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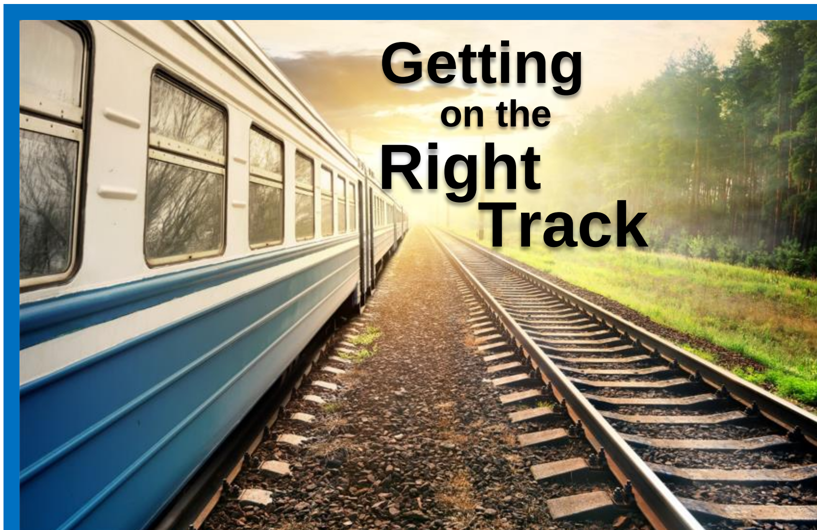


"When it comes to creating effective understanding, analogies are hard to beat. Most of their persuasive power comes from the audience arriving at the intended understanding on their own."

- Brian Clark, founder of *Unemployable*

The Standard Gauge Analogy

Track gauge is a measurement of the spacing of the rails on a railway track, based on the distance between the inner faces of the load-bearing rails. Most railroad track, in the United States and around the world, is set 1,435 mm apart (or 4 feet, 8 ½ inches). This distance is referred to as Standard Gauge.

But while Standard Gauge is the predominant configuration, other gauges are also used. These railroads, which feature shorter rail spacings, are called narrow-gauge railroads. Narrow-gauge railways can execute tighter turns, use smaller cars and locomotives, and can be less expensive to construct and operate.

There Is a Standard Track for Personal Finance

In industry, a prevailing standard is usually seen as a positive, both for producers and customers. Standardization facilitates quality control, reduces costs, and makes a product or service more consistent and reliable.

The financial services industry has attempted to establish a "standard track" for personal finance, one that theoretically works well for a large number of providers and consumers. Since the 1950s, this track has been defined by two requirements:

1. **Steady, well-paid employment.**
2. **Consistent, incremental saving.**

On the standard track for personal finance, these factors are the crucial elements for achieving the two biggest pieces of the American Dream: a home of your own, and a secure retirement,

This standardized personal finance track arose from the post-World War II era, at the confluence of two factors: longer life expectancies, and an economy dominated by manufacturing. Unionized factory workers had the expectation of lifelong employment, and pension benefits that increased with every year on the job. In varying degrees, this model of steady, well-paid employment combined with incremental retirement saving spread to all sectors of the American workforce. Retirement, which was rare or non-existent prior to the 20th century, became a central focus in personal finance. Steady employment also changed the economics of borrowing; financing, for longer terms, became the norm.

In the last three decades, this standard track has gone off the rails. Global competition has shrunk American Manufacturing, vaporizing steady blue-collar employment. Pensions have been replaced by defined-contribution retirement plans, which shift retirement funding and investment responsibilities to employees. For a large portion of what was once the middle class, staying on the standard track for personal finance is increasingly difficult, if not impossible.

In This Issue…

* 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.

Today, the standard track is only applicable to a much smaller segment of the American workforce: college-educated managers and professionals. This group, which by various measures comprises between 10 and 20 percent of American workers, is the only one who can still take the standard track and expect to arrive at a comfortable retirement.

Some numbers from a 2017 US Bureau of Labor Statistics report highlight this standard-track demographic (see box).

