts at a soup kitchen, and we did so again this year on Christmas Day. We start our day by jointly carving 12 turkeys, and then we move on to a myriad of other tasks. (It's a true Christmas feast: turkey, ham, stuffing, macaroni and cheese, yams, mashed potatoes, soup, salad, and trays of desserts.) About six hours after we arrived, the last pot was washed, leftovers had been refrigerated, and everything was set up for the next day's breakfast. (This particular soup kitchen serves breakfast and lunch, 365 days a year. And they've been doing it for 34 years.)

I don't know how any of the volunteers could leave without being thankful for what we have. We had spent the better part of a day feeding people who were grateful to have a hot meal in a warm room with the company of others. At that moment, that was all they needed. For some, it may have even represented all they had. While they thanked us, it could have easily been us thanking them.

I never leave the soup kitchen thinking I need a new car, or a new anything. At least for a while, I'm focused on what we did, and how our guests appreciated our work. It's humbling, yet extremely satisfying. Even some of life's daily aches and pains seem to recede into the background as we constantly move around to keep refilling the trays used by the servers to fill the guests' plates.

As Sheryl Crow sang in *Soak Up The Sun*, "It's not having what you want, it's wanting what you've got." As we cross the threshold into 2019, think about putting your arm around someone who needs more help than you do.



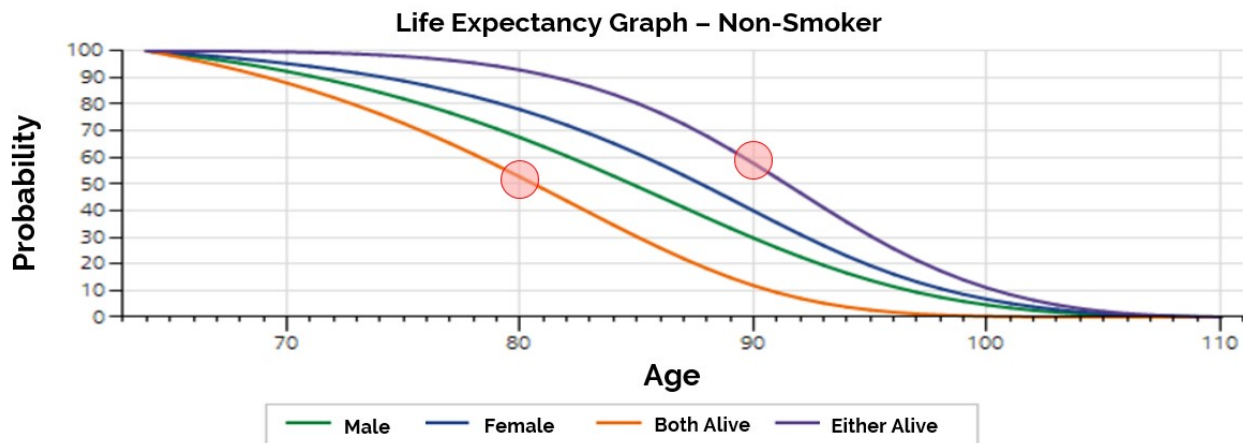
SOCIAL SECURITY MYTHS: I'M NOT GOING TO LIVE LONG ENOUGH TO BENEFIT FROM DELAYING COLLECTION

By: *John Zeltmann*

Social Security is one of your most valuable assets in that it lasts as long as you do, it adjusts annually for inflation, and it's backed by the U.S. government. And given its value in your financial plan, it's critical we choose the optimal time to turn it on. Part of what goes into that analysis is life expectancy. In general, people underestimate how long they'll live. Let's check out some statistics.

For a 65 year old married couple...

- 50% chance that both live to age 80
- Almost 60% chance that one lives to age 90



Source: Source: *The Society of Actuaries Committee on Life Insurance Research. All calculations based on Annuity 2000 Mortality Table.*

Reviewing the chart above, for a 65-year-old non-smoker, married couple, there's a greater than 50% chance they both live to age 80 and a 60% chance that one of them makes it to age 90. In both cases, the probability is significant that both or one of you, respectively, reaches one of those milestones.

