S.F. EHRLICH ASSOCIATES, INC.

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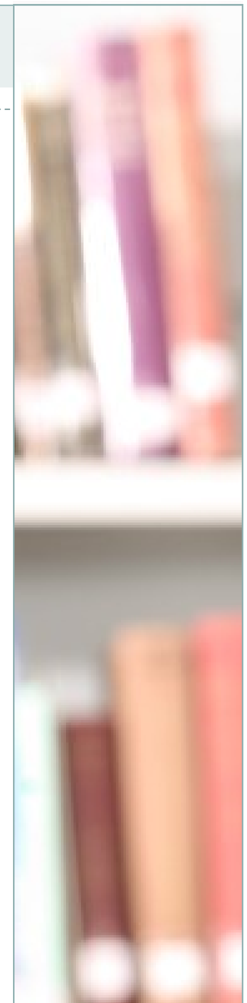
Managing YOUR Money



STAN'S WORLD

Are you a pre-retiree who dreams of retiring so you can wake up every morning with a big smile on your face? Do you envision endless days of joy, with time spent fishing, hiking, eating, socializing, or gardening? Is your vision of retirement an image of pure bliss?

The title of an article in The Wall Street Journal[1] suggests otherwise: An ignored skill in aging: having fun." An ignored skill? "Experts abound in elderly grief, illness, finance, and ethics but few focus on ways to enjoy plentiful leisure time."

The article points out that retirees have 7½ hours of leisure time a day, but also watch an average of 48 hours a week of television. (Coincidentally, 48 hours of television watching a week is also approximately 7 hours per day.)

We know that older adults are happier than middle-aged and younger adults. They also worry less and have less stress and anger. But are they having fun? (I guess the answer is yes for those who enjoy watching television.)

Notes the Journal, older adults "spent the past 40 years showing up for work every day, paying off mortgages, getting kids through school and taking care of aging parents. Having fun and being spontaneous – a key element of fun and play – gets lost. It's considered nonproductive, which makes some people feel guilty."

I ask virtually everyone I meet the same question after they tell me they're about to retire: What are you doing to do? Too often, the answer I hear is what they're not going to do (i.e., work). While I know a lot of people who keep very busy in retirement, I've often wondered whether busy equates with happiness. In fact, might the burden of filling a calendar with appointments be stressful in and of itself?

The benefits of having fun, often affiliated with some aspect of socialization with others, are well documented. "Laughter, levity, enjoyment, diversion – can act as antidotes to stress, depression, and anxiety." Further, "social connections are linked to better cognitive health in later life and a lower likelihood of developing dementia."

As a parent, when our kids complained they had nothing to do, I told them to go find some friends and play. Perhaps, it's time for our kids to tell us the same thing.

WHERE ARE MY GRANDCHILDREN?

If you're a 50 or 60-something with adult children, you may occasionally wonder when you'll become a grandparent. Unfortunately, according to Bloomberg Businessweek[2], you may have to wait a little longer. "The number of births in the US fell in 2017 to its lowest in 30 years."

The reasons why are varied: "(T)he share of twentysomething men who are employed still hasn't fully recovered from the blow of the recession. As of April, it was down 2.4 percentage points for men age 20-24 (to 68.4 percent) and 2.2 percentage points for men age 25-29 (to 83.7 percent) compared with the last business cycle peak…"

If any of the aforementioned young adults are still living under your roof, the odds of you becoming a grandparent any time soon drop significantly. "The share of young adults living with their parents – an arrangement that makes it awkward to start a family – hasn't declined in the recovery. The share of men age 25-34 living back home rose more than 5 percentage points from 2007 to 2017, reaching 19.6 percent. For women in that age group, the share rose 3.2 percentage points, to 12.5 percent…"

One explanation for this demographic shift is student loans. If you combine the high number of student loans with the increase in housing prices, it's easier to understand why "the rate of homeownership among people under age 35 (dropped) to 35 percent last year from 42 percent in 2007… For many young couples, no house means no babies."

Patience may ultimately reward those who may have given up on grandparenthood. "The only two age groups with higher birthrates in 2017 than in 2007 were those 35-39 and 40-44."

Unfortunately, the more significant issue is the fact that "the birthrate for women age 20-24 is six times as high as that for women 40-44," and it's unlikely that the number of births by older cohorts will compensate for the decline among twenty and thirty-somethings.

An even bigger issue to ponder: If the national birthrate doesn't increase, who's going to support the growing number of retirees in this country?

