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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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> **"Physically, I'm pretty well depreciated. I'm getting down to salvage value"..............Warren Buffet**

Along with a brilliant mind, Mr. Buffet also comes with a sharp wit! He drives to work every day in his 2014 Cadillac XTS, and takes with him about $2.95 to get his breakfast at McDonalds. Some days it's $2.61; others $3.17. It all depends on how the markets seem to be doing.

The markets keep heading higher. What gives? I hear many analysts talking about this market 'being long in the tooth'. It's been going since March 2009. That's 8 years!

"The Market Can Remain Irrational Longer Than You Can Remain Solvent"
John Maynard Keynes.

For those of you who have been reading my newsletter for a while have seen this quote before. The reason why I still use it is because, the market can stay irrational longer than you can remain solvent.

Let's be clear about one thing. Markets DO NOT die of old age. There is no set time frame for it to roll over. (ie; 100 months) If it did, we'd all be rich beyond our wildest dreams.

Although this market is not cheap (and I've said that before), it can keep going. Remember Alan Greenspan's famous quote about irrational exuberance. He said that on December 5th, 1996. I remember that.

Many investors got scared and got out of the market. What they missed were gains of 33.4%; 28.6% and 21.0% in 1997, 1998 and 1999 respectively. See, told you markets can stay irrational.

OK, so you're no doubt thinking; then when does a market finally pack it in and ride off into the sunset? Is there an indication that I should be on the look-out for?

There is no absolute rule – rules are sometimes broken. But there are some yellow flags that you should pay attention to. When several are taken together, you may have too many signs to ignore:

1. Irrational Exuberance. When everyone is all in. When you start having IPO conversations with your UBER driver. When the doorman starts giving you stock tips. (I didn't say Greenspan was wrong…just early). When all the talking heads are extolling the virtues of being fully invested.
2. Another sign is when valuations just don't make sense. The comment I always make to investors is to think of Price-to-Earnings ratios -P/E – as the amount of time it would take you to get your money back. So you give me $1000 to invest and with that money I earn $100 every year = P/E 10. Therefore, it's going to take me 10 years to make that $1000 back. If you invest in a company with a P/E ratio of 100….I hope you're still exercising & taking your vitamins!
3. Recessions accompanied with job losses and reduced corporate profits.
4. Geopolitical events.

Notwithstanding fully priced markets, like the one were in, you can usually find something to buy if you're paying attention. I usually look at companies that report good earnings, good growth, good year-over-year comparisons and with good management that see their stock price absolutely riddled with bullets after they report earnings.

Something was said in their earnings call that the knee-jerk traders didn't like and they trashed the stock. This can be a moment to salivate. (not always, but sometimes). Over the course of my career, some of my best purchases came this way.

Warren Buffet had two sayings for this:

'Long ago, Ben Graham taught me that PRICE is what you pay; VALUE is what you get. Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down'.

'The best thing that happens to us is when a great company gets into temporary trouble…we want to buy them when they're on the operating table'.

WHERE SHOULD YOU MOVE TO?

Kiplinger's recently wrote two stories about the best and worst states for retirees. Their criteria were:

State income taxation
Sales taxes
Estate taxes
Home values
Property taxes
Pension taxation

Listed here are the states in question. After the list I have inserted a link to the web page if you care to read the entire article.

10 Least Tax-Friendly States for Retirees 2016

1. Vermont
2. Connecticut
3. Rhode Island
4. Minnesota
5. Oregon
6. Montana
7. California
8. Nebraska
9. New Jersey
10. New York

http://www.kiplinger.com/slideshow/retirement/T037-S001-10-least-tax-friendly-states-for-retirees-2016/index.html?rid=SYN-yahoo&rpageid=15575&yptr=yahoo

2015 Rankings: 10 Most Tax-Friendly States for Retirees in 2016

1. Alaska
2. Wyoming
3. Nevada
4. Mississippi
5. Georgia
6. Delaware
7. Arizona
8. Louisiana
9. South Dakota
10. Florida

http://www.kiplinger.com/slideshow/retirement/T037-S001-10-most-tax-friendly-states-for-retirees-2016/index.html

12 REASONS THAT YOU COULD GO BROKE IN RETIREMENT

1. You get out of stocks…that's where you are able to grow your assets.
2. You have too much invested in stocks, forsaking fixed income securities.
3. You outlive your money instead of having your money outlive you.
4. You spend too much.
5. You only have one source of income.
6. You need to work but cannot.
7. You get sick.
8. You tap the wrong retirement accounts in the wrong order.
9. You don't consider taxation.
10. You offer some support to your adult children.
11. You are underinsured for your health care needs.
12. You get scammed.

(again, article courtesy of Kiplinger's)

13 FRIGHTENING RETIREMENT STATISTICS

1. People could routinely live past 100; but they may not want or afford to.
2. Half of all Americans are afraid that they will outlive their money.

