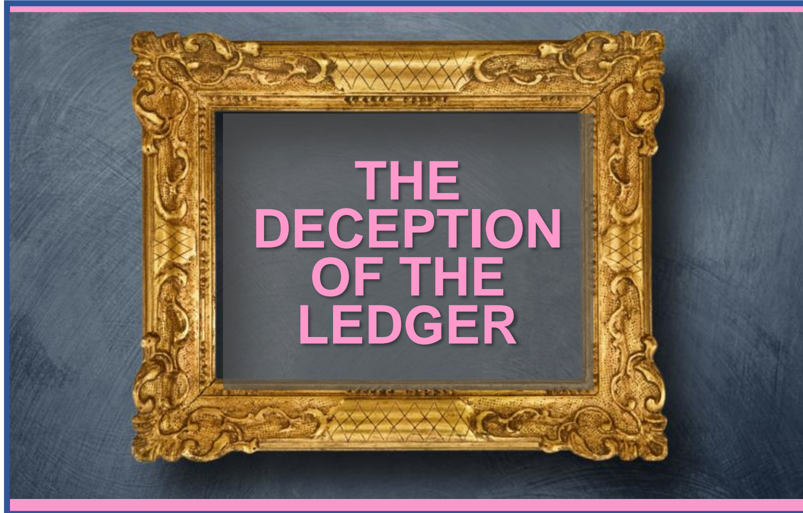
the SAFFER financial group

OCTOBER 2018



THE ART LESSON

On a trip to Europe, John bought a painting. He really didn't know much about art, but he shelled out $25,000 because one of his trusted friends told him it was a good buy. "Hold on to it for 10 years or so, and it will probably triple in value," the friend said.

It seemed like his friend was right. A few years later, John saw reports of similar paintings selling for $50,000 or $60,000. Out of curiosity, John had a gallery owner assess his painting. The appraiser's estimate: $65,000. "Imagine that," said John, "I've got $65,000 hanging on my wall. That's cool!"

As John considered the painting – and his good eye for investment – another thought occurred: Why not buy a few more? After all, he'd made a nice profit when he didn't know a thing about collecting art. Now that he sort of understood the market, he might do even better. Over the next few years, John dipped into his savings and bought several works from up-and-coming artists.

Pretty soon John's home had become a small art gallery. Not that he was bragging, but his art collection was valued at over a million dollars! "Wow. Collecting has really goosed my net worth and retirement plans. And the prices just keep going up. Imagine what my collection will be worth 10 years from now!"

But while John had paintings worth one million dollars, he didn't *have* a million dollars. And there was a difference.

The next summer, John had an opportunity to buy a small lake cottage for $250,000. It was a great deal. But John didn't want to crimp his cash flow with a second mortgage.

"Hey," he thought, "One of my paintings is valued at a little over $250,000. Maybe the seller would consider a trade – I'll give him my painting for the cottage."

He was slightly surprised when the cottage owner declined his offer. "I want my settlement in cash. A painting hanging in my living room can't pay for groceries or my kids' college tuition."

John really wanted the cottage, so he decided to sell the painting. He called an art gallery and made arrangements for a sale. The gallery owner agreed that John's asking price was reasonable and began soliciting some of his patrons.

A month went by. John didn't receive a single offer. "What's the story?" he asked the gallery owner. "Why isn't it selling? Is it overpriced?"

"The price isn't the problem," said the gallery owner. "I've had several people say the price was fair. It's just that they weren't interested in buying right now. You have to remember, buyers of high-end art represent a very small percentage of the populace. ***Just because something is worth the price doesn't mean there's a buyer who will pay it."***

John considered his options. Even if he cut the price, there was no guarantee he would find a buyer. So, if the painting was really worth $250,000, it wouldn't make sense to sell it at a discount. He told the gallery owner to continue listing the painting but stay firm on the price. John also told the owner of the lake cottage he would have to pass.

In This Issue…

THE DECEPTION OF THE LEDGER — Page 1

LIFE AFTER DRIVING: AN OVERLOOKED PHASE OF RETIREMENT — Page 2

IN AMERICA, ANYONE CAN BORROW LIKE A PRESIDENT (BUT SHOULD THEY?) — Page 3

WHO'S IN YOUR DUNBAR NUMBER? — Page 5

* 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.

