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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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"The Constitution is not an instrument for the government to restrain the people; it is an instrument for the people to restrain the government" **Patrick Henry**

With Election Day just over a month away, I thought it might be appropriate to take a look at some of the key issues that could affect our investment strategies going into 2013.

Just before jumping in, I came across a rather humorous story recounted by Alan Abelson of Barron's magazine, which I'll condense here:

A preacher wanted to know what his son would end up doing in life. So, to figure that out he laid 4 items on his son's bed when he was at school and felt that, depending on which item he would choose, the preacher would know his son's calling.

He put out a Bible to denote religion, a silver dollar to denote business, a bottle of alcohol to signify that he would be a drunken bum and finally a Playboy magazine indicating that he would be a skirt-chasing womanizer.

The preacher then hid in the closet. When his son came home he watched him pick up the Bible first. Oh, how happy he was. Then, however, the son picked up the silver dollar and dropped it in his pocket. O.K., so business wasn't so bad. Before he knew what was happening the son then took a large swig of booze and proceeded to check out the centerfold of the magazine.

Totally at his wits end, the preacher wailed, 'Oh no, he's going to run for Congress!

There you have it. Now we know what it takes to get into politics. O.K., all kidding aside, let's take a hard look at some very serious issues.

To begin with, there's the fiscal cliff. As our members of Congress are beginning to get out of Dodge (oops, did I say Dodge…I mean Washington) to go campaigning, they are leaving behind a lot of vitally important work that should have been completed by now.

The automatic spending cuts and tax breaks that ***will expire*** on January 1st if Congress doesn't get their act together, is frightening. The White House Budget Office, the Congressional Budget Office and the Federal Reserve have repeatedly warned that the country could fall into a deep recession if they miss their deadlines.

Maybe Congress is harboring the belief that when you jump off a roof, you think you're flying (which of course you are)…...until you hit the ground.

David Kelly, JP Morgan's Global Chief Strategist said, 'this is probably the greatest fiscal danger facing the economy, simply because most voters and investors don't recognize its implications'.

Now, conventional wisdom tells us that as dumb as Congress is (collectively), they are not THAT dumb. But we must remember that Congress only reconvenes on November 13th…and we have Thanksgiving shortly after that; college football will be heating up, and then there's Christmas shopping to take care of.

All in all, they will have 12 legislative days on the calendar before January 1st; ironically, that's the same number of days that Congress was in session between August, September and October of this year. And, we pay these people?!?!?

There are 11,940 bills and resolutions currently before the United States Congress. Of those, only about 5% will become law. They must be enacted before the end of the 2011-2012 session (the 112th Congress). According to the web site http://www.govtrack.us/congress/bills/ here is a breakdown:

There are 174 enacted bills and joint resolutions so far in this session of Congress.

There are 659 passed resolutions so far in this session of Congress (for joint and concurrent resolutions, passed both chambers).

There are 19 bills that are awaiting the president's signature.

There are 382 bills and joint/concurrent resolutions that had a significant vote in one chamber and are likely to get a vote in the other chamber.

There are 10,675 bills and resolutions that have been introduced, referred to committee, or reported by committee and await further action.

There are 31 bills and resolutions that failed a vote on passage and are now dead or failed a significant vote such as cloture, passage under suspension, or resolving differences.

That's a lot of unfinished business before the 113th Congress takes over in January. But what has some economists worried is what happens before then. Even though most of us believe that the lame duck session will forge agreements to prevent a catastrophe from happening, there may be circumstances to prevent the logical from happening. Like:

☹ a tussle over ballots because of the new voter I.D. laws enacted in many states.

☹ in a tight presidential race, challenges are probable in quite a few states.

☹ did you know that ALL (yes, that's right) ALL 435 seats in the House of Representatives are up for grabs in this election. This was the result of the congressional districts that were apportioned based on the 2010 Census. It doesn't take a rocket scientist to figure out that there are going to be more than a couple of cat fights come out of this. Can anyone spell

R-E-C-O-U-N-T

☹ oh, did I mention that there are 33 Senate seats that are also going to be decided on November 6th.