3. Women in their 50's have higher levels of debt and life disruptions due to divorce & widowhood.
4. Women often regret not waiting to claim their social security benefits.
5. Social Security is not keeping pace with the real cost of living.
6. Gen-X (after baby boomers) are very anxious about funding their retirement.
7. 82% of caregivers are concerned about having enough to fund their relative's lifetime illness.
8. Retirees will EACH need approximately $130,000 to cover lifetime health care costs.
9. 60% of Americans don't know how they're going to fund health care expenses.
10. Thirty percent of Americans age 55 have no retirement savings. Excluding their home, those age 65 have $27,322 in retirement assets. The majority of Americans plan to work during retirement; 35% because they have to.
11. Divorce rates among baby boomers are rising and supporting two households instead of one means living standards fall dramatically.
12. Adult children are moving back in with their baby boomer parents, thereby derailing their parent's retirement.

WILL YOUR INCOME LAST A LIFETIME?

Many seniors can recall when Social Security was regarded as the basis for a retirement income plan. The government guaranteed the lifetime payments with occasional cost-of living increases. Then corporations stepped to the plate and provided defined benefit plans that assured employees a lifelong income during retirement.

With these two revenue sources, it became easy for retirees to feel confident in their financial futures. But times have changed. In the late '70s and early '80s, high interest rates and inflation meant Social Security and pension plan checks would not buy as much as they had before. And scores of people were forced to live on less.

Then in the '90s, many companies did away with their pension plans to give workers more control of their retirement dollars and offered 401(k)s and similar defined contribution plans. The stock market surged, and employees invested their money. Of course, we all know what happened afterwards.

Your employer may have canceled its pension plan before you retired. And the future of Social Security is always a popular subject for the politicians to debate. However, there is no reason that you cannot create your own personal pension plan to fill a possible gap in your lifetime income plan.

A fixed immediate annuity can provide an income that you cannot outlive and supplements Social Security and investment income. In addition, options such as inflation protection and survivor income are available to meet your specific needs.

QUALIFIED vs. NONQUALIFIED ANNUITIES – WHICH SUITS YOU?

Qualified annuities carry significantly different contribution, withdrawal, and tax regulations compared to nonqualified annuities. Know these differences to choose which type you should use.

An annuity is a contract you make with an insurance company to receive a series of payments – usually for life – in return for your 'premium' contributions. You can purchase either a fixed annuity or a variable annuity.

An annuity has two phases: accumulation and annuitization. During the accumulation phase you contribute (pay premiums) to it that are invested for growth. You receive your series of payments during the annuitization phase.

Unqualified annuities

Earnings within an annuity –like those of a life insurance contract – are not taxed as long as they stay in the annuity. Taxes on these earnings are deferred until they're withdrawn. But if you withdraw any earnings before 59½, the IRS imposes a 10% penalty on you – in addition to any other income tax and contract fees that may be imposed.

Contributions during the accumulation phase are unrestricted. You can pay in equal payments, an immediate – one time - payment, or any other amount you wish. But all contributions are made with after tax payments.

Lastly, you could begin your annuitization payments as late as you like. Many insurance companies may require you to begin at 85, but that's up to the contract. You pay tax only on the earning's portion of each payment.

Qualified annuities

Qualified annuities are regulated by the same tax benefits and restrictions of other qualified plans like IRAs. The table below compares unqualified to qualified annuities.

The main additional benefit of a qualified annuity over an unqualified annuity is the use of pre-tax contributions. However, yearly contributions are limited with a phase out of the deductibility at high incomes if you have a qualified plan at work.

Also IRS regulations force annuitization to begin in the year you turn 70½ with payouts that satisfy the required minimum distribution (RMD) of qualified plans. The full payout of a qualified annuity is taxed as ordinary income since only pretax contributions funded it.

Transfers or Rollouts into Qualified or Unqualified Annuities

You can use a qualified annuity to receive a rollout of an IRA or 401k or other 'pre-tax based' qualified plan. You would only use an unqualified annuity if you had first paid taxes on anything you rolled out of such a plan.

Some pension or 401(k) plans may offer the lower capital gain taxation rate for a portion of their distributions. In that case it may be advantageous to pay the tax for that portion and roll that into an unqualified annuity.

Annuity	**Nonqualified**	**Qualified**
Tax-deferred earnings	Yes	Yes
Early withdrawal penalty (10% IRS)	Yes	Yes
Contribute with pre-tax dollars	No	Yes
Contribution based on 'work' earnings	No	Yes
Yearly contribution limits	No	Yes
Accept direct rollover from qualified plan	No	Yes
Withdrawal requirements	No, or much later	RMD at 70 1/2

There are at least four things that may possibly impact the return you receive on your Fixed annuity:

- Market interest rates
- Budget deficits
- Income tax rates
- Competition between companies

Of these, interest rates probably have the greatest bearing, and this can even be more critical whenever entering a period of rising inflation and higher interest rates. Annuity accounts grow faster when interest rates are higher. Buying annuities when interest rates are low could lessen the overall value of your investment and effect payouts.

Many annuity companies offer multi-year guarantees (MYGA) whether rates are falling or rising. When interest rates go up, MYGAs can become even more attractive since their rates climb too. *Please note that MYGA Annuities will often have higher fees and charges than annuities that do not offer these guarantees.*

Budget deficits can also affect your annuity's performance. When deficits are high, the government may need to borrow more money to finance its debt. That means it is competing with other borrowers—corporations, municipalities, and you—for the lowest possible interest rate on the money it needs to borrow.