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ASSOCIATES, INC.

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## Managing YOUR Money

### STAN'S WORLD

I was standing at my desk reading an article titled "What is Your Good Life" when the phone rang. It was my wife, asking if I wanted to come home to have lunch with our daughter and granddaughter who had dropped by. I logged off my computer and promptly walked out the door. Apparently, my definition of my good life includes having lunch with a three-year-old who still thinks I'm funny and wants to play with me.

The author of the AARP article<sup>1</sup> I was reading, Sally Balch Hurme, wrote Get the Most Out of Retirement: Checklist to Happiness, Health, and Purpose, so I'll assume she has spent considerable time trying to figure out what makes retirees happy. But is happiness limited to retirees; can't you enjoy Your Good Life as you navigate through life?

I think the perception that you grind through 40 or more years of work until you get to enjoy life in retirement is a false notion. Sally Balch Hurme asks a few pointed questions that might help you find your good life, whether you're retired or not.

- Do I have a close family or dear friends around me?
- Do I work at staying involved and connected with others?
- Do I feel I am contributing to a better world?
- Am I learning new things or having new experiences?
- Do things make me smile or laugh frequently?
- Do people in my community share values similar to mine?
- Do I spend time doing what gives me pleasure?

One day, I was stopped by a man while I was walking down the street. He walked right up to me and said: "I know you." I didn't recognize him, so I apologized and asked him how we know each other. He said: "Every morning, I've stood in the line to take the bus to the City, and we've all watched you walk by wondering where you were going."



## STAN'S WORLD (CONT'D)

I replied that my office was down the block and that I also looked over and felt empathy for everyone standing there. He laughed and said "Now we both know what the other was thinking," and added that everyone in line was jealous of my morning commute. With the biggest of smiles, he also told me he retired the day before, after commuting to the City for 40 years. That happened to be the first day he didn't have to commute to work.

Even if you're one of those commuters waiting in line for the bus every morning, how can we help you get that big smile on your face?

## 529 PLANS—COMMON QUESTIONS (& ANSWERS!)

*By: John Zeltmann*

As I write this article, we're approximately three weeks out from the arrival of our third child. The due date is mid-October, and we don't yet know whether we're having a boy or girl. We're obviously very excited to find out and to also meet this little one who's coming into our lives.

Of course, being a financial planner, I can't help but start thinking about a topic for my family that we frequently discuss with our clients: 529 plans. As we're asked a lot of questions about 529 plans from both parents and grandparents alike, we thought it might be useful to share some of them.

### **How does a 529 account work?**

A 529 plan is a tax-advantaged savings vehicle that encourages people to save money for education costs. Provided the account owner uses these funds to cover "qualified education expenses" on behalf of the account beneficiary, any growth and income generated in the account is not taxed. Qualified education expenses, according to FinAid.org<sup>2</sup>, typically include "tuition, fees, books, supplies, and equipment required for enrollment or attendance" at an eligible elementary, secondary, or college institution.

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

- Foreigners have increased their holdings of **US Treasury** securities from \$1 trillion in 2000 to more than \$6.2 trillion in 2018.
- In June 2018, the Congressional Budget Office projected that by the year 2048 (i.e., 30 years from now) the US government will spend as much money servicing its **national debt** as it will spend that year on the nation's Social Security program. Today, our nation's net interest cost is just 33% of our Social Security outlays.
- Borrowing \$100,000 on a 30-year fixed rate **mortgage** at 4.53% (today's national average) requires a monthly "principal and interest" payment of \$508.47. Borrowing \$100,000 on a 30-year fixed rate mortgage at 5.53% requires a monthly "principal and interest" payment of \$569.67.
- 3 out of every 8 homeowners (38%) in the USA **own their home free-and-clear of any debt**, i.e., 29.7 million debt-free homeowners out of 77.9 million total homeowners.
- Less than 10% of annual **retail spending** in the United States is completed as an online purchase, less than half of the 23% of retail spending done online by Chinese consumers.
- 44 million Americans owe \$1.41 trillion in **student loan** debt as of 6/30/18, a +139% increase (up +\$820 billion) in just the last 10 years.



## 529 PLANS—COMMON QUESTIONS (& ANSWERS!) (CONT'D)

Room and board are included in the definition provided the student is attending at least half-time. Given that there's a finite amount of time one can save for a student's college expense (typically, 18 years), it's important to start saving early so contributions can potentially benefit from tax-free growth.

