

“If We Hurry...”



When you hear “*If we hurry...*” what’s your gut reaction?
For example...

- If we hurry*, we can get dinner and still make it to the movie.
- If we hurry*, we can still make our deadline.
- If we hurry*, we can buy the shoes on sale.
- If we hurry*, we can do Disneyland and Universal Studios in one day. (Wait...you can’t do that, even if you hurry.)

If-we-hurry is everywhere in almost every aspect of work and leisure. Some of us live in a perpetual state of if-we-hurry. Observation suggests two primary drivers compel us to accept an if-we-hurry mindset.

These imperatives tell us that if we go a little faster, squeeze in

1. We believe (or have been told) we are behind, and need to catch up.
2. We believe (or have been told) we need to act on our FOMO – our fear of missing out.

one more thing, we might get all we need or want. But while a successful use of if-we-hurry may leave us satisfied – or at least relieved – it usually takes a toll, and adds risk.

If-we-hurry can accelerate mental and physical fatigue (along with indigestion when you scarf down snacks between rides at Disneyland). In if-we-hurry mode, we may not produce our best work, or fully enjoy whatever it was we were rushing to experience in our leisure time.

And if-we-hurry doesn’t always work. In our haste, we overlook important information, take risks that don’t pay off, or add so much stress that it negatively affects the outcome.

At some point, whether we encounter success or failure, we might ask: Do we want to keep living at an if-we-hurry pace, making if-we-hurry decisions? That’s a question not only for our daily actions, but our finances as well.

If-We-Hurry in Wealth Accumulation

We are bombarded by if-we-hurry marketing every day, telling us “The sale ends today!” or “This is a faster way to clean your house!” These messages are so frequent many of us have learned to regard them as advertising white noise.

But there is an almost universally accepted if-we-hurry financial strategy that ought to get greater scrutiny: **Accepting additional investment risk in the hope of receiving a higher return.**

You may not recognize increased investment risk as an if-we-hurry approach. But think about it. Why do individuals acquiesce to greater risk? Invariably, it comes down to the same two if-we-hurry issues:

1. We feel we are behind in our accumulation plans and need to catch up.
2. We are afraid we might be missing out on receiving more for our money.

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* The title of this newsletter should in no way be construed that the strategies/information in these articles are guaranteed to be successful. The reader should discuss any financial strategies presented in this newsletter with a licensed financial professional.

It's Easy to Get Behind

A fundamental of personal finance is incremental wealth accumulation through consistent saving. But saving to eventually become wealthy – or at least financially secure – is hard. It requires a lifetime of discipline, and on a percentage basis, a lot of money. Retirement researcher Wade Pfau studied historical investment results for the past 120 years and concluded that a “safe saving rate” – i.e., one that would provide a secure retirement under almost every circumstance – requires households to set aside 17-20 percent of income for 30-40 years.

Few of us can maintain this level of financial discipline for such a long time, because stuff happens along the way – a job change, a divorce, an illness, a bad decision – and it's easy to get behind.

If saving for a lifetime is hard, catching up is even harder; every year you don't save 17-20 percent, you have to save *more* the next year, or next several years. And if you couldn't save 20 percent last year, how are you going to save more? Well, “*if we hurry...*”

Getting a higher rate of return on savings could make up for not saving enough. On paper, this is mathematically true; over prolonged periods, the difference between 2 and 6 percent returns is substantial. But in most instances, seeking a higher return comes with a greater likelihood of losing money; the odds of both success and failure are increased. This is the definition of volatility, and volatility tends to add stresses – just like most if-we-hurry decisions.

...And There's FOMO

Every day, some investor, somewhere, at some time, receives above-average returns from a decision to accept greater risk. Theoretically, you could have had the same results, but you didn't pull the trigger. And the fear of missing out takes hold.

Implicit in the fear of missing out is an if-we-hurry need to act *now*. Often there is a “window of opportunity,” a moment when an idea, a product, or sector of the economy is hot. Your best chance to duplicate another's results is to open the same window at the same time; later won't be the same, and in fact, may be too late.