Given the option of fighting for their constituents….or fighting for their jobs, I'm not sure which side of the sanity line this will all come down on. The real wild card here is the question of how concerned an outgoing member of Congress will be in the dying moments of his job!

Next up we have the economy to look at. We all know that Mr. Bernanke launched Q.E.3. The effect of this, most economists believe, will be rising asset prices, rising commodity prices and a falling dollar. Take a look at what's happened to the value of our dollar just since 2002.

We have lost 30% of our purchasing power in the past 10 years. All this Fed stimulus will bring on inflation eventually, and it's the fixed income retirees who will suffer most. Right now, savers are being crucified with artificially low interest rates and rising prices. It is increasingly more difficult for investors to find relatively safe products with reasonable yields.

I continue to hear reports from some of our biggest companies warning on earnings and lowering growth expectations. The looming showdown on January 1st is also restraining them from spending and hiring: two elements needed for the health of the economy.

This comes at a time when just about every baby-boomer has their eye on the retirement 'finish line'. According to the Employee Benefit Research Institute only 22% of retirees have saved $250,000 or more for their golden years. It gets worse. Nearly one-third of Americans age 55 and older have saved less than $10,000. (Yes, you read that right).

The best advice for now is twofold. If you still have years before you retire, save, save, and save some more. Second, don't settle for the invisible yields you get on Treasuries or in CD's. Look to high quality dividend stocks, preferred shares and Master Limited Partnerships. (Refer to my September newsletter for details).

Another place to look at is the world of Municipal bonds. I realize there been a lot of press devoted to some of the most recent municipal bankruptcies; Stockton, CA. San Bernardino, CA. Harrisburg, PA. and so on. The truth however is that less than one-third of 1% have defaulted on their debt in the past 3 years.

I certainly would not suggest that you throw caution to the wind and jump in buying willy-nilly.

You must do your due diligence. Make sure that what you're buying is backed by an income generating project. You know, something folks can't live without. Sewers. Utilities. Water. Also check to be sure that the three ratings agencies show the bond to be investment grade.

Remember, with munis you generally don't pay tax. That means a yield of say 2.5% is closer to 3.0% when you're in the 15% tax bracket. The equivalent yield will be even higher, the higher your tax bracket is.

Finally, I know many advisors are telling clients that there are an unlimited number of stocks still worth buying. I disagree. I find it more and more difficult to find the kind of value I need to see before recommending new purchases. There are some out there, but you'll need to do a lot of digging and excavation work to unearth them. What you don't want to do is over pay for your stocks. This will affect your total return.

Make sure that you keep an eye on your stop-loss provisions. Don't let profits turn into losses. You can't afford them!

CLOSE ONLY COUNTS IN HORSESHOES, HAND GRENADES AND...GARLIC BREATH. THE RULES YOU MUST KNOW ABOUT MEDICARE

With more and more retirees getting involved with Medicare for the first time, we are beginning to see some critical mistakes being made. Being close to following all the rules will not cut it. The government can be very unforgiving.

- Unless you're already receiving Social Security benefits, you will need to apply for Medicare. They are not going to call to remind you.

- So that you do not incur late penalties, be sure to enroll at age 65. These penalties are PERMANENT. You must enroll in Medicare Part A, but that's not a problem. It's free. This part of Medicare covers inpatient hospital bills. Part B is a little more complicated.

- A very common error people make is not applying for Medicare part B at age 65 because they are on employer health benefits or COBRA. This is a BIG mistake. (Part B covers outpatient medical bills like doctors, labs, etc).

Your company retirement health insurance after age 65, is secondary to Medicare. That means your doctor or lab must send their bill to Medicare first, and what they don't pay, your company plan will probably pick up. If you do not have Part B in place, your insurer can, and often does, refuse the bill.

If you are retired, you have 3 months before your 65th birthday…your birthday month…and then 3 months after your birthday month to make your application.

If you continue to work after age 65 and are covered under a company plan, you can delay signing up for Part B until you leave the job. At that point you ***must*** enroll in Part B within eight months, which is known as the 'special enrollment period'.

If you miss this eight month window you could find yourself uninsured for many months; have to wait for the next enrollment period which is January 1st through March 31st ; then take the effective date of coverage which is July 1st….and incur a permanent penalty of 10% of your annual Plan B premium – forever.