And yet, when we look at Social Security collections, approximately 90% of people claim at or before Full Retirement Age, and the majority of those folks are collecting at age 62. Why is that? Likely for a few reasons:

- They need the cash flow - Many people don't have retirement savings and therefore need to turn on this valuable source of cash flow to meet living needs. In nearly all of these cases, it makes sense to collect upon eligibility.



SOCIAL SECURITY MYTHS: I'M NOT GOING TO LIVE LONG ENOUGH TO BENEFIT FROM DELAYING COLLECTION (CONT'D)

- They don't think they'll live long enough to make the delay strategy payoff - As we're addressing in this article, people tend to live much longer than they think.
- They believe the system is going bankrupt - There's a common misconception that the Social Security system is doomed - I would contend otherwise.
- They don't think there's any value to delaying - Why not take the money and run? There's no financial benefit to delaying, right?

Ultimately, you should understand how Social Security fits into your overall retirement picture. People's tendency to underestimate their own life expectancy coupled with misconceptions about the future of Social Security and lack of value behind making the optimal decision can detract from a sound retirement plan. Make sure you make the right choice.

THE TAX LAW PERTAINING TO THE SALE OF YOUR HOME

While the last time there was a significant change to the rules when selling a home occurred in 1997, many people seem to mix the old and 'new' rules when trying to figure out whether the sale of their home is taxable or not. Below is a brief refresher, compliments of Tim Steffen writing in Investment News¹:

Allowable gains: When selling a primary residence, the first \$250,000 of taxable gain (\$500,000 for a couple) is excluded from taxes. Period. No exclusions for buying another home or even the requirement to buy another home. Any gain in excess of \$250,000 (or \$500,000 for a couple) is treated as a taxable capital gain. (While losses are not deductible, other capital losses – such as from the sale of a stock or mutual fund – can be applied to offset gains.)

BY THE NUMBERS⁴

- The **S&P 500** has gained an average of +9.8% per year (total return) over the last 50 years (i.e., 1969-2018). The **index was down** in 2018 but has been positive in 14 of the last 16 years. Over the long-term, the S&P 500 has been up during 39 of the last 50 years, i.e., 78% of the time.
- The split between **“up” and “down” trading days** for the S&P 500 over the last 50 years (i.e., 1969-2018, encompassing a total of 12,611 trading days) is 53% “up” and 47% “down.” The split during calendar year 2018 (there were 251 trading days last year) was also 53/47.
- The price of **oil** ended 2018 at \$45.41 a barrel, down 24% from its 2017 close of \$60.12. As of 10/03/18, oil was trading at \$76.41 a barrel before falling \$31 a barrel (off 41%) by year-end.
- The **taxable bond market** was up +0.01% in 2018 (total return) but has gained +5.1% per year (total return) over the last 25 years (1994-2018). The Bloomberg Barclays US Aggregate Bond Index (created in 1986), calculated using publicly traded investment grade government bonds, corporate bonds and mortgage-related bonds with at least 1 year until final maturity, was used as the bond measurement. The index is a major benchmark for US bond investors.



THE TAX LAW PERTAINING TO THE SALE OF YOUR HOME (CONT'D)

Residency: The only other requirement is that the home has to be owned and used as a primary residence for two of the last five years prior to the sale.

Death of a spouse: "If a married couple meets the two-year requirement, but then one spouse dies, the survivor has two years to sell the home and still qualify for the full \$500,000 exclusion. After that, the lower \$250,000 exclusion applies."

MEDICARE AND PRESCRIPTION MEDS

*Consumer Reports*² conducted a study in six cities that involved three Part D prescription drug plans. In each of the six cities, they "looked at two pharmacies and checked prices for generic versions of five common drugs."

In Denver, "Someone filling prescriptions for the five drugs we looked at, plus paying a \$16 monthly premium, could pay as little as \$524 for a full year. But another person – at the same store with the same prescriptions but a different plan – would pay \$1,686."

Consumer Reports, as well as many other experts, recommends that Medicare participants start with the prescription drug tool found at Medicare.gov. In order to generate the best information, it's important to enter every prescription drug taken every 30 or 90 days. (Even omitting one drug can result in selecting the wrong plan.) It's even more critical to conduct this exercise every year.