And missing out once intensifies the fear of missing out again. In fact, missing one if-we-hurry opportunity almost compels you to take the next one.

Accepting More Risk Seems Inevitable. But Is It?

Conventional financial wisdom says that if-we-hurry investment risk is necessary – to stay ahead of inflation, to maximize returns, to not miss out on the fortunes that could be ours. But accepting this mantra means accepting a greater possibility of losing money. Is this really the only option – or the only one we are presented? The truth is, there are other choices, and they don't include if-we-hurry.

Instead of an if-we-hurry impulse to take more risk, a **more measured response is to figure out if you can save more through financial efficiency**, by restructuring debt, or reducing costs. (For example, doesn't it seem like people who change their cell phone service and auto insurance end up with about \$1,000 in savings?) Your financial condition is constantly changing, and now might be a good time to see if there are tweaks that can boost your savings – without additional risk.

Even if you can't increase your savings, **you have the option of deciding additional risk isn't worth it**. The flip side of possibly earning more through investment risk is the possibility of having even less. This reality may be glossed over in an allocation decision, because we are so narrowly focused on catching up or not missing out. But there is value in knowing that what you have is secure and/or guaranteed (even if it's not as much as you want), as opposed to putting your less-than adequate savings at greater risk.

You might think that a decision to decline additional investment risk means settling for a lesser accumulation. But **the difference between taking investment risk and “settling” for accumulations in guaranteed financial products may not be as great as you think**.

To accurately evaluate their performance, the historical returns reported by many types of investments should recognize the costs of taxes and fees incurred by individual investors. These costs, while unique to each situation, result in lower real returns. Also, the volatility inherent in riskier accumulation options tends to sabotage the “perfect investor behavior” needed to have the best chance of receiving higher returns. Instead of remaining invested through fluctuations in value, volatility compels some individuals to change course, liquidate, etc. Studies show many retail investors end up worse off from these if-we-hurry adjustments.

When you compare the real results from if-we-hurry investment decisions to some guaranteed options (particularly those with tax-favored status), you may find there isn't a lot of difference, except for the absence of if-we-hurry stress.

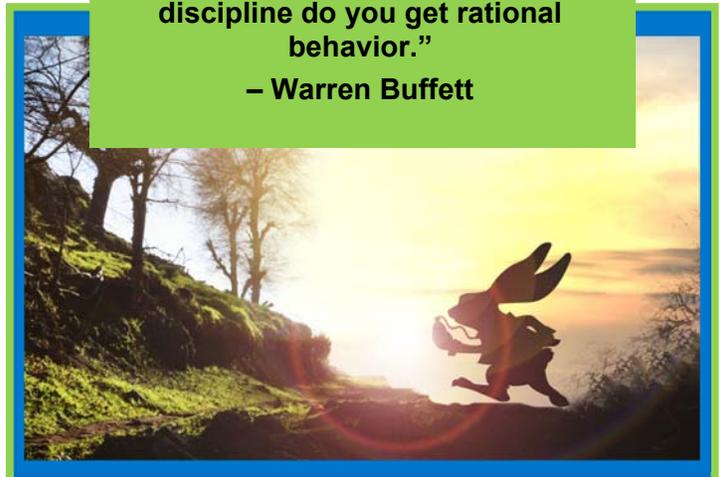
Warren Buffett's Example

This is not a rant against investment risk. It is a caution about taking an if-we-hurry approach to it. A deliberate attempt to add savings, and properly balance guarantees is a good foundation for...wait for it...taking investment risk the right way. Without if-we-hurry.

Warren Buffett, arguably the world's greatest living investor, is the epitome of refusing the if-we-hurry mindset. Even when others decry his approach, he occasionally stockpiles cash, patiently waiting for the right opportunities. Warren Buffet doesn't do if-we-hurry. And you shouldn't either. ❖

“Only when you combine sound intellect with emotional discipline do you get rational behavior.”

– Warren Buffett





To teach a strategy or concept, a financial professional might put forth a hypothetical situation, asking a prospective client to “just imagine what it would be like if...”