BY THE NUMBERS[4]

- 28% of American jobs do not require any **formal educational credential**, i.e., not even a high school diploma.
- Over the last 20 years, i.e., 4/30/98 to 4/30/18, **inflation** in the United States (using the "Consumer Price Index") has increased +54.2% or +2.2% annually. An individual living on a fixed-income who has not benefited from "cost-of-living" increases would have only 65% of the purchasing power as of 4/30/18 that he/she had 20 years earlier. The consumer price index (CPI) is a measure of inflation compiled by the US Bureau of Labor Studies.
- Only 36% of workers surveyed anticipate that their monthly **Social Security** benefit "will be a **major source of income**" during retirement. However, 67% of retirees surveyed have determined that their monthly Social Security benefit "is a major source of income" during retirement.
- **China's** economy has grown tenfold since 2001, rising from $1.3 trillion (stated in terms of US dollars) to $13 trillion today.
- An estimated 45% of the 176.1 million tax returns projected to be filed next year for tax year 2018 will legally **pay zero federal income tax**.

TIME TO START THINKING ABOUT 2018 TAXES

Yes, you read that correctly; it's time to start thinking about 2018 taxes. Why? Because the earlier you do so, the better the chance that you'll uncover an opportunity you otherwise might have missed. In the tax business, opportunities may potentially translate into saving on taxes and putting more money into your pocket.

There are many reasons why this is an excellent time to start planning for your 2018 tax return:

- You can speak to your accountant, without him/her being distracted by how many returns are piled on the desk.
- If you want to plan on paying lower taxes, you have to do so before the year ends. Once the tax year ends, many planning opportunities disappear.
- Tax law changes that were passed in 2017 take effect in 2018. Your accountant should be able to run a projection for 2018 based off of 2017's numbers. If you're going to owe more taxes, there's still time for you to do something about it over the last six months of the year.

What will you need to bring to your meeting? A recent pay stub, year-to-date investment income (which we can provide), and year-to-date capital gains/losses (ditto), are useful information to get the discussion started.

If we haven't spoken with your accountant, we'll be glad to introduce ourselves and provide whatever information would be necessary to generate a projection. For those clients whose accountants we have dealt with in the past, we'll be back in touch with them again in the fall.

If you call your accountant to make an appointment, please let us know so we can prepare information for the review. And if you call your accountant to schedule a planning meeting but are questioned as to why that's necessary, call us so we can help you to plan for your new accountant.

BY THE NUMBERS[4]

- Prior to the 2007 global **real estate** crisis, 24% of the "housing wealth" in the United States (i.e., real estate equity) was owned by American seniors at least age 60. Today, 41% of the "housing wealth" in the United States is owned by American seniors.
- The top 0.1% of US taxpayers (i.e., top 1 out of every 1,000 taxpayers) paid 19.5% of all **federal income tax** that was collected nationwide for the 2015 tax year.
- There were 3.853 million births in the United States in 2017, the smallest number of **births** since 1987 or 30 years ago. The nation's "**general fertility rate**," defined as the number of births per 1,000 women between the ages of 15-44, was just 60.2 births, a record low rate for birth data that has been tracked nationally since 1909 or for the last 109 years.
- 7 out of 8 **small businesses** (88%) in the United States reported in early May 2018 that they were having "difficulties finding qualified candidates" for job openings.
- 21% of retirees currently receiving monthly **Social Security** retirement benefits did not **begin taking** that monthly benefit until at least age 66. 45% of retirees began taking their Social Security retirement benefit at age 62.
- 25% of Americans that reach age 65 will live at least another 25 years to **age 90**.

OUT OF MONEY IN HER 90'S, AND NEEDING FAR MORE CARE

While both sad and depressing, the story of Rita Sherman, as reported in The New York Times[3], should provide valuable lessons to every current and future retiree. (The title alone is depressing.)

"A dozen or so years into her retirement, Rita Sherman had plenty going for her financially. Recently widowed, she had a net worth of roughly $600,000 as of 1998."

"Her health was excellent, and she dutifully purchased a long-term care insurance policy that would cover three years of nursing home costs should she ever need help. Watching over it all was her daughter, a medical social worker, and her son-in-law, a financial planner."

"By the time she died at 94 in 2016, however, all of the money was gone after a diagnosis of dementia and five and half years in a nursing home. Like so many people who never see it coming, she'd gone from being financially comfortable to qualifying for Medicaid."

The story is more complicated than the first few paragraphs copied above (it includes a lawsuit against an attorney who was accused of improperly preparing a trust for Ms. Sherman), but the lesson seems obvious.

