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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

April 2014

Well my days of not taking you seriously are certainly coming to a middle............firefly

We start of this month's newsletter with nothing of significance coming out of our nation's capital. Hooray!

AN INTERESTING CHART ABOUT THE CURRENT MARKET VALUATION

The side chart comes courtesy of an analyst, Doug Short, on Seeking Alpha. He has developed a 140 year trend line for the S&P Composite Index. What this shows us is just before the market correction in 2000, the S&P was trading at 150% of the 140 year trend. What the chart also shows is that we are currently trading at 75% above trend today.

Some company valuations are getting a little silly. I'll take just 3 well-known companies as examples:

AMAZON price/earnings = 81

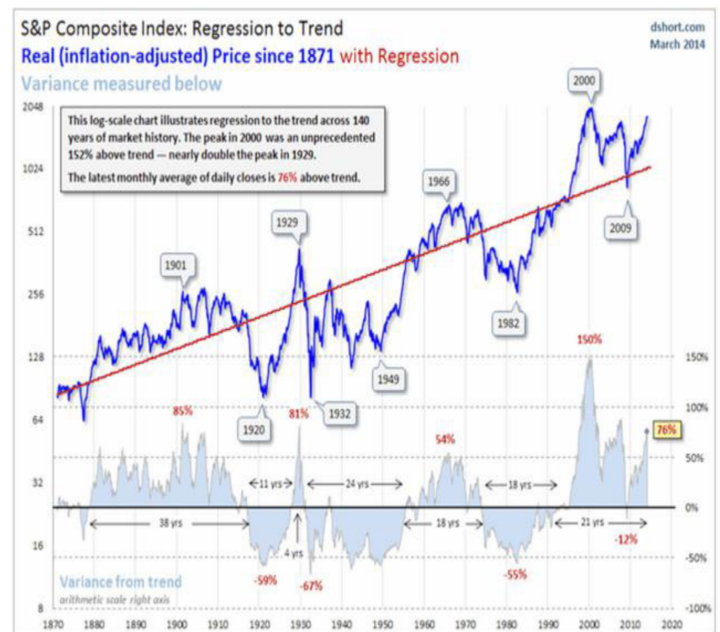
FACEBOOK price/earnings = 99

TESLA price/book value = 40

There are many other examples, but I think you get the point. In the past couple of weeks Facebook purchased a company that hasn't had any earnings – WhatsApp - for $19 billion. King Digital, maker of the Candy Crush on-line game went public with a valuation of $7 billion.

In the year 2000, there were only 30 companies with **no earnings** that had a market cap in excess of $5 billion; today there are 74 such companies.

On the earnings side, companies are getting ready to report 1st quarter results next month. More than 100 have already warned that profits will not hit targets. This could be an early sign of things to come.☹



Does all this mean that the stock market is about to come crashing down. Absolutely not. As John Maynard Keynes once said: 'the market can stay irrational longer than you can stay solvent'.

So long as the Federal Reserve continues to support the economy and the yield curve **does not** invert (short term interest rates rise above long term rates) the party should continue.

An important piece of advice to keep in mind comes from Benjamin Graham…mentor to Warren Buffet. In the short run markets are like voting machines; the most popular companies get all the votes. In the long run however, the markets are weighing machines, where the value of a business matters most.

THE RETIREMENT CONUMDRUM

The retirement landscape is changing rapidly as more and more baby boomers are taking the big plunge. Traditional thinking has always been that you retire and live off your social security, pensions and savings. But is that the right thinking?

More and more, new retirees are having to make things work without the benefit of a defined benefit plan…aka, a lifetime pension from your company. In fact, today there are only 18% of workers who will actually get a pension when they retire.

This changing landscape means, you are obligated to figure out how you live off whatever resources you have for the rest of your life; which may be 30 years or more.

Retirees' 401k plans are replacing company pension plans by purchasing annuities with these funds. Annuities are the only products that will provide you with an income for life...just like the company pension you don't get. The employer contribution to your 401k is supposed to help cover what they used to pay for.