And sometimes, there’s a skeptical response: “That’s just a hypothetical. Does it really happen like that?”

As long as the scenario is hypothetical, or make-believe, skepticism is plausible. But it’s a bit harder to remain skeptical with a real-life example. Like the Harry Chapin story.

The Story

Harry Chapin was an American singer-songwriter and humanitarian who rose to fame in the 1970s. Known for what he called “story-songs” like “Taxi” and “Cat’s in the Cradle,” by 1980 Chapin was one of the most popular and highest-paid musical performers in the country.

On July 16, 1981, Chapin was driving on the Long Island Expressway (I-495) en route to a benefit concert. Traveling in the left lane at 65 mph, Chapin suddenly put on his emergency flashers, slowed to about 15 mph and veered into the center lane. After nearly colliding with another car, he swerved left, then back to the right, directly in the path of a tractor-trailer. The truck driver could not brake in time and rammed the rear of Chapin's 1975 Volkswagen Rabbit, which burst into flames. The truck driver and a passerby were able to get Chapin out of the car, but the singer died before he reached the hospital. He was 38 years old.

There was no way to ascertain if the slowing, emergency flashers, and lane changes were prompted by mechanical trouble with Chapin’s car or a medical problem. The medical examiner determined that Chapin died of cardiac arrest, but couldn’t say if it had occurred before or after the collision. And Chapin was a notoriously bad driver; at the time of the accident, his license had been revoked due to a lengthy list of traffic violations.

Despite the ambiguity of the circumstances surrounding his death, Chapin’s widow Sandy filed a negligence lawsuit against Supermarkets General, the company that owned the truck. Five years later, she was awarded a \$12 million judgment (equivalent to \$33 million today), which according to newspaper accounts, was “based on what Chapin would have earned over the next 20 years.”

However, an earlier phase of the trial concluded that Chapin’s death was not exclusively due to the truck driver’s negligence. It placed 40 percent of the blame on Chapin’s erratic driving. Consequently, the award of \$12 million for the financial loss to the family was proportionally reduced to \$7.2 million.

Some Real-Life Observations

1. The estimate of Chapin’s future earnings might have been low. Determining a Human Life Value¹ is an inexact process. In a lawsuit, plaintiffs try to arrive at a lump sum that reflects the deceased person’s age, earning capacity, health, dependents, and other factors. Considering that many of Chapin’s contemporaries (like the Rolling Stones) are still performing in their 70s and 80s, a judgment that reflected what Chapin would have earned over just the next 20 years (to age 58) perhaps underestimated his Human Life Value.

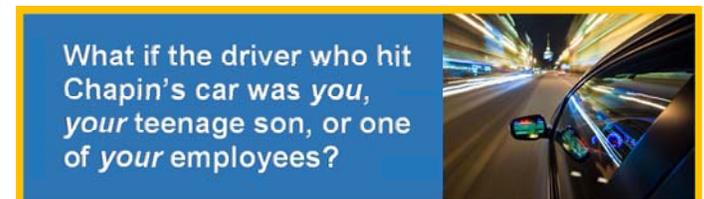
2. Seeking a Human Life Value judgment wasn’t about the needs of Chapin’s family. A March 1982 *People* magazine article noted that while Harry Chapin had only \$150,000 of life insurance, Sandy and her three children were financially secure because they inherited the musician’s royalty income. In other words, they didn’t “need” more life insurance or a lawsuit judgment for their survival. The lawsuit sought a Human Life Value judgment to continue **Harry Chapin’s legacy ambitions.**

Chapin had been beyond-generous in his support of individuals, charities and humanitarian causes; he often performed 150-plus benefit concerts a year. Shortly after his death, Sandy told a local paper that “Harry was supporting 17 relatives, 14 associations, seven foundations, and 82 charities.” In the aftermath of his sudden passing, many of these individuals and organizations were facing financial hardship as a result of the loss of their benefactor.

A happy ending came when Sandy Chapin received her judgment, and used the award to fund the Harry Chapin Foundation, dedicated to supporting “organizations that have demonstrated their ability to dramatically improve the lives and livelihood of people by helping them to become self-sufficient.”