Notes Mary Jeanne Cullen³, a Medicare consultant to whom we're previously referred clients: "A drug that was a Tier 4 non-preferred drug could move to a Tier 3 preferred brand bringing the cost down for the new plan year, or vice versa. Depending on the carrier, a Tier 1 preferred generic drug with one company could be a Tier 2 generic drug with another company. Costs vary between plans, sometimes widely, and it is important to compare them."

BY THE NUMBERS⁴

- The **YTD total return for the Bloomberg Barclays US Aggregate Bond Index** was negative every trading day in 2018 except for the final day of the year (12/31/18). If the index had been down for the year (it gained +0.01% for 2018) it would have been the 1st time in history that stocks (using the S&P 500) and bonds (using the Bloomberg Barclays US Aggregate Bond Index) were negative in the same calendar year.
- The yield on the **10-year Treasury** note ended 2018 at 2.68%, up 0.27 percentage points from the 2.41% it finished at on 12/31/17. The 10-year note yield was 2.57% on 8/05/11, the day that the rating agency S&P downgraded the USA from a top-rating that our nation had held for 70 years
- The average **interest rate** nationwide on a 30-year fixed rate mortgage was 4.55% at the end of 2018. The record low national average was 3.31% as of 11/22/12 or just over 6 years ago.
- **No US bank failed** in 2018, the first calendar year to achieve that result since 2006.
- The **national debt** of the United States was \$21.867 trillion as of Friday 12/28/18, an increase of \$11.3 trillion over the last 10 years.



MEDICARE AND PRESCRIPTION MEDS (CONT'D)

Even entering the name of pharmacies can lead to significant cost differences, as “Part D plans typically negotiate special arrangements with certain pharmacies – called ‘preferred pharmacies’ – that let them offer deals in those stores.” Adds Cullen: “One year a particular pharmacy may be offering the best prices overall and the next year a different pharmacy comes out ahead. It rarely stays the same because they are dependent on the prices that are charged by the pharmacy benefit managers.”

Equally important is to look at more than just monthly premiums and deductibles. It’s essential to look at total drug costs that combine all applicable expenses.

Finally, and perhaps most surprisingly, *Consumer Reports* points out that paying cash may sometimes be cheaper than using your drug plan. When they looked at costs in Dallas, for example, “Depending upon the plan and pharmacy, some people there will pay \$47 per month for Celecoxib after they meet their \$100 deductible. But they can buy it for \$16 at a local Tom Thumb pharmacy using a coupon from GoodRx. In Denver, someone could pay \$38.50 for generic Cymbalta (duloxetine) at Walgreens with insurance but only \$13.50 with a GoodRx coupon at a Safeway pharmacy.”

It may pay to spend time doing some homework, because the savings over the course of a year can be considerable.

BY THE NUMBERS⁴

- As many as 60% of American households will be **unable to generate retirement income** equal to at least 75% of their pre-retirement income, i.e., retirement income from Social Security, employer-sponsored retirement plans and non-qualified accounts established with after-tax money.
- A study of **student loan** debt and historical repayment data that was released in October 2017 projects that nearly 40% of student loan borrowers will default within 20 years of entering the repayment phase of their student loans.
- 43% of **college graduates are underemployed** with their first job selection out of school, i.e., the job involves work that does not make full use of the graduates’ skills, abilities and educational credentials.
- **\$522 invested at the beginning of every month** for 40 years earning 6% per year will accumulate to \$1 million. \$1,021 invested at the beginning of every month for 30 years earning 6% per year will accumulate to \$1 million. The calculations ignore the impact of taxes and are for illustrative purposes only and are not intended to reflect any specific investment alternative.



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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 us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial 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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¹ Steffen, Tim. "Tax Law Pertaining to Home Sales Still Confuses Many." InvestmentNews, 5 Nov. 2018, pp. 18-18.

² Gill, Lisa L. "How to Pay Less For Your Meds." Consumer Reports, Jan. 2019, pp. 47-50.

³ Cullen, Mary Jeanne. "Do I REALLY Have to Review My Medicare Part D Prescription Plan During Annual Enrollment?" 31 Dec. 2018.

⁴ "By The Numbers." Direxion ETFs & Funds, 19 November 2018 through 2 January 2019.

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