### ***Is there a tax benefit for contributing to a 529 plan?***

In addition to growth, the individual making contributions to a 529 plan may also be eligible to write off all or a portion of the contribution against his or her state income taxes. Unfortunately, not all states offer tax deductions for 529 plan contributions. New Jersey doesn't offer any such deductions while New York and Connecticut offer deductions against state income taxes of up to \$5,000 for single filer residents and \$10,000 for joint filer residents. Pennsylvania generously offers deductions of \$15,000 (single) and \$30,000 (joint).

### ***Who controls the account? Is my child/grandchild in control?***

Every 529 account should have three names associated with the account: an owner, a beneficiary, and a successor owner. The owner is typically the parent or grandparent funding the account on behalf of the student. The beneficiary is typically the student for whom the dollars are intended. The successor owner is the individual who steps in and manages the account on behalf of the original owner should he/she pass away prior to the student exhausting the funds in the account. (For example, I'm the owner of the 529 account we have for my son. He's listed as the beneficiary, and my wife is the successor owner.) The owner has complete control over the account - at any time, he or she can change the beneficiary or the investment strategy, make contributions to the plan, and perform other administrative tasks.

### ***What happens to the funds if a student gets a full scholarship or decides not to go to college?***

The account owner has a few options. The owner can change the beneficiary, swapping out the existing beneficiary with a sibling, cousin, or another member of the family. But moving from one generation to the next (e.g., reassigning the beneficiary designation from your child to your grandchild), should only be done after consulting with an estate planning attorney as there may be some gift tax consequences. If the owner doesn't want to change the beneficiary and wants to move the money out of the 529 account, that also can be accomplished, but a 10% penalty along with applicable taxes will apply to the growth. For example, if \$10,000 deposited into a 529 plan grows to \$15,000 and the owner of the account withdraws the funds for non-educational purposes, the owner would owe the IRS a 10% penalty plus applicable taxes on the \$5,000 growth.



## 529 PLANS—COMMON QUESTIONS (& ANSWERS!) (CONT'D)

### *How do I select a 529 plan?*

It partially depends on whether the owner lives in a state that offers a state income tax deduction for contributions made to a 529 plan. Generally speaking, if there's an opportunity for a state income tax deduction, it's often advantageous to contribute to the state's 529 plan. When reviewing a state's 529 plan, characteristics we consider include fees and expenses charged by the plan, the diversity of investment offerings provided by the plan, reputation of the plan administrator's customer service experience, to name a few. Thus, a grandparent living in New Jersey can own a 529 Plan offered by the State of Utah for a grandchild residing in Florida who eventually attends college in California. (If you think that's confusing, I didn't even discuss the myriad of investments that each 529 plan offers.)

If you're thinking about contributing to a 529 plan for a child or grandchild, or just want to learn more about 529 plans, give us a call. With costs for some private institutions approaching \$70,000 a year, the time to start saving for college was yesterday.

### HARD DECISIONS: WHEN TO STOP AN OLDER DRIVER

The Wall Street Journal<sup>3</sup> article states the obvious: There are no easy answers or decisions when it comes time to try to stop an older driver from driving. (I can recall one family member stating that if he lost his license, he might as well die. He was approaching 90 at the time.)

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

- 62% of **American seniors** (at least age 65) that file for **bankruptcy** do so because they are overwhelmed by medical expenses.
- 52% of the 2.4 million **new jobs** created in the United States in the 12 months ending 7/31/18 were produced in just 6 states – Texas (377,100 jobs), California (332,700), Florida (210,600), New York (117,000), North Carolina (106,900) and Washington (102,500).
- American households headed by individuals under the age of 35 were split 44/56 between **homeowners and renters** in the 2nd quarter 2004, i.e., 14 years ago. American households headed by individuals under the age of 35 were split 36/64 between homeowners and renters in the 2nd quarter 2018.
- The **3 best gain days** (by percentage) for the S&P 500 in the last 68 years (i.e., dating back to January 1950) all occurred during the month of October.
- The average annual cost of hiring a **nanny** to watch one child is \$30,160, equal to \$580 a week.
- Approximately 75% of \$421 billion of **goods exported by Canada** in 2017 (stated in US dollars) was purchased by American consumers.
- America's 5 **largest banks** control 47% of all banking assets, up from 29% in 1998 or 20 years ago.