3. The risk exposure is sobering – especially for business owners, or those with substantial assets. Any preliminary consideration of using the legal process to receive financial compensation includes the question, “Does the defendant have the ability to pay a judgment?” Supermarkets General, the defendant in the Chapin lawsuit, was a “deep pocket;” as a holding company owning more than 100 supermarkets in several eastern states, the company had the assets to pay a large judgment. Sandy Chapin knew if her suit was successful, there was a very good chance she would get paid.

Which leads to a hypothetical in the middle of this real-life example:



Have you accumulated enough wealth to be considered a deep pocket? Could your finances absorb a multi-million-dollar judgment?

Some may blithely dismiss this hypothetical with “Well, I’m not a deep pocket. You can’t take money I don’t have.” But unless you’re destitute, that’s not so. **If you don’t have assets today, a plaintiff may instead lay claim to your financial future.**

If you’re hit with a judgment that exceeds your ability to pay, courts give plaintiffs the authority to audit your finances, garnish

a percentage of wages, and seize bank accounts, machinery, and business equipment. And while the typical period for collecting judgments is ten years, plaintiffs can petition for extensions.

It is sobering: one accident can devastate a lifetime of accumulation.

4. Insurance is the best solution – for everyone. It’s easier – and less expensive – to recognize your own Human Life Value and insure it, than it is to go to court and convince a jury to give your beneficiaries a judgment that might not be collectible.

It is also easier – and less expensive – for individuals to use liability insurance to pay a judgment and protect their assets. Liability insurance can not only deflect the cost of a judgment to the insurance company, but tends to diminish the amount. A plaintiff will often accept a negotiated settlement offered by an insurance company rather than attempt to secure a larger judgment through a trial, with its additional costs and uncertain outcome.

5. If you try to protect your assets after the fact, it’s too late. Besides liability insurance, assets can be protected from judgments through strategic allocation decisions. Retirement accounts, life insurance cash values, and personal real estate are usually granted some judgment exemptions in many states². But if assets are transferred to these “safe havens” after an incident, they may be deemed fraudulent conveyances by a court, and stripped of their exempt status.

In real life, you must protect your assets. And you need to do it sooner rather than later. For your ambitions and potential, you want Human Life Value protection on yourself. For assets already accumulated, you want liability insurance and strategic asset protection to keep them under your control and for your benefit.

ARE YOUR ASSET PROTECTION PLANS STRONG ENOUGH TO WITHSTAND REAL LIFE? ❖



Look at these two sets of numbers:

SOCIAL SECURITY		1935	2015
Social Security full retirement age:	65	67	
US Life Expectancy:	61	79	

In 1935, Social Security was for outliers, those who had lived beyond average life expectancy. Today, the program is paying full benefits to a lot of people who are not yet close to life expectancy, as well as a large number who will live well beyond it. This is the simplest explanation for the funding challenges facing Social Security: the plan has not adapted to increased life expectancies.

Tom Koulopoulos, an author, think-tank founder, consultant and columnist for *Forbes* and *Inc* magazines, sees the same problem with individual retirement planning. He believes the United States is “heading for an economic disaster by ignoring the implications of increased life and work-life expectancy.” Because retirement models touted by the financial service industry remain tied to outdated metrics, Koulopoulos contends that “very few people are actually benefiting from retirement saving or planning.”

Those are strong statements. But Koulopoulos insists there are compelling reasons for many (but not all) Americans to adjust their retirement perspectives. Here’s his take:

The retirement model presented by the financial services industry is impossible for 90 percent of the U.S. population. The conventional retirement model advocates incremental saving during 30-40 years of work to provide a replacement income stream for 20-30 years after one stops working. Successful implementation of this approach requires two things: rigorous discipline and sufficient capital.

Koulopoulos contends this model is unrealistic. Just like Social Security, there is far too long of a retirement period in proportion to the funding phase. Most Americans simply can’t save enough during their working years to fund a 20- to 30-year retirement. To support this assertion, Koulopoulos points to the following statistics:

- 34 percent of workers have no savings whatsoever.
- 35 percent have less than \$1,000.
- Of the remaining 31 percent, less than half have more than \$10,000.
- Among older workers between 50 and 55, the median savings is \$8,000.