© Copyright 2018 2018 - 65861 Exp. 09/20

Not being able to buy the cottage bothered John, and made him a little disillusioned about art as an investment. He contacted the gallery owner and arranged to auction his entire collection. Unfortunately, the market for art had turned. Even though the long-term forecast for collectors remained bullish, right now was a terrible time to sell. The night before the auction, the gallery owner called to say there simply wasn't enough interest to justify having it.

John faced a sobering reality: The canvasses on his walls held a million dollars, but he couldn't get that money when he needed it.

Until It Sells, You Don't Know What It's Worth.

This fictitious example may seem a bit over the top, but it's not much different from the thinking and behavior of many people in regard to their homes or businesses.

Like John's paintings, these homes and businesses are certainly worth something. There may be recent sales of comparable properties or companies to justify the values given to them. And standard accounting practices would certainly include these assets in a statement of net worth.

These assessments can encourage unrealistic expectations. You may have heard a homeowner say "This place is my greatest asset. When I retire, I'll make a killing on the sale. That money will really boost my retirement income." Small business owners seem particularly susceptible to this thinking. In a 2017 study of small business owners, 18 percent said they had no retirement programs because… **"They're planning on selling their business to fund their retirement."**

Maybe these plans will work. Some people do sell homes or businesses for a tidy profit. But just like John and his paintings, until you find a buyer, the value is trapped in the assets. Illiquidity makes these assets useless in emergencies and unreliable for any plans that require income, like retirement or college funding.

Until the Taxes Are Paid, You Don't Know the Real Value.

Beside valuing illiquid assets as if they were already sold, individuals are prone to over-estimating the values of assets that have yet to be taxed.

When a participant in a qualified retirement plan funded with pre-tax dollars says, "I have a million dollars in my 401(k)," what's the true value of that account? Because every withdrawal will be treated as taxable income, the net account value is something less than $1 million. How much less is speculation; no one knows what tax rates will be in the future. Until distributions begin, the real value of the retirement account is uncertain.

The same uncertainty applies to assets whose sales result in capital gains taxes; the tax due will depend on the values and tax rates at liquidation. And both factors will almost certainly fluctuate several times before the liquidation occurs.

To circle back to John and his paintings…

Trompe l'oeil is a French phrase for a painting that creates a visual illusion, "one used to trick the eye into perceiving a painted detail as a three-dimensional object." The literal interpretation is "deceives the eye."

A parallel phrase might be *trompe le grand livre* – a deception of the ledger. Illiquid and untaxed assets in net worth statements or account balances can produce a distorted picture of one's wealth.

A prudent planning approach would under-value illiquid assets and over-estimate taxes. Which would undoubtedly lead to a prescription of increased saving today, or a lower assessment of how much these assets might be worth in income-generating scenarios.

One of the best uses of newer personal finance software is to calculate a range of possible outcomes based on different assumptions. Working with a financial professional, you may be able to get a clearer vision of how you might effectively integrate these assets in your financial future. ❖

Do your financial projections include illiquid or untaxed assets?

Don't be deceived by today's ledger values.

LIFE AFTER DRIVING:
AN OVERLOOKED PHASE OF RETIREMENT

You may not have thought of it this way, but retirement planning typically involves two overarching financial issues:

1: What your life will be like when you stop working. You tally up your assets, assess your health, ponder your options to relocate, downsize, travel, and pursue leisure activities. If you've been a successful saver, this is the fun part of retirement planning, deciding how you will enjoy the rest of your life.

2: How you will handle end-of-life issues. While the end of life is inevitable, the endings are far from certain – and let's face it, less pleasant to contemplate. But it is prudent to plan for these potential challenges. You may keep a cash reserve for medical expenses, assess the feasibility of insurance for in-home assistance or nursing home care, or use life insurance and legal documents to protect your estate and provide for heirs.

© Copyright 2018 2018 - 65861 Exp. 09/20

These two issues are sort of the beginning and the end of retirement. But in between, at least in the United States, there is often another retirement phase: Life after driving, that time when you're still here, but you can't go anywhere on your own.

Life After Driving Is Likely

"When do you think you won't be able to drive?" That's a scary question for retirees.