> About 25% of the labor force had a bachelor's degree only, and 15% had attained an advanced degree. Of those:
>
> 11% - had a master's degree
> 2% - professional degree (law, medical, dental, etc.)
> 2% - doctoral degree (Ph.D, Ed.D, etc.).
>
> In 2016, the majority of employed people with at least a bachelor's degree worked in management, professional, and related occupations including:
>
> - 63% - a bachelor's degree 91% - professional degree
> 85% - master's degree 94% - doctoral degree

As a group, college graduates and professionals are likely to earn more than their less-credentialed counter-parts and see increased earnings as they gain experience in their fields. Additionally, they typically have the best employee-benefits packages, with subsidized insurance and company-sponsored retirement plans.

This cohort is also likely to stay in the same career and work longer. If they clear the educational and regulatory hurdles to be admitted to a profession, it's probably because they have an aptitude for the work and enjoy it. (How many doctors, after years of medical school and interning, decide to change professions? Very few. Same thing for CPAs, attorneys, physicists.) And because they enjoy their work, most of these managers and professionals may not see working in their 60s or 70s as either a burden or an impossibility.

The combination of income stability and longevity, makes it easier to save, to defer income and not touch it, to stay on course, and to catch up should they experience a hiccup.

For this select group of Americans, financial confidence is almost guaranteed if they just stay on track, i.e., continue working, continue saving.

Narrow-Gauge Tracks

It isn't just blue-collar workers who no longer have lifetime employment or pensions who find the standard track unsuitable. There are plenty of lucrative careers that also aren't a good fit. For example:

- Small business owners, entrepreneurs
- Self-employed specialists (like writers, artists, builders, craftspeople)
- Commission-based sales reps
- Professional athletes and entertainers
- Workers in cyclical industries (like farming or energy)

Many of these people, over their lifetime, may earn more than the college-educated managers and professionals. But their earnings will likely be uneven; they are more likely to change careers, close businesses, be temporarily broke. None of which lends itself to staying on the standard financial track, because irregular earnings make incremental saving problematic.

In lean years, there may not be anything to save. Conversely, when there's a surplus, what gets saved ought to be a lot higher than the standard track recommendation of 15-20 percent. And because saving intended for tomorrow's retirement may have to be used to take care of today's necessities, saving in a qualified plan, where early withdrawals incur tax penalties, might not be the best choice.

Many Americans need a different personal finance track, one that matches their unique financial circumstances, and isn't so rigid in its allocation options. They need financial strategies to manage income fluctuations, savings that are accessible, and guidance to adapt to changing economic circumstances.

At first, this might seem like a tall order, but it's basically the same thing that businesses do every day. Those not on the standard track would do well to treat their personal finances like a business, instead of a methodical, paycheck-driven accumulation plan.

Yet many policymakers retain a strong attachment to the standard track. Maybe it's because most economists, politicians, and financial experts fit the standard-track demographic; they are college-educated professionals, and the standard track works for them. Their solutions for America's "retirement crisis," such as automatic plan enrollment, or bigger tax incentives, are meant to nudge others back to the standard track they understand.

These experts don't see the income volatility that derails this form of saving. They are appalled when people borrow, cash out, or don't participate in retirement plans because they can't afford to lock up money for 30 or 40 years. "You're not supposed to do that!" they shriek. But trying to force narrow-gauge careers onto standard saving tracks isn't reasonable.

So…What's the "Intended Understanding" from This Analogy?

When the topic is personal finance, every issue is evaluated through the lens of self-assessment. In this case, the analogy leads to the question: **Am I on the right track?**

- If you're one of those college-educated managers or professionals, you may find success on the standard track. Just keep working, keep saving, (and protect your ability to keep working and saving), and look for ways to be more efficient.
- If your career doesn't fit the standard track, your first financial objective is to find the ***right*** track, one that matches your circumstances.