Odds are you've either read in this newsletter or heard us use the expression: "The good news is we're all living longer, while the bad news is we're all living longer." (Perhaps you've heard or read it even more than once?) The comment intends to get clients to critically think about a few vital subjects, such as:

- What am I going to do during all the extra years I may live?
- How will I pay for the expense of living all those additional years?
- Where will I get the money to pay for assisted living expenses if/when necessary?
- Where should I relocate so I can get the best 'bang for the buck' (aka: Where can I go so my dollars last longer to provide for my current standard of living?)

BY THE NUMBERS[4]

- Only **37%** of American adults **under the age of 35** are **invested in the stock market** today, down from 55% in 2002.
- 46% of Americans surveyed believe that **future generations** of retirees will be "**worse off**" financially than current American retirees.
- **Social Security** trustees announced on 6/05/18 that **the trust fund** backing the payment of Social Security benefits (OASI retirement benefits) would be **zero in 2034**. A zero "trust fund" does not mean the payment of Social Security benefits would also go to zero, but rather would drop to 77% of their originally promised levels through the year 2092. When the trustees released their report in 2008 (i.e., 10 years ago), the Social Security Trust Fund was projected to be depleted in 2042.
- The **top 10% of taxpayers** received **47%** of the $10.1 trillion of **adjusted gross income** (AGI) earned nationwide in tax year 2015. The bottom 90% of taxpayers received the other 53% of AGI.
- **22%** of Americans at least age 85 need help with "**personal care**" daily. The number of Americans at least age 85 is projected to more than double from 6.4 million in 2016 to 14.6 million in 2040.

OUT OF MONEY IN HER 90'S, AND NEEDING FAR MORE CARE (CONT'D)

These are the types of concerns that motivate John and me to advise clients to save more, spend less, and work longer. And let's not forget the staying healthy angle. After all, what's the point of growing old - or having money - or growing old while having money, if you're not healthy enough to enjoy it?

Don't read about Mrs. Sherman and feel gloomy for your future, but read the story about Mrs. Sherman and be realistic about spending and saving and working. Yes, you may die long before reaching age 94, and you may die knowing that you used your money to do all the fun things that were on your personal bucket list. Conversely, you may live to age 94, still possessing the wherewithal to know that you spent far too much during the early retirement years. The conundrum is obvious.

We spend our days worrying about our clients. We literally spend hours each day trying to calculate the best way for our clients to live long, rewarding lives. And we've spent years trying to figure out ways that clients can increase their odds of living all the way through a successful retirement.

Almost ten years after the stock market reached its post-crash low in early March 2009, you can rest assured that the story of Rita Sherman is as haunting to us as it now might be to you.

BY THE NUMBERS[4]

- The S&P 500 has had 19 "**corrections**" (declines of at least 10% but less than 20%) and 7 "bears" (declines of at least 20%) in the last 50 years. The last "correction" ended on 2/08/18. The last "bear" ended on 3/09/09.
- **Medicare** covers the cost of 100 days of care at a "skilled nursing facility." A new 100-day benefit clock begins if the patient has gone 60 days without requiring a "skilled level of care".
- The **capitalization of the US stock market** was $29.2 trillion as of 3/31/18, or just 70% of the size of the US bond market as of the same date.
- For the **last 35 years** (1983-2017), the **total income** of our nation's Social Security program (i.e., payroll taxes collected plus interest income) has **exceeded the total cost** of the program (i.e., benefits paid out plus administrative expenses), a streak that is **projected to end in 2018**.
- There are as many Americans with outstanding **student loan debt** (45 million) as there are retired American workers (45 million) who are receiving **monthly Social Security retirement benefits**.
- The population of the United States has **doubled since 1950**, while the number of Americans at least age 65 has quadrupled since 1950.

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.

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.*

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.*

S.F. Ehrlich Associates, Inc.
37 Elm Street, Suite 5
P.O. Box 2278
Westfield, NJ 07090

Phone: (908) 789-1100
Fax: (908) 789-1115
Email:
Stan Ehrlich: stan@sfehrlich.com
John Zeltmann: jzeltmann@sfehrlich.com

[1] Ansberry, Claire. "An Ignored Skill in Aging: Having Fun." The Wall Street Journal, 4 June 2018.

[2] Coy, Peter. "Birds, Bees, But Not Millenials." Bloomberg Businessweek, 28 May 2018.

[3] Lieber, Ron. "Out of Money In Her 90s, And Needing Far More Care." The New York Times, 8 July 2017.

[4] "By The Numbers." Direxion ETFs & Funds, 25 June 2018 through 14 May 2018.