In the June 2017 edition of *Consumer Reports*, Sandi Rosenbloom, a University of Texas professor of community and regional planning, shares her experience with this issue:

"Seniors do not want to talk about or think about when they can't drive. I've done dozens of focus groups in seven different countries. If you ask seniors anywhere, 'When do you think you won't be able to drive?' they will uniformly say about 10 years from whenever you ask. It doesn't matter what age they are when you ask. They can be 80!"

In most instances, these optimistic self-assessments are not valid. While life expectancy has significantly increased in the past century, there has not been a corresponding extension in quality of life. Thus, according to the AARP, "life expectancy exceeds safe driving expectancy after age 70 by about six years for men and 10 years for women." (In other words, a man who lived to 80 probably stopped driving at 74, while a woman of the same age stopped at 70.)

The reality for most seniors: their retirement will include a period of life after driving.

Loss of Driving Impacts Health, Longevity

In most circumstances, the end of driving means an end to independent mobility. The *Consumer Reports* article states: "Almost three-quarters of seniors live in areas with few – if any – transportation alternatives, which means their options for remaining mobile begin and end in their own driveway." And, as gerontologist Stephen Golant explains, "Those who remain in suburban homes are marooned in an environment designed to be traversed by car."

Seniors know that the loss of driving is a watershed moment, and not a good one. If getting your driver's license is a rite of passage at the start of adulthood, having to give it up is a marker for the end of it.

The mere fact of not driving can lead to depression. But the loss of driving is more than a momentary psychological challenge. There is usually a dramatic decrease in physical connection – to friends and family, and to goods and services, particularly health care. Studies show that the isolation that can result from loss of driving accelerates mortality, and makes seniors more likely to end up in nursing homes.

Should You Plan for Life After Driving?

Many retirees express a desire to remain in their homes for the rest of their lives. But if they are no longer driving, an ideal retirement neighborhood can quickly become a desert island, physically and emotionally, particularly for retirees living alone.

This immobility affects other family members as well. A retiree's loss of mobility may constrain the lives of adult children; they have to rearrange their lives to become on-call chauffeurs, shoppers, delivery persons, and social contacts.

Given the likelihood of life after driving, a prudent retirement plan ought to consider options for addressing the event, should it occur. That often starts with an assessment of where to live, which encompasses some significant questions, like…

- Should you remain close to extended family?
- Is your retirement residence satisfactory for a life after driving?
- Are there amenities within walking distance?
- Is public transportation readily available?
- Would a private driver be practical and affordable?
- What should be done about cottages or vacation homes?

Here's a key point: If one of the big issues in life after driving is where you will live to accommodate your loss of independent mobility, do you want to make this decision ***while you are still driving?***

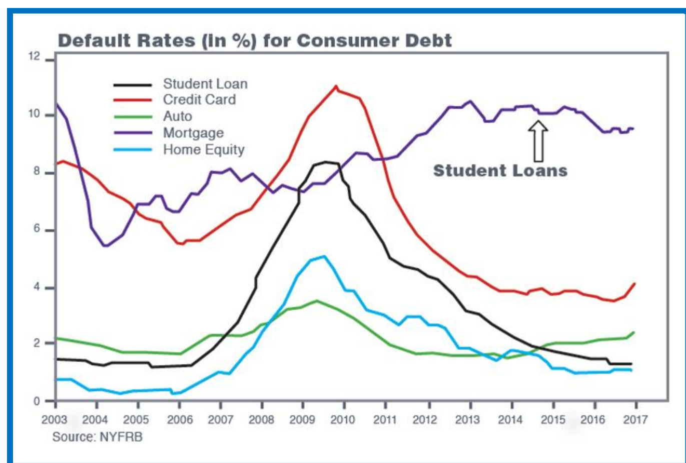
For example, if you think your current residence would not be suitable for life after driving, it might impact some pre-retirement decisions, like paying off a mortgage, or paying cash when you down-size from a home to a condo in a gated community.