## HARD DECISIONS: WHEN TO STOP AN OLDER DRIVER (CONT'D)

The Journal offers families of older drivers multiple sources to help the senior assess his/her own driving ability. One way to start the conversation is to offer these tools by pointing out the intent is to keep grandma or grandpa on the road as long as possible.

- AAA Foundation for Traffic Safety: publishes "Driver 65 Plus: Check Your Performance" (a self-rating form).
- University of Michigan Transportation Research Institute: publishes "SAFER Driving; The Enhanced Driving Decision Workbook" (a driving assessment workbook).
- National Highway Traffic Safety Administration (NHTSA): publishes "Driving Safely While Aging Gracefully"

In addition, AAA, NHTSA, and AARP all "offer valuable information and resources...about older drivers."

Citing a study by Hartford Financial Services conducted on senior drivers, the survey found that if seniors were to be approached about their driving, they would be most likely to listen to:

- Spouse: 35%
- Child: 19%
- Police officer: 18%
- Doctor or other health professional: 11%
- Close friend: 9%
- Sibling: 5%
- Other: 3%

If this is a topic that you've avoided discussing in your family, everyone who has ever had to do it understands your trepidation. (If you're the elderly person who your family is talking about, think about how stressful it is for the one who ultimately 'volunteers' to approach you.)

Suffice it to say, good luck. If you're able to accomplish the mission without bloodletting, please share your secret with us.

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

- As of the end of 2017, 19% of Millennials and 12% of Baby Boomers had no **money** (either pre-tax or post-tax) **invested in the stock market**. Millennials were born between 1981-97 and were ages 20-36 in 2017, while the Baby Boomers were born between 1946-64 and were ages 53-71 in 2017.
- Over a 30-day period beginning 9/07/08, the government took over **Fannie Mae and Freddie Mac** in anticipation of as much as \$200 billion of mortgage defaults, the largest bankruptcy in the history of the USA took place (Lehman Brothers), the \$700 billion "Troubled Asset Relief Program" (TARP) was signed into law by President George W. Bush, and a bailout of the nation's largest insurance company (AIG) gave the government 80% ownership of the firm.
- An estimated 44.4% of all US individual taxpayers will legally pay zero **federal income tax** for tax year 2018 on their Tax Form 1040 that is due 4/15/19.
- 48% of 2,000 American adults surveyed in August 2018 thought the **US stock market** had been flat over the last 10 years. Another 18% of the 2,000 folks surveyed thought the US stock market had declined over the last 10 years.
- 19% of **Chinese exports** are purchased by American consumers, making the US the # 1 trading partner of China.



## CHANGES COMING TO MEDICARE

AARP Bulletin<sup>4</sup> points out nine anticipated changes to the Medicare program for 2019. If you're an enrollee, or about to become one, pay attention, because a lack of information may cost you a lot of money.

- **Bye-bye doughnut hole:** Most seasoned Medicare recipients are aware of the donut hole. Pay X amount of dollars, then pay more than X dollars, and then pay less than X dollars. The donut hole for brand-name drugs ends in 2019 and ends for generic drugs in 2020.
- **Bye-bye therapy cap:** Congress lifted the cap on coverage for outpatient physical, speech, and occupational therapy.
- **Better information:** Look for a more informative handbook to help you to decide which plan to use. Also, "the online Medicare Plan Finder tool will also be easier to use..."
- **More Telemedicine:** In 2019, Medicare will "begin covering telehealth services for people in end-stage renal disease or during treatment for a stroke."
- **Potential lifestyle support:** In 2019, Medicare Advantage Plans "will have the option to cover meals delivered to the home, transportation to the doctor's office and even safety features in the home such as bathroom grab bars and wheelchair ramps."
- **In-Home Help:** "Medicare Advantage plans also have been given the option to pay for assistance from home health aides, who can help people with their daily activities including dressing, eating and personal care."
- **Plan Test-Drives:** "New regulations will let people try an Advantage plan for up to three months – and then switch to another Medicare plan, including original Medicare."

One significant factor involved with these changes is they don't apply across the board to traditional Medicare and Medicare Advantage Plans. In fact, the best plan for you may no longer be the plan you're currently using.