There are households – primarily those with annual incomes over \$150,000 – who can save enough to anticipate a comfortable retirement at 65. But a wide swath of the populace doesn’t have enough time or money for incremental-saving-to-age-65 to work as a retirement strategy. They need a different approach.

Planning to work longer is not only a more realistic retirement plan, it might be the healthier one. Go back to 1935, when the assumed retirement age for Social Security was beyond life expectancy. What would a similar assumption look like today? With an average life expectancy of 79, full retirement age for Social Security would be 86. If that’s where Social Security “should” be, does the same number work for individual retirement planning? Sort of.

Koulopoulos notes that work-life expectancy – i.e., the average age at which people stop working – is actually increasing at a rate faster than average life expectancy; the percentage of workers over age 65 has doubled since 1992. While some may be working part-time, or perhaps in less demanding positions, an ever-larger cohort is earning a paycheck long after they have become eligible for Social Security.

Continuing to work improves retirement prospects in two ways: it shortens full retirement, the period when one has to rely exclusively on accumulated assets for income. It also extends the time one has to save for full retirement, especially for those who haven't done well so far. Instead of telling a 50-year-old couple they need to save 30-40 percent of income for 15 years in order to retire comfortably at age 65 (which is a daunting task), it is much more doable to save 10-15 percent for 25 years and retire at 75.

And despite the prevalent media images of the perfect retirement as a daily walk on the beach interspersed with travel and visiting grandchildren, there is abundant evidence that continuing to work, especially at something you enjoy and find fulfilling, is perhaps better than full retirement, especially for men.

Here's the opening sentence from a February 11, 2018, article in *WSJ Wealth Management*: "A significant increase in mortality starts at 62, according to a new study. The escalation is much more dramatic for men than for women. And the fatal catalyst, the study's authors believe, might be the availability of Social Security."

The authors speculate that several factors, all connected to *not working*, contribute to this increase in mortality: a less disciplined, more sedentary lifestyle, changes in medical coverage, disconnection from social circles, even an increase in auto accidents. Dr. Maria Fitzpatrick, one of the study's researchers, says, "the takeaway is that retirement may be bad for the health of men, particularly for the men who retire at the relatively early age of 62."

Koulopoulos also sees these studies, but puts a positive spin on his conclusion: "(T)here is certainly growing evidence that working longer, especially at something you love to do, contributes to a sense of well-being and purpose that may increase longevity and certainly the quality of your life."

In light of increased life expectancy, the best retirement solution for many Americans appears to be working longer. This is not a punishment. In fact, it may be financially, emotionally and physically beneficial.

Retirement Planning for the 90 Percent

Suppose, because of age and/or lack of savings, you recognize you probably won't be part of the 10 percent that can save their way to full retirement at 65. Suppose also that your health and job skills make working longer a viable option. How might your retirement plans be different? Here are a few thoughts:

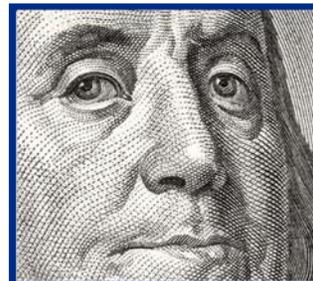
Your health (and health insurance) are key financial assets. The primary reason people in their 60s stop working is a forced retirement due to poor health. If your age and lack of savings make you ineligible for the 10-percenter plan, you must stay healthy enough to continue working and saving for a longer time. And you want protection from catastrophic health care events that could wipe out your savings.

You might want to forgo contributions to pre-tax retirement plans. Under current tax law, owners of pre-tax retirement accounts like IRAs, 403(b)s, and 401(k)s must begin required minimum distributions at age 70½ – even if they are still working (the only exception is a 401(k) account with a current employer). It is usually not optimal to pay taxes on retirement distributions you don't need because you're still working. Options that don't require age-based distributions may be more suitable.