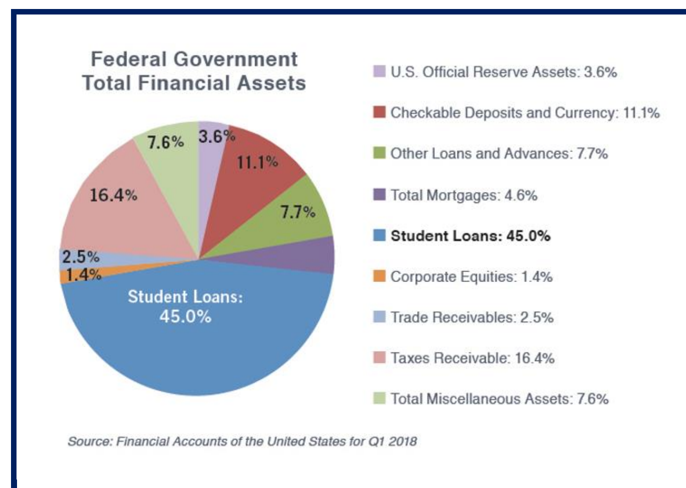
The income and lifestyle planning for the start of retirement are essential. End-of-life care and estate planning are prudent. But a thoughtful nod to planning for life after driving could make a likely in-between phase of retirement a bit better. ❖

HAVE YOU CONSIDERED LIFE AFTER DRIVING?

Many financial experts see a looming crisis in student loans. As more students have borrowed more money to pay for college, more borrowers are struggling to repay their loans. The magnitude of the problem is two-fold: First, there is ***a lot of student loan debt***; it is the second highest consumer debt category (behind mortgage debt), and if the growth continues, some studies see it surpassing mortgage debt within the next

decade. Second, among Americans, ***student loan debt has the highest default rate***; currently, almost 11 percent of all student loans are in default, which is more than twice the rate of credit cards or automobile debt. A Brookings Institute study estimates that 40 percent of all student loan borrowers will default at least once on their repayment obligations.





Student loans represent the largest asset held by the United States government. High default rates could impact the government's ability to borrow, which could directly impact the economy. Student loan debt isn't just a problem for borrowers. Indirectly, it has the potential to affect everyone.

Wait, there's more…

Even if borrowers do repay their loans, they take a long time. The standard repayment period for federal student loans is 10 years, but the average bachelor's degree holder takes **21 years** to pay off his or her loans. If 21 years is the ***average*** time it takes to pay off student loans, that means it is even longer for some borrowers. And remember: this is for graduates, the ones who are supposedly earning higher incomes because of their degrees.

Good intentions aside, it's simply not a good business model to lend money to young people who have only vague career paths and fuzzy ideas about how, or if, they will be able to pay it back. So, it isn't a surprise that many student loan scenarios go sour.

An obvious example: students who borrow, but, for whatever reason, don't get a degree. They still have the debt, but usually don't have the higher incomes that were supposed to make the payments affordable. Those are defaults just waiting to happen.

But less-obvious examples are also prevalent: Students who ***know*** their career path but have borrowed so much for so long that repayment becomes problematic.

If you browse websites that tout student-loan consolidation and repayment services, many of their offerings are aimed at high-earning professionals with graduate degrees whose monthly finances are challenged by large student loan balances. Studentloanplanner.com features scenarios calculating reduced monthly payments for a veterinarian with $300,000 in student loan debt, or a dentist in her first year of practice and $250,000 to pay off. These cases are presented as the norm, not anomalies. To hammer home this point, studentloanhero.com notes, "Even former President Obama didn't pay off his student loans until he reached age 43," – just four years before he was elected president.

The Obama Track: School, More School, Marriage, Kids – and Lots of Debt

Barack Obama's experience is perhaps a textbook example of how and why student-loan debt can take a long time to repay. Obama graduated from Columbia in 1983, then worked for five years in several private and public positions before enrolling in Harvard Law School in 1988. He married his wife Michelle in 1992, and they had two daughters, in 1998 and 2001.

During his reelection campaign in 2012, several of the president's speeches discussed the financial challenges imposed by the couple's student loans:

> **"Check this out, all right? I'm the president of the United States. We only finished paying off our student loans about eight years ago. That wasn't that long ago. And that wasn't easy – especially because when we had Malia and Sasha, we're supposed to be saving up for their college educations, and we're still paying off our college educations.**
>
> **"We didn't come from wealthy families. When we graduated from college and law school we had a mountain of debt. When we married, we got poor together. We added up our assets and there were no assets. And we added up our liabilities and there were a lot of liabilities—basically in the form of student loans."**

During their first eight years of marriage, the president said he and his wife paid more on their student loans than they did on the mortgage on their condo.