The most common belief espoused by many, many advisors is that you should only withdraw 4% per year from your retirement accounts. Others also advise that you should figure on spending 80% of what you were spending pre-retirement. This is based on your having a balanced portfolio of stocks and bonds

Both of these recommendations are not bad. Personally, I prefer to go at the expenses on a very specific level to see what you need to plan for. These include cable TV. expenses; vet fees; getting your hair or nails done once a month, magazine subscriptions, gifts, etc. (I have developed a very detailed list of common expenses that most people will see over the years. If you would like a copy, e-mail or call me and I'll be happy to send you one).

The other thing with these assumptions is that they **are assumptions.** Stock yields and bond yields don't go up a set amount every year. Some years are up…some are down…some years some are up a lot…others are down a lot.

Additionally, you need to build in an annual inflation factor, because $50,000 to live on today is going to be $60,000 in five years. Over the course of your lifetime today's expenses are going to double, and then may double again.

For many individuals getting ready to retire in the near future, it may be worthwhile to look at a couple of different strategies.

1. If you're worried about having enough money, perhaps you may want to think about working longer.
2. Working longer also means that you are not accessing your savings for an extra year or two or three…. That means that they will last you to an older age.
3. An added benefit of working longer will also mean a bigger social security check. Taking social security at 62 will reduce your full retirement benefit by 25%. If however, you work past your normal retirement age, your check will increase by an additional 8% per year up till age 70.
4. Can you reduce expenses somewhat without sacrificing a comfortable retirement?
5. There are a host of other strategies to make retirement work, and I'll leave you with one more to think about: working part-time in retirement.

The part-time idea should not freak you out. Part-time doesn't mean doing what you worked 40 years to get away from. There are however, a lot of fun possibilities that may be able to generate $10,000; $15,000; even $20,000 a year doing something you enjoy. Depending on what you might do, working 3 mornings a week could give you extra spending money and make your nest-egg last that much longer.

There are so many moving parts to this motion picture film, you should seek professional advice to determine how yours could play out.

SOME ANNUITY IDEAS:

Have low interest rates and an uncertain economy stopped you from making long-term investments? This reluctance to do anything could come at a cost, such as a reduction of income.

Immediate and fixed annuities have often been the investments of choice for people who want steady income and tax-deferred growth. And when used together as a "split-annuity," these investments could possibly provide a return that might keep pace with prevailing interest rates while not tying up all of your funds.

An immediate annuity will pay you a predictable amount of money each month for a fixed term (or lifetime). N.B. Once you make the investment, the funds are generally not accessible.

On the other hand, a fixed annuity's income accumulates tax-deferred. And you can withdraw the earnings and a certain percentage of the principal (depending on the issuing company's guidelines) each year.

The concept of the split-annuity is that by the time your immediate annuity's term runs out, and the payments stop, your fixed annuity will have grown enough to replace your original investment. Then you can start the process over again at the current interest rates, which could be higher or lower than your prior investment's.

The calculation to determine what portion of your split-annuity should go into the immediate annuity will depend on the current interest rates and the number of years for the payouts. Consult with a professional to determine the right number.

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Even the best experts can't predict how certain investments will perform or the income that you'll see from them. Nevertheless, you might need a set amount of money each month to pay nondiscretionary expenses like mortgage payments, auto loans, and life insurance premiums.

Frequently these monthly outlays are fixed for a specific number of years. To pay these predictable expenses, you may want to consider a fixed, immediate annuity to provide a steady stream of income for your lifetime and/or your spouse's lifetime.

You may also wonder about those expenses that will increase in the future, such as real estate taxes, auto insurance, or homeowner's premiums? Some immediate annuities offer several options to meet your future needs too, including an inflation protection rider that will let your income rise annually.

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A Fixed Immediate Annuity can eliminate your Required Minimum Distribution (RMD) calculation each year. If you own an IRA, hold a Keogh, or still have assets in a qualified retirement plan that was offered by a previous employer, then you may need to think about the best way to withdraw the funds, as the IRS requires, while making sure that you don't outlive your income.

One choice is to remove the money all at once and pay the tax. That step, however, may put you in a higher tax bracket. Another option is to go along with the government's guidelines and calculate your RMD that you must withdraw each year after you turn 70½.