While a lot of the financial service industry is geared toward serving those on the standard track, there are financial professionals who understand the challenges and opportunities for those in narrow-gauge careers. Instead of helping you allocate a paycheck, these professionals have strategies to manage bonuses, royalties, commissions, big sales. They can help you establish cash reserves, find money to pursue the next opportunity, protect key assets, and determine when to set aside money for the future.

Here's the provocative headline from a September 5, 2018, cnbc.com article*:

"It's better to rent than to buy in today's housing market"

The article begins:

Should I buy or should I rent?

For nearly a decade the answer has been "buy". The crash in home prices, combined with record-low mortgage rates made buying and owning a home both cheaper than renting one and a better investment.

Now, the tide has turned.

Fast-rising home prices and higher mortgage rates have shifted the calculation to rent. The monthly costs of buying and owning a home that you occupy are up 14 percent over the past year, more than three times the annual increase in rent rates nationally, according to realtor.com. Rents are up just 4 percent. The number of local housing markets where it is cheaper to rent than buy is growing by the day.

Sounds momentous, right? "The tide has turned" and places where it's cheaper to rent are "growing by the day."

But this "news" is almost irrelevant to answering the question "Should I buy or should I rent?"

Housing Isn't Fungible

In economics, **fungibility** describes a condition where an individual unit of a good or a commodity is essentially interchangeable. A dollar bill is fungible; each is worth the same, no matter when or where it was printed. Same for a gallon of gasoline, a shovelful of gravel.

For fungible items, averages and trends matter, because the numbers are relevant to every user. If the price of gas goes up, it affects everyone. If the exchange rates change, they change for everyone.

But housing is not a fungible commodity. Each building is unique in its construction, location, and current condition. And because every housing unit is different, making a financial decision about it based on averages is dicey. Better to evaluate each one on its individual merits – and your personal circumstances.

Common Issues, with Unique Answers

Regardless of what's happening at a macro level in the real estate market, there are several factors, common to almost every housing decision, that must be assessed individually.

First, there's determining **how housing fits in the bigger picture of your life.** Where you live and how you pay for it is more than an investment play or a question of affordability. It touches on lifestyle concerns, things like the safety of the neighborhood, the schools your children will attend, or whether a promotion might require a relocation.

And quite often, these lifestyle concerns outweigh financial ones. Renting might allow you to maximize your retirement saving, but if it means your children can't attend an elite magnet school because they live outside the district, which issue prevails?

Next is **understanding the costs associated with each option.** When a lender approves you for a mortgage with a $1,200 monthly payment, most people know it's not an apples-to-apples comparison to a rental property at the same price. There are incidental expenses associated with homeownership: property taxes, insurance, homeowner association fees, utilities, maintenance and repairs. Further complicating a true cost comparison are potential tax deductions for mortgage interest or other subsidies.

Then, **evaluating how a housing decision impacts the rest of your finances.** Most changes in housing are upgrades; from a one-bedroom to two, from renting to buying. Upgrades usually cost more money. How does that impact your long-term saving or short-term financial stability? If the purchase requires a down payment, what are the opportunity costs from deciding to drop that much cash into an illiquid asset?

You can't decide these issues by browsing online real estate listings and averaging the asking prices. When two homes of similar size in the same neighborhood have different prices, the only way to understand why is to evaluate the properties individually. The same goes for a decision to rent or buy; it's case-by-case. Housing is not fungible. Whatever the current trend, you may find a property that's a great deal ***for you.*** Housing is personal, and your results may vary, perhaps significantly, from national averages. ❖

It's Okay to Ask for Help

Because "Should I buy or should I rent?" is a momentous, yet uniquely personalized financial decision, it is an ideal occasion to seek assistance from your financial professionals.

You want input on taxes, mortgage terms, down payments, insurance, and miscellaneous legal issues within the context of your financial condition. Your housing decisions are unique, but that doesn't mean you have to make them by yourself.