This is the dilemma of many advanced degree holders: they are earning better-than-average incomes, but still unable to plan and save for the future because past debts need to be paid off. These obligations force them to delay some financial milestones (like buying a home), shorten their time frame for others (saving for retirement), and make their children more likely to follow in their parents' footsteps by borrowing for their college educations.

Reduced Payments, Loan Forgiveness

The government offers a range of options for borrowers struggling to repay federal student loans, such as:

- Deferrals: no payments are made, and no interest accrues
- Forbearance: no payments required, but interest accrues

© Copyright 2018 2018 - 65861 Exp. 09/20

- Partial forgiveness of balances: for some categories of professionals who use their education to serve in the military or work in underserved communities
- Income-based payments: reduced payment based on a percentage of current earnings, with forgiveness of outstanding balances after 20 or 25 years.

These options may offer short-term relief, but can also restrict career choices, increase the overall cost, and have unpleasant back-end consequences. (For income-based payment reductions, a forgiven loan is reported as additional income.)

Loan consolidation plans may also yield some savings through lower interest rates of reduced monthly payments. But most of these options don't make student-loan debt any less burdensome. They just make longer repayment plans manageable.

The College Funding Decision: Idealism vs. Pragmatism

The United States is idealized as a land of opportunity, where "anyone can grow up to be the president." And a college education is touted as being one of the best ways to access those opportunities. Student loans are an attempt to make that path available to as many people as possible. So, get a degree to get ahead, even if you have to borrow to get started.

These optimistic assumptions have been battered by economic realities. For many borrowers, student loans are a much-greater-than-anticipated financial drag on their post-graduate life, a challenge that lasts far longer and incurs greater costs than expected.

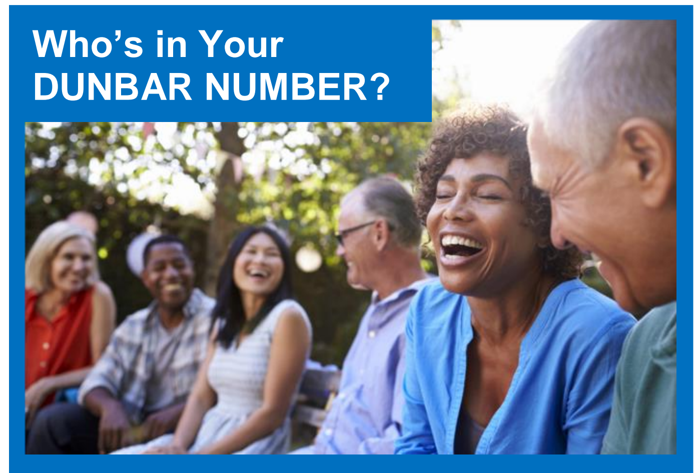
An undergraduate decision to use student loans is usually made by parents who haven't saved for their children's education or can't afford to pay tuition out of pocket, yet they want their children to have the chance at a college degree. With graduate students, it may be a passion and aptitude for an advanced degree, but not the scholarships, stipends, or grants, to afford it. Both groups are financially and emotionally vulnerable, and that usually doesn't make for good decision-making.

Using student loans to pay for college is a huge decision, one with the potential to shape the rest of your financial life. Such a momentous decision merits professional consultation. Before you borrow, take the time to assess the long-term costs and explore other options.

You may be able to borrow like a president, but whether you should, is another matter. The trajectory of President Obama's career, both personally and financially, is an outlier; you can't use his outcomes as a justification for using student loans in your situation – as a parent or a student. ❖

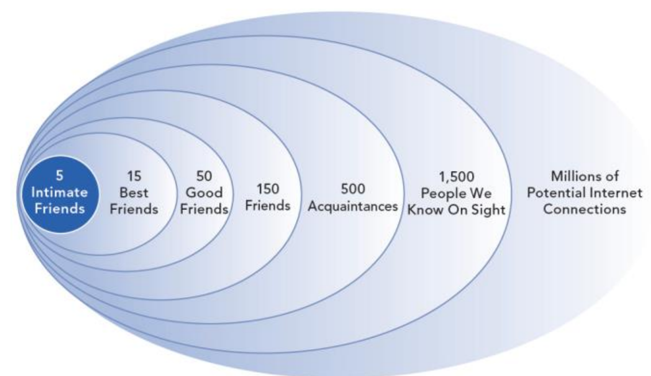
Borrowing for an education is a life-altering decision, particularly because it occurs at the beginning of adulthood. If there was ever a time for parents or students to seek assistance from financial professionals, it's **before** college, **before** making commitments to debts that can linger well into middle age.

