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Planning For The Last Third

I traveled to Dallas a few weeks ago for Voya's annual Retirement Planning Conference. As is often the case, the information presented was at the same time insightful and sobering. Allow me to begin with some facts of our reality:

	50% chance	25% chance
Male age-65	Live to age-85	Live to age 92
Female age -65	Live to age 88	Live to age 94
Couple age -65	One to age-92	One to age-97

Yes, I am not so sure if this is the good news or the bad news. A couple of sixty-five-year-olds has a 50% chance of one of them living to age 92 and a 25% chance of one of them seeing 97 candles. Ya, ya, ya I hear it quite often, "I won't live that long."

However, consider that these stats do not distinguish between smokers & non-smokers, lifestyle choices, or family history. Therefore, these numbers include folks that smoke unfiltered Camels, drink a bottle of vodka daily, weigh 300 lbs. and daddy died at 55 as well as the person who exercises daily, drinks only one glass of red wine daily for medicinal purposes, meditates, is in a happily committed relationship, a no stress job, eats no red meat or processed food and has maintained the same weight since eleventh grade.

The reality is that if you are about age sixty-five, your life is only about two-thirds over. This is the "longevity risk" discussed by several speakers at the conference. It will be the longest period of unemployment in your life.

Inflation?

Inflation risk is the second primary risk. Since the "Great Recession" of 2008-09, inflation has been pretty much non-existent. However, most retirement planning models use a 3% inflation factor for the future….except for medical inflation.

Medical inflation is a very different matter. Retirement planning models usually use a 6 or 6.5% inflation factor for health care expenses. A third of health care expenses go to premiums for Medicare Parts "B" (hospital) and "D" (prescription drugs); 23% for drug payments not covered by Medicare; and 44% are Medicare "cost sharing" (deductibles and co-pays).

Individual costs will vary and depend upon your selection of a Medicare Supplement ('Medigap") policy or a Medicare Advantage plan, and any medical issues you will experience. We do not consider ourselves "experts" regarding these policies and can refer you to someone who can more fully help you to explore advantages and dis-advantages of each plan. You can also go to https://www.medicare.gov/find-a-plan/questions/home.aspx in order to do some research on which plan may be most beneficial for you.

Several speakers at the conference said that ***medical care*** (excluding Long-Term care) for a couple at age-65 can be expected to be ***$245,000 to $300,000*** for life. For a more specific estimate of "your" potential costs, call us. One of the vendors at the conference offers clients an estimate of future costs based upon the answers to some medical questions and family history.

Planning Idea

If you or a family member moves into a retirement community that requires an up-front "buy-in" be sure to talk to the facility and your tax advisor to determine if the big-check buy-in is a tax-deductible item on schedule-A. It is my understanding that if the facility offers nursing care, the buy-in may be deductible in the year the check is written. Again, check with administrators at the facility and your tax advisor.

<u>The planning idea</u> is if you or a family member has a large, one-time deduction like the one mentioned above, why not use that as an opportunity to take money from a taxable IRA and convert it to a Roth IRA. Again, talk to your tax-advisor prior to acting.

