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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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However beautiful the strategy, you should occasionally look at the results

Well on the surface it looks like we may have embarked on a few trade wars. Whether this is all going to show itself as a master negotiating maneuver, or a downdraft for the economy, only time will tell. No matter what, there's a lot of wood to chop!

The trade deficit with China in particular, is truly lopsided. In 2017 they exported $506B to the United States, and we exported $130B back to them. Unquestionably, something needs to be done to correct this imbalance.

But the reality is, trade wars favor no-one. Our biggest single export to China is soybean; we have 300,000 soybean farmers who exported $15B last year, whose farms are at risk due to falling prices. This hits the very breadbasket of the country, We can only hope that a resolution is found before serious damage is done. As the slogan goes: No farms – no food!

IRA's Are a Different Kind of Beast!

Ed Slott, has spent the past 30 years totally devouring anything and everything related to IRA's. He is nationally known as the IRA 'guru'. He recently put together a brilliant synopsis of why and how they are different from other kinds of property. Below is his summary.

IRAs Are Different

The reason the IRA tax rules are so confusing, even for CPAs, is that they are different than the tax rules for almost all other types of property. Here are some examples:

• Estate planning is different for IRAs because IRAs are distributed differently than all other assets both during life and after death.

• IRAs pass by contract (generally not by will).

• IRAs have required minimum distributions (RMDs). Other assets are not forced out.

• IRAs have their own set of complex distribution rules both during life and after death.

• IRA distributions can incur costly penalties.

• IRAs are highly taxed upon death or withdrawal.

• IRAs receive NO step-up in basis. IRAs are subject to double tax at death (estate and income tax, plus state versions of those taxes).

• IRA investment gains are taxed as ordinary income, not at capital gain tax rates.

• IRA investment gains are **not subject** to the 3.8 percent net investment income surtax.

• IRAs cannot be gifted or transferred during lifetime like most other assets can. This restricts the planning opportunities for couples and families. (Exceptions: a direct gift to a charity—a qualified charitable distribution and a court ordered transfer that is part of a divorce agreement)

• IRAs cannot be transferred to trusts during lifetime or after death.

• IRAs cannot change ownership during lifetime—this would trigger an immediate and complete distribution and end the tax shelter.

• IRAs cannot be owned jointly, like other property can be owned, even in community property states.

• IRA equity cannot be tapped the way home equity can be tapped without triggering tax and potential IRS penalties.

• The choice of IRA beneficiary determines the ultimate future potential value of that IRA to beneficiaries.

• Trusts named as IRA beneficiaries must qualify under specific IRS tax rules so that trust beneficiaries are eligible for stretch IRA tax benefits. There are no separate account rules for trusts named as IRA beneficiaries.

• IRA beneficiaries may qualify for special tax breaks that are often missed.

• IRAs have no principal and income concept. The entire IRA (principal and income) may be distributed to the income beneficiary of a trust leaving little or nothing to remainder trust beneficiaries.

• IRAs require their own estate plans and then those estate plans must be integrated within the overall estate plan that includes all other assets.

How to Invest Like a Pro

There are literally hundreds of research points an investor can look into when deciding if they should, or should not, buy a stock. Undeniably knowledge is power. There is one point, however, more important than all others, and the one the pro's turn to first, the – BALANCE SHEET.

When a company files their quarterly financial statements with the SEC, they include:

1. Balance Sheet
2. Income Statement
3. Statement of Cash Flows

Although all three reports are vitally important, the Balance Sheet tops the list because there are fewer ways to cheat on a Balance Sheet than there exists on an Income Statement.

Again, there are several components to look at, but the key is to examine book value from year to year. This is even more important than earnings (which can be fudged) because book value basically shows you the wealth of the company, since its inception.

Book Value = Shareholder Equity. It is what would be left over to split among shareholders if the company were to liquidate. If the stock price is lower than the book value per share, the company is said to be under-valued.

I don't wish to make this this examination too complex by going into discounted cash flows, future cash flow/earnings, appreciated assets relative to stock price, terminal value, etc.

We can get just about everything we need by drilling down to the 'tangible book value; this is what is left over for you after extracting things which may or may not be worth what the company management thinks they're worth; goodwill, patents, trademarks and so on.

One final point. If you find a great company trading below book value…and has minimal or no debt…you've got a homerun!

Have fun investing!

Don't be So Quick to Sell That Life Insurance Policy

Do you own a life insurance policy that you can no longer afford or want? Perhaps you're tempted to sell it to an investor who has offered you a way to get money from this relatively illiquid asset. However, before you take the cash, be sure to get all the facts.

You just might be better off keeping the life insurance or surrendering it.

Life settlements are frequently directed towards people over age 65 who own life insurance policies with at least a $100,000 face value, have some health problems, and have a life expectancy of 2 to 15 years. When you sell a life insurance policy to a third party, you will no longer be responsible for the premiums. The investor will make all future payments to the insurance company and collect the death benefit after you die.

This concept could be attractive if you think you don't need the coverage, your beneficiaries have died, or you want the money for other things, such as long-term care insurance. But what is the cost?

These transactions can possibly have high commissions and tax implications to sellers. A study by Deloitte Consulting and the University of Connecticut found that life-settlement companies, on average, paid only 20% of the face value of the policies to the sellers. Whereas the estimated future returns to investors were 64% of the face amount.[1] Therefore, if you want to pass on the maximum amount to your heirs or a charity, you might be better off keeping the policy.