* https://www.cnbc.com/2018/09/05/its-better-to-rent-than-to-buy-in-todays-housing-market.html

"Wealth is not new. Neither is charity. But the idea of using private wealth imaginatively, constructively, and systematically to attack the fundamental problems of mankind is new." – John Gardner

In a long view of history, private philanthropy is relatively young. About two centuries ago, the Industrial Revolution changed the dynamics of wealth accumulation. Where wealth had previously been concentrated in the church, royal families, and the aristocracy, technological innovation gave birth to a new class of stupendously wealthy individuals, people like Andrew Carnegie, Cornelius Vanderbilt, and John Rockefeller.

Not only did these so-called titans of industry create a new class of wealth, many showed a counter-intuitive tendency to give away much of it. They funded hospitals, museums, libraries, and universities. Even now, many of their foundations continue their philanthropic legacies.

This bent toward giving continues among the world's wealthiest individuals today. Warren Buffett and Bill and Melinda Gates started the Giving Pledge in 2010 to persuade the world's wealthiest people to commit to donating at least half of their fortunes to charity. As of 2018, the pledge has 183 signatories, either individuals or couples, from 22 different countries.

It's not just billionaires who give; Americans as a group are particularly generous. According to the latest Giving USA report, "giving from individuals, estates, foundations, and corporations reached an estimated $410 billion in 2017 – more than the gross domestic product of countries such as Israel and Ireland."

Splashy billionaire pledges and buildings named in memory of donors often garner philanthropic headlines, but there are many ways for those with modest wealth to also make impactful gifts. The following are three examples of "smart giving" that can maximize the value of your donations.

Qualified Charitable Distributions

After age 70 ½, individuals with a qualified retirement account (like an IRA) must make required minimum distributions (RMDs) each year. These distributions are included as taxable income.

However, account holders have the option of designating some or all of their RMD as a charitable distribution. An account holder may instruct the retirement account custodian to send the distribution directly to a designated charity.

Because the account holder never takes receipt of the funds, this Qualified Charitable Distribution (QCD) counts toward the RMD requirement, but is not included as taxable income. This deduction is different than what might be realized from an after-tax donation.

Prior to this year's income tax changes, individuals who contributed large amounts to charity could often itemize their deductions. Under the new tax law, many donors may forgo itemizing, and instead take the new and much larger standard deduction. But in doing so, they may not receive a tax deduction for their charitable contributions. By sending the distribution directly to the charity, a QCD preserves favorable tax treatment for donations.

If you are already committed to giving, and you have qualified funds, a QCD might be the most efficient way to do it.

Charitable Gift Annuities[1]

This option is particularly popular with educational institutions; the first 100 or so hits from an Internet search for "charitable gift annuity" are colleges and universities.

In a charitable gift annuity, a donor transfers cash or property to the educational institution. In exchange, the college promises to make payments to the donor (or a designated annuitant) for life. Like any life annuity, the monthly payment is age-dependent: the older the annuitant, the larger the payment.

There are multiple tax advantages for the donor. The value transferred to buy the annuity is classified as a donation, eligible for an itemized tax deduction. Donating appreciated assets can defer or reduce capital gains taxes. And depending on the assets donated, some or all of the annuity payments may be income-tax free.

The American Council on Gift Annuities notes that charitable gift annuity rates are lower than those offered by insurance companies, "But if you would like to make a charitable gift, and receive an income tax deduction while also receiving fixed payments for life, a gift annuity might be a great fit for you."

One of the reservations many people have with life annuities is the possibility of dying before life expectancy, and "losing" the unspent capital to the insurance company. William Baldwin, writing for *Forbes*, says a charitable gift annuity resolves that dilemma. "If you die young after buying a collegiate annuity, it's not an insurance company that gets a windfall. It's an institution you admire."

Life Insurance[2]

Gifting life insurance can allow a donor to leverage current cash flows into substantial endowments at the death of the insured. Some of the largest philanthropic donations in recent years have used life insurance as the funding vehicle.