- If you haven't worked long enough to qualify for Medicare, you may still be able to enroll on your spouse's (or ex-spouse) record.

- You cannot be denied coverage because of poor health.

- Medicare Part D covers prescription drugs. If you have what is known as 'credible drug coverage' (which means it's as good as the Medicare coverage) you will not have to enroll in Part D at age 65. Once you lose credible coverage you have 2 months to apply for Part D…or, you guessed it… face another penalty.

- I won't get into Medicare Part C here (also known as Medicare Advantage), but this is another option available to those over age 65.

- To sign up for Medicare call 1-800-772-1213 to get an appointment at the center or even over the phone.

- One last note is that the rules are forever changing and we may still see substantial changes over the next two years. If you're unsure, be sure to check!

☺ If you're looking for help in determining who you should hire as a financial planner and/or investor advisor, check out the SEC web site where they give you a laundry list of what to look for and what questions to ask.

http://www.sec.gov/investor/alerts/ib_top_tips.pdf

☺ The Financial Industry Regulatory Authority (FINRA) has a Fund Analyzer tool on its web site which lets you compare fees and expenses for Mutual Funds and Exchange Trade Funds. Make sure you're not over-paying. Go to www.finra.org/fundanalyzer

☺ You can find a state-by-state guide to determine which are the most tax friendly states for retirees at, www.kiplinger.com/tools/retiree_map

☺ The Family Caregiver Alliance helps families locate caregiver support programs. You can get help at www.caregiver.org

☺ If you are like most people you get a little exasperated with company phone menus. There is a web site that will automatically dial and navigate the menu for you. Then when it's done its job, you get a call back from the company and department you wanted to speak to. Try http://deepdial.com

DON'T GET A REVOCABLE LIVING TRUST FOR THE WRONG REASON

A revocable living trust (RLT) can be a useful tool to help you reduce estate settlement costs and to retain control over your assets while you are living. However, the benefits of the RLT will vary from person to person. In other words, they are not for everyone.

A RLT allows you to transfer your property to a trustee with instructions to hold the assets as specified within the trust for the benefit of the beneficiaries. The trust agreement often covers three important time periods.

The first part covers the time that you are alive and competent. In most cases, you would be the sole beneficiary and sole trustee. You'll have complete control over the property, including the authority to remove all of the trust's assets and the ability to revoke the trust at any time, for any reason.

Part two stipulates that if you become incapacitated, a successor trustee that you have named in the trust will take over to manage the assets for you. You will, however, remain the sole beneficiary. This section will eliminate the need for your family to go to court to seek guardianship over your finances in the event you are unable to manage those funds on your own.

Finally, the third part directs the disposition of the trust's assets after you die.

A RLT, in itself, will not completely eliminate estate taxes for taxpayers with estates in excess of $5 million ($10 million if married). If you live In New Jersey do not forget that estate taxes begin at $675,000.

The Living Trust can help you to reduce these taxes by allowing you to make the most of estate tax exclusions, generation-skipping tax exemptions, and marital deductions. Of course, these tax-savings techniques are also available through a well-designed will.

Assets in a RLT also avoid probate, thereby reducing transfer costs for your heirs. A RLT can also keep your affairs private since they are not a matter of public record. As probate costs can often reduce an estate by as much as 4-10%, significant costs can sometimes be saved by using them. However, if the trust is unfunded, your assets will still go through probate.

There are also other ways to avoid probate. Joint ownership property can avoid probate as well as any accounts where you have named a beneficiary, such as IRAs, life insurance policies, and annuities.

As previously mentioned, a RLT will not help you save on probate expenses if the trust is not funded. Bank accounts and funds held with your brokerage firm must be transferred by signing forms at your bank, and by providing them with a copy of the trust agreement. With real estate, you will often have to file new deeds with the government's land records.

RLTs have helped many seniors and their families better manage their finances. But not everyone needs them. So before you spend the money, make sure you know what you hope to accomplish. I work with several local attorneys who specialize in assisting seniors in maintaining control over their finances and reducing estate settlement costs. Please contact me for any help in this regard.