Who's in Your DUNBAR NUMBER?



Our brains seem to have an innate limit to the number of people with whom we can maintain a meaningful relationship. Someone who is active on social media could easily have 1,000 Twitter followers, and maybe 400-500 friends on Facebook or connections on LinkedIn. But when it comes to close friends, they probably can be counted on one hand.

Since the mid-1990s, British anthropologist Robin Dunbar has been studying the size of sustainable social networks in ancient cultures, the military, workplaces, churches and other communities. His findings have resulted in what is known as Dunbar's Number, "the cognitive limit to the number of individuals with whom any one person can maintain stable relationships." While there is some individual variance, the typical Dunbar Number for most people is around 150. Newer research shows that the growth of social media hasn't changed this metric.



The 150 or so people that comprise someone's Dunbar Number aren't all "best friends." Rather, there are increasingly smaller subsets of progressively more intimate connections. Of the 150…

There is a large group, usually 100 or so people, that we see as **"Friends,"** ones that Dunbar loosely defines as "people you would not feel embarrassed about joining uninvited for a drink if you happened to bump into them…" Out of this group, there are about 50 we would consider **"Good Friends,"** defined as those you might invite to a group dinner. You may see these people often in social or work settings, but you probably don't divulge the most personal aspects of your life to them.

© Copyright 2018 2018 - 65861 Exp. 09/20

The next subset is the 15 or so people you see as your **"Best Friends,"** those with whom you would comfortably share details of your personal life and could count on for support and sympathy.

The smallest group is your **"Intimate Friends."** Their number is usually around five, and most often include one or more family members, particularly a spouse.

As our Facebook accounts may attest, many of us have more than 150 relationships. But when we move beyond our Dunbar number, these connections aren't as strong or consistent.

What About Your "Professionals"?

We all have relationships with individuals who provide us essential professional services. They could be…

- Healthcare professionals
- Tax professionals
- Legal professionals
- Insurance and investment professional

Professional relationships aren't necessarily friendships; there is a transactional component, and the exchange of money for services often changes the relationship dynamics. It is understandable that these relationships should retain their professional elements, such as high-performance standards, confidentiality regarding client information, and accountability.

And yet, there's something to be said for knowing your financial professionals well enough that if you happened to cross paths in a restaurant it wouldn't be awkward, for either one of you, to engage in some comfortable conversation, and perhaps have a drink together. After all, these are the people you are collaborating with to reach your financial objectives. You want their professional services, but you might also benefit from a stronger relationship connection. Issues in finance can impact the most personal parts of our lives. In those moments, you may want a financial professional who is more than just an acquaintance. ❖

This Material is intended for General Public Use. By providing this material, we are not undertaking to provide investment advice for any specific individual or situation, or to otherwise act in a fiduciary capacity. Please contact one of our financial professionals for guidance and information specific to your individual situation.

This newsletter is prepared by an independent third party for distribution by your Representative(s). Material discussed is meant for general illustration and/or informational purposes only and it is not to be construed as tax, legal or investment advice. Although the information has been gathered from sources believed reliable, please note that individual situations can vary, therefore the information should be relied upon when coordinated with individual professional advice. Links to other sites are for your convenience in locating related information and services. The Representative(s) does not maintain these other sites and has no control over the organizations that maintain the sites or the information, products or services these organizations provide. The Representative(s) expressly disclaims any responsibility for the content, the accuracy of the information or the quality of products or services provided by the organizations that maintain these sites. The Representative(s) does not recommend or endorse these organizations or their products or services in any way. We have not reviewed or approved the above referenced publications nor recommend or endorse them in any way. 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.

The Saffer Financial Group
7860 Peters Road Suite F-105
Plantation, FL 33324
(954) 474-5132
www.safferfinancialgroup.com

Financial Advisor and Registered Representative, Park Avenue Securities LLC (PAS), 2 Biscayne Blvd. Suite 1740 Miami, FL 33131. Securities products/services and advisory services are offered through PAS, a registered investment advisor and broker-dealer. The Saffer Financial Group is not an affiliate or subsidiary of PAS.
PAS is a member FINRA, SIPC.

© Copyright 2018 2018 - 65861 Exp. 09/20