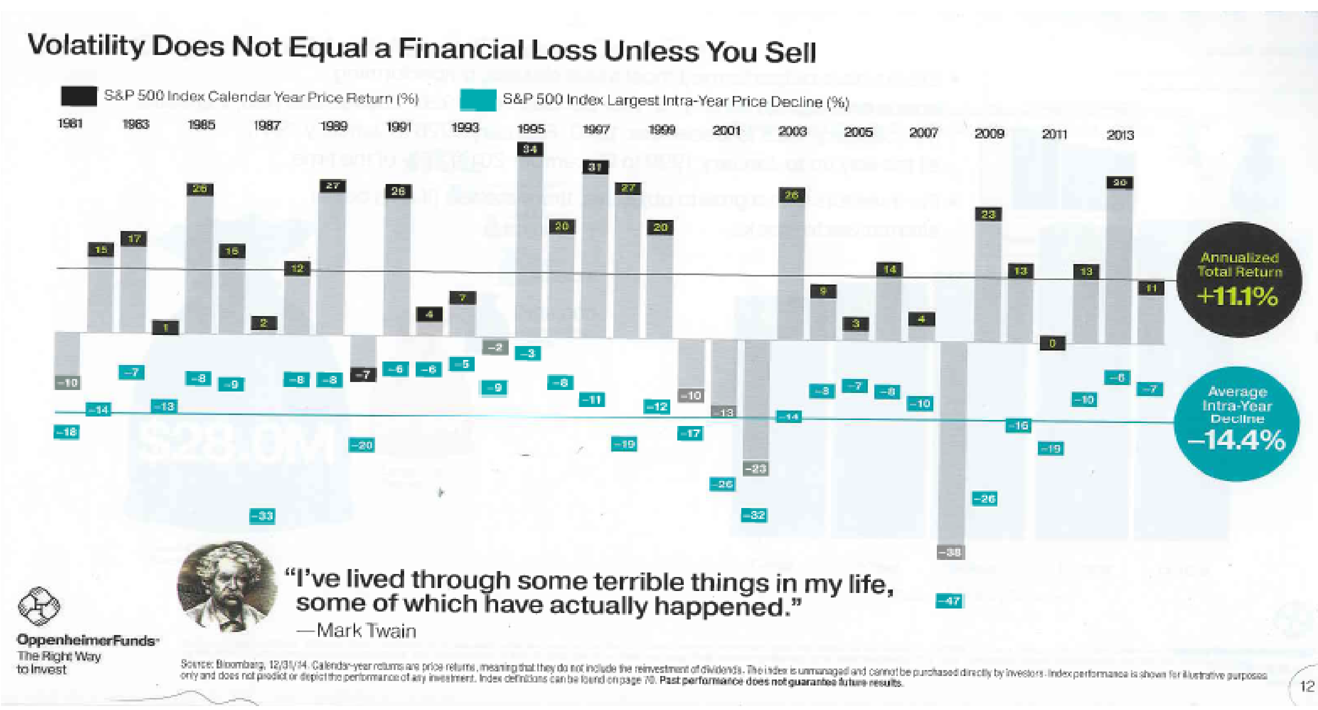
<u>Market Risk</u>

<u>This is the third risk facing retirees (and everyone else).</u> Put simply, investments (meaning stocks, bonds, real estate, commodities, gold, oil, etc.) go up and down. Personally, I feel a need to clarify and clearly state some terms. *Risk* is defined as an outcome that is different than the one you had planned for. Divorce is a risk to the "happily ever after" that you planned for. A hurricane is a risk to the perfect Caribbean vacation. A traffic jam is a risk to the twenty minute drive to your dental appointment that becomes a sixty minute drive.

Allow me to ask a question. Should you avoid marriage because you might divorce? Do you refuse to go to the Caribbean because of the chance of a hurricane? Do you walk to the dentist rather than drive because you are afraid of traffic jams?

Most people will answer no to these questions. Well over fifty percent of marriages end in divorce. Hurricanes are regular weather events yet people often travel to the Caribbean, Gulf of Mexico and places like Indonesia. Traffic issues are so much a part of life in Southern California, that depending upon the route and time of day, we plan to leave early enough to travel at 20 MPH rather than 60 MPH and still arrive on time.

So why is the stock market any different? Let's take a look at the following chart.



So just like weather events and traffic in San Diego, the stock market has events that are relatively common in their occurrence even if the predictability and regularity of the events are uncertain. No rational person would consider getting out on I-15 at 8 AM and expect to make the twenty-five mile drive from Escondido to San Diego in twenty minutes.

Yet why is that same rational person surprised when their stocks go down at some point during the year by 10%? Since 1981, the average mid-year stock market decline has been 14.4%. During the same time, the S&P 500 experienced an average annual return of 11.1%.

Markets go up and down. This is volatility. Not risk. Volatility is like the weather and traffic. Un-predictable, yet inevitable, and finally un-avoidable. Market declines do not represent loss…..unless you are seller. Market declines represent opportunity if you are a buyer.

The fact that the stock market goes up and down is not the risk. ***The risk is that you will act or better yet react inappropriately and cause financial harm to yourself.***

What about Social Security?

Good question. For a married couple, there are 167 different options of how and when to collect social security. No easy answers or one correct way to receive your benefits. We have software to calculate some options for you and several resources to call upon for assistance. So don't be bashful. *Call us and let's talk*. Oh, by the way. Be a bit skeptical of information you receive at Social Security. It appears that the job description of staff at Social Security is to help you receive your benefit as soon as possible but not necessarily to help you determine what your optimum plan is.

Some facts:

If you were born between 1943 – '54, your full retirement age (FRA) is 66.
If you were born between 1955 – '59, FRA is 66 plus a month or so.
If you were born in 1960 or later, FRA is 67.
https://www.socialsecurity.gov/planners/retire/agereduction.html

- You may apply for benefits as early as 62 but the amount is reduced by 8% of the amount you would receive at FRA for every year you collect early.
- If you delay receiving benefits beyond age FRA, your benefit goes up by 8% of the FRA benefit per year until you reach age 70.
  https://www.socialsecurity.gov/OACT/quickcalc/early_late.html

- If you are past your FRA and not yet collecting benefits, you may want to "suspend your benefits" to allow your spouse to collect a "spousal benefit."
  https://www.socialsecurity.gov/planners/retire/suspend.html
- As a spouse to someone eligible for Social Security benefits, you may be eligible to collect a benefit if the "spousal benefit" is greater than your own or you wish to delay filing for your own benefit.
  https://www.ssa.gov/planners/retire/applying6.html
- If your deceased spouse paid into Social Security you may be eligible to collect a "survivor's benefit."
  https://www.socialsecurity.gov/planners/survivors/onyourown.html
- The surviving spouse benefit is greater of the two benefits…..not both benefits.
- If you were married for at least ten years and not currently married, you may be eligible to collect benefits based upon what your X-spouse paid into Social Security. This may allow you the option to delay collecting your own benefit to age 70.
  https://www.socialsecurity.gov/planners/retire/yourdivspouse.html
- Historically, Social Security benefits are indexed for inflation although there will be no increase in 2016.
- Stop the Presses….***New Rules per the 2015 Budget Act*** just signed. The spousal benefit is eliminated if you are waiting to file for your own larger benefit at a later date. This applies if you are filing for benefits after April 30, 2016. Planning is now more important than ever. *Call us.*

Based upon the life expectancy numbers given earlier, lifetime social security benefits for a couple can easily exceed $1M plus or minus $200,000 or more. This is not couch change and can be a very important decision that is not to be made lightly based upon a suggestion from a person that has not done the calculations. In other words, be careful about taking suggestions from relatives and golf buddies.

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