Life insurance can be donated to charities in several different ways:

- A donor may make an irrevocable gift of an existing policy that is fully paid for. The donor may be eligible for a current charitable income tax deduction based on the lesser of the policy cost basis or fair market value. The charitable organization is owner of the policy and beneficiary of the death benefit. Besides the immediate deduction, donating the policy removes the life insurance benefit from the donor's estate, which may result in additional tax savings for heirs.
- A donor may gift a policy that requires additional annual premiums. This arrangement is similar to the gift of a paid-up policy. The charity may pay premiums to keep the policy in-force, or the donor can make annual

donations to pay the premiums. Donations made to the charity for premium payments are also eligible for a current charitable income tax deduction.

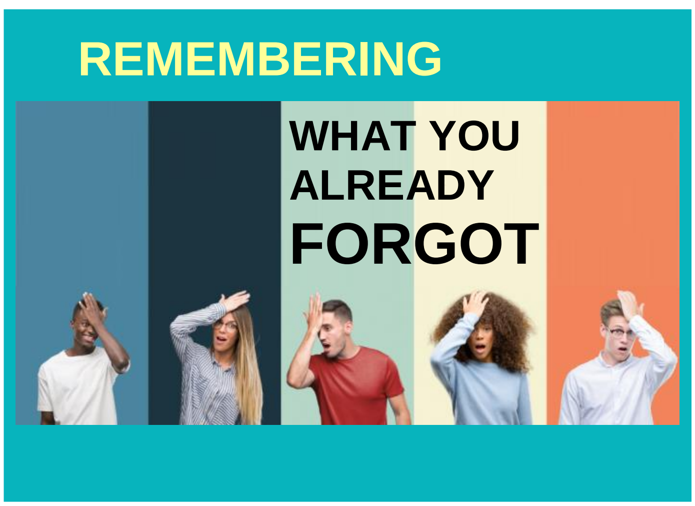
- The charitable organization *may be named as a beneficiary* of a policy that the donor continues to own and pay for. (The charity may not even know that it is a named beneficiary until the donor dies and the insurance proceeds are delivered.)

Is Personal Philanthropy in Your Future?

A unique aspect of American charitable giving is the favorable tax treatment for properly structured donations. The above examples involve specific tax laws and contractual agreements (annuities and insurance policies). To maximize your philanthropic legacy, professional assistance should be retained to evaluate and implement these agreements. ❖

Much private philanthropy occurs in retirement. Those who have been financially successful may realize they won't need to spend it all on themselves; even after addressing estate and inheritance concerns, there is going to be a surplus. Intentional giving is way to create a financial legacy. Smart giving is a way to maximize the value of your donations.

1 Guardian and its subsidiaries do not issue or advise with regard to charitable gift annuities.
2 Whole life insurance is intended to provide death benefit protection for an individual's entire life. Dividends are not guaranteed and are declared annually by the issuing insurance company's board of directors. Whole life insurance should be considered for its long term value. Early cash value accumulation and early payment of dividends depend upon policy type and/or policy design, and cash value accumulation is offset by insurance and company expenses. Consult with your representative and refer to your whole life insurance illustration for more information about your particular whole life insurance policy.



A financial professional shares a recent experience:

About 10 years ago, I met a mechanical engineer who had read a book about whole life insurance, and he was intrigued by some of the ways a policy could not only protect his economic value, but also enhance his retirement. He contacted me, and we established several policies, including two for his children.

In the years since, we have met regularly to review his program. On two occasions, he has borrowed from the policies, once to pay for a used car, and later to finish a remodeling project on his home.

So, it was a bit of a surprise when, at our most recent review, he wondered if it was really a good idea to keep the policies.

"The kids are about to graduate and be on their own. I was thinking I might surrender the policies, and add the cash to my retirement savings," he said. "Then I'll fund a Roth IRA for each of the kids. I saw a chart that showed if I make deposits for ten years for each of them, they'll have a million dollars at 65. What do you think?"

