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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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'I Don't Make Jokes. I Just Watch the Government and Report the Facts.' Will Rogers

How are two of our most important entitlement programs doing? The annual Trustee's report cards have recently come out on the state of the finances for Social Security & Medicare.

As background history, Social Security's retirement & disability programs have reserves which are supposed to be housed in a trust fund and paid for from our country's tax revenues. Medicare has a similar reserve fund. As you probably have guessed, the news is not very good.

Today, unfortunately, tax revenues are not sufficient to cover the 61 million Social Security beneficiaries or the 57 million Americans on Medicare.

This begs the question: what's happening to the interest payments these funds are supposed to be receiving from the U.S. government for investing the excess tax revenues in United States Treasury bonds?

Well, the government is using that money for other purposes (aka – non-entitlement budget items). The Trustees report that the $2.8 trillion earmarked for Social Security will be depleted by 2034. The Medicare fund will be depleted even earlier – 2029.

So what can be done? Congress either has to figure out a way of raising more revenues through things like FICA taxes…borrow more money…or cut benefits. Neither Social Security, nor Medicare can borrow money to pay benefits.

So, if nothing is done by our representatives in Washington, Medicare would have to reduce payments to providers by 12% in 2029, and Social Security would have to cut benefits to its beneficiaries by 23% in 2034 (affecting 87 million Americans.

So, the choices available to Congress are:

*increase payroll tax rates
*lift the income cap on those taxes
*increase the age of eligibility
*reduce benefits
*or a combination of these options.

The days of kicking the can further down the road are basically over. Like it or not, politicians are going to have to start making some hard decisions.

MARKET SNAPSHOT

Many investors are scratching their heads wondering how to proceed in a market like this one. Should I cash out and take profits…or do I keep plowing money into stocks and bonds?

As I've said repeatedly, markets generally correct because of a recession. Right now there are no indications that one is one the horizon, but 'black-swan' events can and do arise and can completely shake up markets.

Objectively, if you look at the elements of a bull market, all the key ingredients are still in place.

1. The market trend is pointing upward. Remember, the trend is your friend.
2. The economy is expanding. Our latest GDP number was 2.6%.
3. Corporate earnings are growing.
4. Stocks are more attractive than bonds given that the 10 year Treasury is only yielding 2.2%.

Having said this, there are 4 major risks with this market:

1. The yield curve has been flattening over the last few years…which is generally a precursor to an economic slowdown.
2. Monetary policy is slowly but surely tightening. Higher rates can sometimes trigger recessions as corporate profits are affected.
3. Credit markets are showing higher delinquencies for both auto loans and student debt. This is never a good sign.
4. There is too much complacency in the market. When everyone thinks the party will go on forever, it doesn't.

AARP – 2 ESSENTIAL PATHS TO A SECURE RETIREMENT

The link below will bring you to an AARP interactive graph which will illustrate if you are on a good trajectory towards your retirement. It will only take a few minutes and will undoubtedly give you 'food for thought' Good Luck.

http://www.aarp.org/retirement/retirement-savings/info-2017/decision-tree-a-secure-retirement-essential.html

Retirement Facts vs. Fiction

George Schneider, a financial blogger at Seeking Alpha, put out a very interesting article recently that looked at several common myths of retirement planning.

It got me thinking about some of the many misbeliefs that I've also come across over my many years of retirement planning. Listed here are a few of the most popular. (Believe me there are many more than these!)

1. You need to reach a magic number for the amount of money you'll need? Not necessarily. The amount you'll need in retirement will depend on several factors.

-where you live (see my next article)
-your spending habits
-travel plans
-bequeath desires
-your health
-family longevity
-hereditary diseases in your family
-and many others

2. Your withdrawal rate should be 4% ? Again, not necessarily. One of the areas of advanced study that I took in the RICP program dealt with this issue extensively. In conjunction with your advisor, withdrawal rates can fluctuate based on how well…or not so well…your portfolio is performing. The provision here is that you must be willing to make adjustments in discretionary spending in down periods, or conversely, take that extra trip in good times.

3. You own bonds so you have no investment risk? Not so fast. As interest rates rise, the value of the bond you own will fall. This logically has to be the case because newer bonds will carry higher coupon rates. Therefore you must lower your price to remain competitive with the new bond.

An example here will help:

Say you own a bond at $1000 value that pays a 4% coupon rate. This means that the bond will pay $40 per year on that bond.

If a new $1000 bond comes out paying 5%, it will pay the bondholder $50 per year.

To be competitive, you have to cut your bond price from $1000 to $800 to have the same equivalent yield as the bond paying 5%.

$40 (interest) / $800 = 5%

This results in a 20% loss for you on your bond. Yikes!