Medicare is not a set-it-and-forget-it program. If your income changes, Medicare premiums may adjust. If your income drops, for example, Medicare may eventually reduce your monthly premium, but it might take a year (and the filing of another tax return) to figure it out unless you visit a Social Security office and tell them. Similarly, if your prescription medicines change, the best plan for you may not be the one in which you're currently enrolled.

This is not only complicated but potentially costly if you select the wrong plan and miss out on some benefits that would otherwise be covered. To help sort through the options, we've referred a few clients to a Medicare consultant, with excellent results. There's obviously a cost to retain a consultant for this type of service, but you may benefit from paying lower premiums and/or finding the most appropriate plan for you. If you need help trying to figure out the best program for you, don't hesitate to call us.



### THREE GREAT PERKS VOLUNTEERS SHOULD LOOK FOR

MONEY Magazine<sup>5</sup> points out there are a lot of reasons to volunteer, especially in retirement when you may have more time. They note that “many groups also offer gigs with sweet benefits, from intellectual stimulation to outsider access, freebies and other perks:

- **VIP Access:** “Film and music festivals, sports events, and other big productions tend to rely on volunteers. Even your favorite charity may have a gala or fund raiser you could help with. In exchange, you’ll often be privy to all kinds of perks, such as discounted and free tickets, complimentary meals, and swag.” Look for an event, type in the word “volunteer”, and look for a volunteer application page to get started.
- **Unique Travel:** “Volunteering abroad is a far cry from seeing the world by rental car or cruise ship. For some retirees, that’s exactly the point.” You may have to pay for some of your own travel, but if you have time, some of the volunteer opportunities, especially for groups like Habitat for Humanity’s Global Village, may prove very rewarding.
- **Health Improvements:** “Volunteering appears to be good for both physical and mental health, according to a study published last fall by UnitedHealthcare and Volunteer Match... Three-quarters of the US adults surveyed said volunteering made them feel physically healthier, and nearly everyone said volunteering improved their mood. Other commonly reported benefits included a boost to self-esteem (88% of respondents) and lower stress levels (79%).”

If you’re interested in volunteering but haven’t found the right opportunity, go to Volunteer Match ([volunteermatch.org](http://volunteermatch.org)) “to search more than 100,000 volunteer opportunities across 29 different categories.”

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

- The “cost of living adjustment” (COLA) made to **Social Security** benefits is calculated based upon the year-over-year increase in prices during the 3rd quarter of subsequent years. E.g., the COLA that will be applied to benefits paid in January 2019 will be based on the change of prices from the 3rd quarter 2017 to the 3rd quarter 2018. The COLA increase has been less than 2% in 7 of the last 9 years.
- 45% of 3,000 **full-time workers** from 8 different countries worldwide believe they could complete their **workload** each day in less than 5 hours if they were allowed to function uninterrupted throughout the day.
- 20% of the **single-family homes** for sale in **San Diego** dropped their asking price in June 2018, the highest percentage to do so in any major US city. 14% of single-family homes nationwide lowered their asking price in June 2018.
- Between 6/25/04 and 2/02/07, a period of more than 2 ½ years, no bank failed in the US requiring a bailout from the Federal Deposit Insurance Corporation. Between 2/02/07 and 12/15/17 (almost 11 years) 531 **banks** failed and required a bailout, equal to 49 per year or just short of 1 per week.



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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 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.*

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<sup>1</sup> Balch Hurme, Sally. "What Is Your Good Life?" *AARP Bulletin*, Nov. 2016, pp. 28-28.

<sup>2</sup> "FinAid | Saving for College | Section 529 Plans." *FinAid - Financial Aid Advice*, [www.finaid.org/savings/529plans.phtml](http://www.finaid.org/savings/529plans.phtml)

<sup>3</sup> Ruffenach, Glenn. "The Hard Job of When to Stop an Older Driver." *The Wall Street Journal*, 9 July 2018.

<sup>4</sup> Reid, T.R. "7 Ways Medicare Is Getting Better." *AARP Bulletin*, Sept. 2018.

<sup>5</sup> "3 Great Perks Volunteers Should Look For." *Money*, Sept. 2018, pp. 31-31.

<sup>6</sup> "By The Numbers." *Direxion ETFs & Funds*, 20 August 2018 through 24 September 2018.

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