But what if there was a way to not have to do those calculations and also not worry about tax law changes and market fluctuations that could affect retirement accounts every year?

A tax-qualified, fixed immediate annuity will spread the tax liability over your projected lifetime and automatically satisfies the IRS's requirements, so you will never have to calculate the RMD.

A check will arrive every month, or whichever schedule you select, for the rest of your life—no matter how many years that might be. All you will have to do is pay the income tax on what you actually received, not what remains in the account!

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Retirees often want to know how quickly they can get to their money in case they need to cover extraordinary expenses such as a medical emergency, or a home or auto repair. This need for liquidity may cause them to avoid annuities. However, when you look closely, you'll see that annuities can possibly provide access to funds that can accommodate many circumstances.

For instance, what if you need to take out money before the annuity matures? Most companies will let you remove a portion of your account's value each year without paying a withdrawal charge. This is usually 10%, and once the surrender charge period expires, you'll be able to withdraw as much as you want without paying any penalties to the issuer.

But annuities also can allow for other circumstances. Suppose you are worried about money for future long-term care or a medical emergency? Some annuity companies will give you penalty-free access to your funds if you have to go to a nursing home or come down with a critical illness.

And what about income?

If your situation changes and you need income from an annuity, you will have the opportunity to annuitize the contract and receive payments for a fixed period. You can also get payments that will last your lifetime or even as long as you and your spouse live. Once you annuitize the contract, the annuity is not considered includable for Medicaid qualification purposes (the income could be, however).

What happens when you die? Will your survivor get the money he or she might need? The annuity company will transfer the account's value to your designated beneficiary without any surrender charges, penalties, or probate fees.

Do you think that there is a chance that creditors might come after your money? Many states' laws protect annuities from creditors.

So before you decide that annuities don't offer the ease of access that you might need to your funds, look at the complete picture. Examine what you might need this money for—what situations would you consider potential emergencies? It's possible that an annuity company has just the right option for you.

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Are fixed annuities safe? Safety is a relative term because what is safe to one person is risky to another. For instance you may consider a U.S. Treasury bond one of the safest investments since it is backed by our government. But a true skeptic might say, "Suppose the U.S. government couldn't pay its obligations anymore? The bond could then be worthless." Yes, he could have a valid point. However, putting the extremes aside, safety is one of the top reasons that people buy fixed annuities.

There are several independent rating agencies that regularly assess the financial strength of insurance and annuity companies. Included are A.M. Best, Duff & Phelps, Moody's, Standard & Poor's, and Weiss Research. These firms will give you an evaluation of a company's balance sheet strength, operating performance, and ability to meet ongoing obligations.

In addition, all companies must follow the "legal reserve system." This is a set of rules on asset management, accounting, and reserve requirements. The reserve requirements assure that funds are set aside specifically to protect against an insurance company's portfolio losses.

Furthermore, insurance companies are state regulated. And all 50 states, the District of Columbia, and Puerto Rico have guaranty associations to which licensed life and health insurers must belong. When states determine that an insurer is insolvent, a mechanism within the association protects the policyholders and can possibly help pay the claims against financially-troubled insurance companies.

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☺ Looking for a directory of web sites to save on a variety of purchases? Go to www.ConsumerWorld.org/pages/bargains.htm

☺ At www.nerdwallet.com/health/hospitals you can find hospital average charges for the most common inpatient services.

☺ If you are looking for your current Social Security benefit statement, you can find it at www.socialsecurity.gov/mystatement

☺ Most travelers would like to know where their seat is on an airline flight they have…or may be in the process of booking. You can find seat configurations for most flights at www.seatexpert.com

☺ You can track flight status at airports worldwide at www.flightstats.com

☹ Did you know that for every rise of 1% in interest rates, there is a corresponding loss of value in bonds…multiplied by their duration? Example: a 1% rise in interest rates on a bond with a 5 year duration= 5% loss. On a 10 year duration= 10% loss.

☹ Did you know that starting this year, the Bureau of Labor Statistics will begin to include services when they calculate inflation for the Producer Price Index (PPI)? What?!? You mean that all along they haven't included services which make up 90% of our economy?