You may want permanent life insurance. One of the primary functions of life insurance is income replacement. The longer you work, the longer you'll want income protection. The

longer you want life insurance, the less practical term insurance becomes. Not only will a permanent policy (like whole life, or a similar policy designed to be in-force as long you live) provide income protection while working longer, but other features (tax-free growth of cash values, accelerated death benefit provisions for end-of-life issues, a permission slip to allow the spending down of other assets) can maximize the spend-ability of retirement savings during the final phase of life.

Saving is good. Robust saving is better. But for many American households, it is asking a lot to save enough in 30-40 years to fund another 30 years of full retirement. Instead, continuing to work at something you find enjoyable, coupled with a lower saving requirement, might be strategies that allow you to "glide" into a satisfying retirement at a later age. ❖



If you think the chances for a conventional retirement have passed you by, all is not lost.

There are products, strategies, and professional assistance that can enhance the retirement prospects for 90-percenters, too.



CSRs Are Not Financial Professionals

If your spouse (or ex-spouse) dies, and you want to know how their passing might affect your Social Security benefits, you might consider asking someone other than the Social Security Administration for assistance. A report from the SSA's Inspector General in February 2018, found that SSA employees "frequently gave incorrect information and advice when advising widows and widowers of the enhanced benefits that come with delaying claims to full retirement age."

How frequently? Eighty-two percent of those surveyed were deemed to have received lower monthly benefits because they were counseled incorrectly. That's a pretty high failure rate, even for government.

Here's the issue in a nutshell: When a spouse dies, the surviving spouse can change his/her Social Security benefit to a "survivor option," which typically results in a new monthly payment greater than his/her current individual benefit. If the surviving spouse is not yet 70, this option may be deferred, because for each year he/she waits, the monthly benefit increases by 8 percent. (There are no increases for deferring beyond age 70.)

A decision to change benefits immediately or to delay them depends on several factors, including the surviving spouse's age and his/her individual benefit. The Social Security Timing tool, a government-approved software program, is available to individuals and also used by financial service companies to do the math, determine which option is best, and when the change should be made.

But individual claimants can ask the SSA to do the calculations, and that's where problems have arisen. It is estimated that over 11,000 beneficiaries were eligible for higher benefits, had they delayed claims until age 70. These errors resulted in \$131.8 million in underpayments to beneficiaries.

Calling a Toll-Free Number for Financial Guidance Is Not the Best Idea

It's easy to blame government bureaucracy for this snafu; reports have found similar degrees of incorrect guidance when taxpayers contact the IRS for assistance. But the real issue is the wisdom of asking for assistance from a Customer Service Representative who, while perhaps sincere and conscientious, isn't typically a financial professional. When you call the SSA, you aren't getting a CPA or tax attorney on the line.

And you can't expect professional advice from non-professionals. In a March 1, 2018, *cnbc.com* article about the survivor option, several financial advisors noted that using the

Social Security Timing tool "without considering your full financial plan could sway results...If you do not have an expert on your side, it is very difficult to get accurate information to make the appropriate decision."

As soon as we read this, most of us know we should get professional assistance. But if we don't have previously-established relationships, we may be inclined to call a toll-free number, and try to do it ourselves. That can be a recipe for disaster. ❖



Whether it's interfacing with a government agency about taxes or benefits, or a financial institution about a loan, insurance policy, or investment, professional assistance can be crucial in getting the best results. Make contacts and build relationships today so you'll have the knowledge and assistance you need to maximize your financial decisions in the future.

Footnotes:

¹ The HLV Theory states that one should maintain life insurance equal to the present value of all of their expected future earnings. Life insurance companies place limits on life insurance available to consumers based upon this formula and have created age-based multiples of current income as a guideline. For example, a person in their 30s may be insured for around 30 times their annual income, 20 times for a person in their 40s, 10 times for people over 50, and one times net worth age 60+.

² State creditor protection for life insurance policies varies by state. Contact your state's insurance department or consult your legal advisor regarding your individual situation.

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