We had previously discussed the benefit of keeping whole life insurance as a permanent part of his financial plans, but once again I listed the ways his policy could provide living benefits, both now and in retirement. We talked about:

- **the waiver of premium[3] rider that guaranteed the policy would stay in force and continue accumulating cash values if he was disabled**
- **how loans and distributions from cash values could supplement retirement income[4]**
- **the insurance benefit as a "permission slip" to spend other assets**
- **ways the accelerated benefit rider[5] could be used in the event of a chronic or terminal illness, and**
- **how a guaranteed death benefit[6] added financial certainty to his future.**

Using a module from a program called The Living Balance Sheet®, I showed him the historical performance of a whole life policy. He acknowledged he liked the steady growth and year-by-year guarantees. Then I showed him in-force illustrations for his policies, noting that the projected cash value growth reflected an increasing rate of return relative to the premiums paid, just like the historical example.

When we finished the discussion, he tipped his head to one side, and said, "Oh. That makes sense. Well, let's keep doing what we're doing!"

It was sort of weird. We've been working together for more than a decade, and I think the relationship is good. But it was almost like he had forgotten everything we had discussed over the past 10 years. And then, after a brief review, he was enthusiastically on board with all of it.

"Sort of weird?" More likely, it was just the Forgetting Curve.

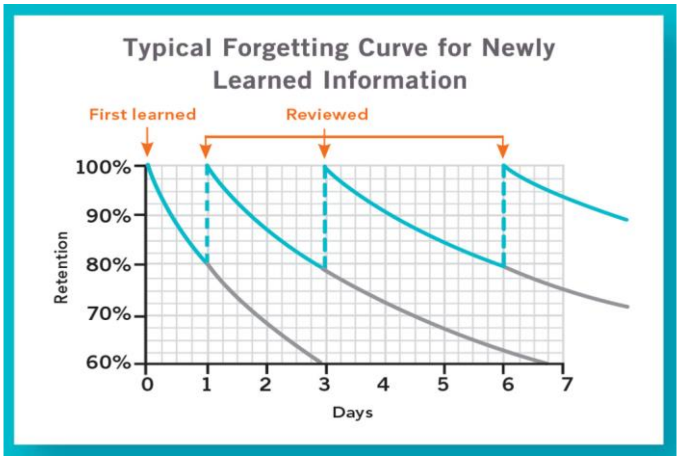
The Forgetting Curve

The **forgetting curve** is an explanation of how our recall of new information declines over time, especially if there is no review. A related concept is **strength of memory**, which relates to how long someone can recall new information; the stronger the memory, the longer a person can recall it. Typical graphs of the forgetting curve show that humans tend to halve their memory of newly learned knowledge in a matter of days or weeks unless they consciously review the learned material. Sort of explains the situation above, doesn't it? Financial professionals are engaged every day with the concepts and details of their products. Their clients? Not so much.

Pressing Reset on Your Forgetting Curve

If you know you're always forgetting, what's the fix? Jonas Altman says it's simple: "Your only hope against this rapid deterioration of things you want to remember is by reviewing them. School teachers were making a good point after all."

Well, duh. Except this has a very specific application to wealth management. In *The Millionaire Next Door*, a seminal study of "prodigious accumulators of wealth," researchers found that financial high-achievers spend about two hours a week reviewing their financial plans. That's twice as much compared to those with similar incomes but less wealth. Regular reviews improve your financial condition. ❖



How else can financial professionals help their clients address the forgetting curve? Financial professionals could send a newsletter. And clients could read it.

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3 A Waiver of Premium rider waives the obligation for the policyholder to pay further premiums should he or she become totally disabled continuously for at least six months. This rider will incur an additional cost. See policy contract for additional details and requirements.

4 Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any outstanding loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

5 The cash surrender value, loan value, and death proceeds payable will be reduced by any lien outstanding due to the repayment of an accelerated benefit under this rider. Riders may incur an additional cost or premium. Riders may not be available in all states.

6 All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims paying ability of the issuing insurance company.

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