But suppose you need the money? Instead of selling the policy, a better choice could possibly be selling other assets, such as securities. Or you could take a loan from the policy. Another idea is to have your beneficiaries assume the premium payments—after all they're the ones who will eventually benefit the most. So how can you determine if a life settlement company is offering a fair price?

Compare it to your other options, such as the policy's surrender value. Think about this: You most likely bought the life insurance policy when you were healthy. And the insurance company based the future surrender values on your health at that time. These values do not change, regardless of declining health status. Conversely, the life settlement company will use your present medical condition to come up with their offer. Therefore, as the level of your impairment increases, so should the amount of the offer.

Of course, don't forget about the income 'tax free' death benefit your beneficiaries won't receive if you get rid of the policy. And in case you're still not sure what to do, remember that a seasoned, institutional investor wants to buy your policy. Consequently, it must have a significant value. My advice would be to consult with your own qualified tax and financial advisor prior to making any investment decisions.

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[1] http://www.quatloos.com/uconn_deloitte_life_settlements.pdf

Is Your Paid-Up Life Insurance Policy........................ Still Paid Up?

With the very low interest rate environment that we've been in for quite a few years now, many insurance policy owners are beginning to get notices that they have to send in a good chunk of money to keep their policies in-force; or they will lapse.

You wonder, what happened to the cash value you were building up. Well, it turns out the insurance company has ***already*** raided the cash pile inside your policy in order to keep it in force up till now. Now all that money is gone!

How can this happen, you ask? Weren't you told by your agent that if you made a certain number of payments for a specific amount of money over a set number of years, your policy would be fully paid for?

Yes, that's no doubt what you were told. What may not have been as well explained, however, is that those payment schedules were '***estimates'***...not guarantees. They were based on projected rates of return that the insurance company expected to earn over the life of your policy.

The low interest rates insurance companies are earning today means that many whole-life and universal-life policies that are 10 years, or older, may in fact be underfunded. Also, the insurance carrier has no incentive to send you this underfunded notice until your policy is on the verge of collapsing. If they gave you too much notice you may figure out a way of keeping it alive, and they'd have to eventually pay out a large death benefit.

Don't wait for a letter. Call or write your insurer and ask for an in-force illustration. Check it to see if you're heading into a brick wall. Or again, come into my office and I'll happy to walk you through this.

I remember when the candle shop in town burned to the ground. Everyone stood around singing 'Happy Birthday!... Steven Wright

Getting ready for retirement has many people both excited and nervous. Many are also looking at making a housing change. ENTER: Continuing Care Retirement Communities (CCRC's). These are campuses which allow you to age in place while providing care for every stage along the way.

They have many advantages, including:

- Assisted Living for people who require a little help with the activities of daily living (in some states this is referred to as "Residential Living" or "Extended Living").
- Independent Living for residents who don't need personal assistance (in some states this is referred to as "Residential Living").
- Memory Care (this is sometimes referred to as "Special Care").
- Skilled Nursing and Rehabilitation (both short- and long-term) in an on-campus Health Care Center.

Having several levels of care available on one campus is an incredible benefit—it provides the resident with the security of knowing that if Assisted Living, Memory Care, or Skilled Nursing Care is needed at some point in the future, they won't have to move to another community or facility.

Couples find this aspect of CCRC living especially important. Should one spouse need the services provided in another part of campus, the other can easily visit any time of day.

This benefit means that couples can regularly spend time together socializing, dining, or engaging in activities. And, they know that their loved ones are receiving the services they need to thrive and maintain as much independence as possible.

To be sure, there's a cost for this sort of convenience. Entrance fees for CCRCs, of which there are some 2,000 nationwide, can run anywhere from $100,000 to $1 million, and monthly fees can range from $3,000 to $5,000, if not more.

At the moment, some 600,000 people live in a CCRC, but experts say many residents and prospective residents overlook the financial risks they take on when signing a contract to move into a CCRC.

If fact, worst case, you could lose your entire investment should the CCRC go bankrupt. And that's why financial planners and others say you should ask hard questions about the financial status of whatever CCRC you're considering before signing any contract and moving into a facility of this sort.

CONTRACTS:

There are usually 4 types of plans (like those listed above) and depending on which one is chosen at the outset, monthly fees will vary ***greatly.***

The average entrance fee can be $300,000, or higher, which includes the cost of the home. However, each upgrade to the basic service will substantially increase those monthly fees that you have to factor into the equation.

REFUNDS:

Most CCRC's will give a refund if you move or die in the first two years. The refund gradually diminishes over this period until there is no refund at all.

If you wanted your heirs to have a guaranteed refund no matter how long you lived in the community...that is also a possibility...for a price!

TAXES:

A portion of your fees cover health care – which is a deductible medical expense. If you are 65 years of age, or older, you are able to deduct non-reimbursed medical expenses that exceed 7.5% of your adjusted gross income

FINANCIAL STABILITY:

Get a copy of your prospective CCRC's financial statements. They should be able to cover their expenses out of their operating income. Look at how much debt they are carrying. Make sure their occupancy rate is 90% or greater.

There is far too much money at stake here. Ensure that you have done all your due diligence. If you are unsure, contact a professional to do this for you.