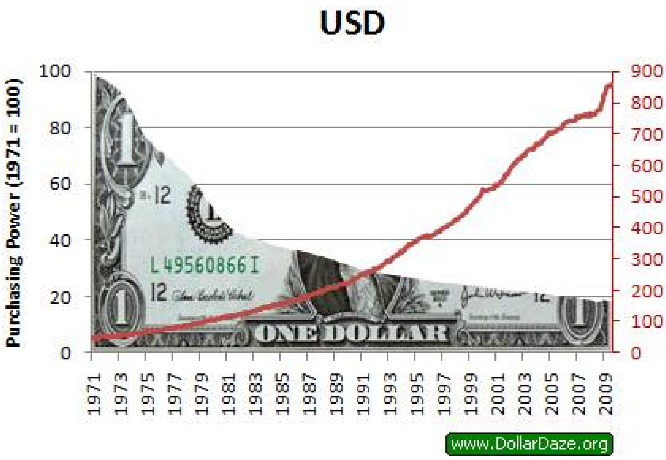
4. Most investors do not think about re-investment risk, but it is very real. This will happen when you have a bond that matures, so you get all your money back…but rates may have fallen significantly. Where you originally invested at, say, 4% you can only now get 3%. That's a cut in return of 25%. Ouch.

5.Inflation is low and doesn't concern me? Remember the 1980's when interest rates and mortgage rates were through the roof. Your spending power was decimated.

Again, an example will prove useful:

Let's say you need $75,000 today to meet your expenses in order to maintain your lifestyle. At a 3% inflation rate, you will need $87,000 in just 5 years to have the same spending power.

Here's a chart that shows the value of one dollar when compared from 1971 to 2009.



6. I'm in good health. I won't worry about medical expenses. Think again.

Fidelity Investments, which has been tracking retiree health care costs for more than a decade, estimates that a 65-year-old couple retiring this year will need $240,000 to cover future medical costs. That doesn't include the high cost of long-term care. Nor does it take into account additional costs you may incur if you decide to take — or are forced into — early retirement before your Medicare kicks in. Finally it also does not include the cost of a Medicare Supplement policy.

7. I really won't have much to pay in taxes. Hold on. You'll probably pay more than you think:

First, let's check out where pensions are taxed…or not.

There are many considerations that go into which state to retire in, and the taxes on your **pension** should be one of them. Taxes can be burdensome for those who plan to live on all or a substantial amount of their pension, and there are 11 states that won't tax a public or qualified private pension.

States That Don't Tax Public and Qualified Private Pensions

- Alabama
- Alaska
- Hawaii
- Illinois
- Kansas
- Louisiana
- Massachusetts
- Michigan
- Mississippi
- New York
- Pennsylvania

The states that are not on this list tax at least a partial amount or the total amount of public and private pensions. Some states will only tax private pensions, while exempting public pensions earned in that state. For example, if you retire to a state that taxes public pensions, and your public pension was earned in the state you're leaving, you'll have to pay pension taxes. It's for this reason that some choose to earn a pension in states they plan to retire in.

States That Won't Give You a Break

It's also important to know the states that tax the entire pension amount. These are:

- California
- Indiana
- Nebraska
- Rhode Island
- Vermont

The other states that don't fully exempt pensions from taxation offer a partial exemption. However, if you live in one of these five states, you'll be taxed on it all. This includes private and public pensions.

Read more: http://web.finweb.com/retirement/11-us-states-that-dont-tax-pensions.html#ixzz4qhUUfKHa

Ok, now that we've looked at pensions, let's examine a few other items that will be faced with taxation:

*Interest Income – taxed as ordinary income.

*Long-Term Capital Gains – if your tax bracket is 25-35% these gains are taxed at 15%. If your bracket is 39.6%, then you'll pay20%.

*Short-Term Capital Gains – taxed as ordinary income.

*If you are in the 10-15% tax bracket you will pay NO tax on capital gains.

*Municipal Bonds – are not taxed at the Federal level.

If you are a resident of the **state** in which a **municipal bond** is issued, you may not have to pay **state** or local income taxes on the interest income. The interest rate, or yield, on a tax-free **municipal bond** is typically lower than **taxable** Treasury or corporate **bond** yields.

If your bond is out-of-state there's a good chance it will be taxed at the state level.

Finally, Treasury bonds are taxable at the Federal level, but not the state.

MISCELLANY ☺

• Looking for a way to see how much money your favorite charity is getting over to the cause. Check out www.charitynavigator.org and follow their prompts.

• Did you know that the files that you deleted on your old computer can be brought back to life with very inexpensive software? So if you're giving your computer away, make sure there is absolutely nothing that can be retrieved. Two free programs can solve that problem. Go to: www.fileshredder.org or www.killdisk.com

• Have you ever been frustrated dealing with the government on what benefits or services may be available? Believe it or not, they have created an answer to that problem. You can call 1-800-333-4636. They have operators on duty Monday-Friday from 8 a.m. to 8 p.m. Eastern. Alternatively, you can go on-line at www.answers.usa.org

• With all the banking problems out there, it pays to check up on your bank to see how stable they are. You can do this easily by going to http://banktracker.investigativereportingworkshop.org

Go Where Your Money Gets Treated The Best.

Bloomberg recently came out with a couple of interesting charts. They show you the 10 best states where your money goes the furthest…and the 10 where your money gets beat up the most.

Although none of these twenty states may be where you want to live, they may give you second thoughts!