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Squeezed by Competing Needs

At a time when baby boomer couples should be saving for their own retirements, many feel squeezed by competing financial needs. Having started families later than past generations, their children may just now be entering college or still living at home. At the same time, aging parents may need financial assistance. It is a dilemma that is likely to become more common.

Caring for Parents

As life expectancies continue to rise, it becomes increasingly likely that you may need to help an aging parent. Some financial precautions you should consider now include:

✔ Investigate long-term-care insurance for your parents. If they can't afford the insurance, you may want to purchase it for them.

✔ Have your parents prepare a listing of their assets, liabilities, and income sources, including the location of important documents. This can save time if you need to take over their finances.

✔ Make sure your parents have legal documents in place so someone can take over their financial affairs if they become incapacitated. They may also want to delegate healthcare decisions.

✔ Understand the tax laws if you provide financial support to your parents. You may be able to claim them as dependents if you provide more than half of their support. Additionally, you may be able to deduct medical expenses paid on their behalf.

✔ Find out if your employer offers a flexible spending account for elder care. This may allow you to set aside pretax dollars to pay elder-care expenses for a dependent parent.

Assisting Your Children

For many families, college costs are significant. While you

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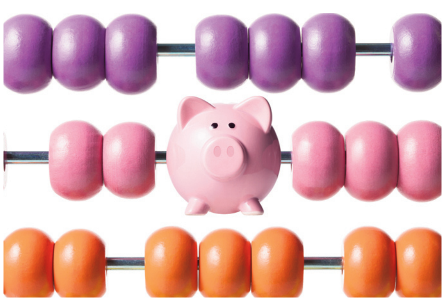

Where Will You Go?

Many people dream of moving after retirement — to a warmer climate, another country, the sea, or a city where they can enjoy their hobbies. But most retirees don't move. If moving after retirement seems so appealing, why do many retirees stay put?

✔ **They know the area and the people.** They know where stores, restaurants, and theaters are and probably have a circle of friends to share these activities with.

✔ **Relatives usually live close by.** Living close to family helps maintain strong family relationships, a key factor in retiree happiness. Relatives can also look after them as they age.

✔ **It's less stressful to stay in their current homes.** All of the inconveniences of moving, including finding a new house, figuring out where to shop and eat, and making new friends, can be overwhelming for older individuals.

✔ **The cost of living may not be much lower.** Individuals often think about moving to lower their cost of living, but the difference in expenses may not offset the inconveniences involved with moving. ❍❍❍

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Squeezed

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may want to pay all college expenses for your children, it may not be feasible with competing needs to save for retirement and/or assist parents. Some strategies to consider include:

✔ Shift some of the burden to your children, requiring them to work part-time during college or take out student loans.

✔ Understand the financial aid system, investigating all financial aid sources. Search for scholarships that are not based on need. Apply to several different colleges, looking for the best financial aid package. Negotiate with your child's preferred college to see if you can increase that package.

✔ Look for ways to reduce the costs of college. Your child can start at a community college, which is often cheaper than a four-year university, especially if the child commutes from home. Also consider a public university in your state, which will generally be more affordable than a private university.

Once your child graduates from college, don't assume your financial responsibilities are over. Adult children may return home for a variety of reasons — they can't find a well-paying job, they have too much debt to live alone, or they divorce and need financial support. If your child returns home, realize there are increased costs — additional food, phone bills, utilities, etc. Consider charging rent and imposing a deadline on how long he/she can stay.

Time — Friend or Foe?

Here's when time is your foe: when you have only a couple of years left to work and don't have enough accumulated to retire. And here's when time is on your side: you start saving in your twenties, save every month, and keep saving until you retire. That's when you're putting the power of compounding to work for you.

The sooner you start saving, the less you'll have to put away each month to accumulate the needed funds for retirement. For example, say as a 25-year-old you open an IRA and save $100 a month ($1,200 per year). The IRA earns an average of 6% a year. After 40 years — when you're 65 and ready to retire — your account balance could grow to over $185,000.

But let's say instead, you put off saving until you are 45. At the same rate of saving in an IRA with the same returns, by the time you're 65, your IRA balance would be just about $44,000. Starting when you're 45, you'd have to contribute $420 a month until age 65 to save about $185,000. At least that would be less painful than if you waited until you were 55. Then to match the end result, you'd have to save $1,175 per month. *(These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

One way people often try to compensate for getting a late start in saving is to shoot for a higher rate of return. Instead of settling for the 6% a year we used in the example, why not go for 10%? But there are two problems with that strategy. The first is investments don't always provide consistent returns.

Second, to earn higher rates of return, you have to take on more risk. That's fine when the big returns come in; but in the long run, big returns in some years are usually paid for with big losses in others.

Not everyone realizes time spent not saving can have a significant cost, and there are only so many ways to make up for it. The sooner you start putting more money aside, the better. ❍❍❍

Don't Forget Yourself

When faced with the competing needs of children and aging parents, it's easy to neglect your own need to save for retirement. But don't feel guilty about your retirement needs. One of the best gifts you can give your children is the knowledge that you will be financially independent during retirement. Consider the following:

✔ Calculate how much you need for retirement and how much to save on an annual basis to reach that goal. Don't give up if that amount is beyond what you're able to save now. Start out saving what you can, resolving to significantly increase your saving once your parents' or children's needs have passed. Also consider changing your retirement plans.

✔ Take advantage of all retirement plans. Enroll in your company's 401(k), 403(b), or other defined-contribution plan as soon as you're eligible. Also consider investing in individual retirement accounts.

✔ Reconsider your views about retirement. Instead of a time of total leisure, consider working at a less-stressful job, starting your own business, or turning hobbies into paying jobs.

Please call if you'd like to discuss these issues in more detail. ❍❍❍

Watch Out for These Retirement Derailers

To make sure your retirement isn't derailed, consider these tips:

1. Start saving now. Because of the power of compounding, starting to save for retirement just a few years earlier can make a huge difference at the end. For example, a 30-year-old puts $400 per month into a tax-deferred retirement plan (like a 401(k) plan), which generates $1,015 per month in retirement income for 30 years beginning at age 65. For the 35 years the individual is saving (from age 30 to 65), he/she will have contributed $168,000 to the account. A 45-year-old makes the same amount in total contributions ($168,000 at a rate of $700 per month) to the same retirement account. Even though he/she has contributed the same dollar amount, because his/her savings compounded for 15 fewer years, he/she has about 20% less during retirement (Source: Ameriprise Retirement Calculator).

2. Save now to spend later. This is where it's critical to make a budget for current expenditures, a retirement budget, and a plan to make retirement work. That plan may involve trimming current expenditures, scaling back retirement expectations, or both.

3. Prepare a retirement plan. A retirement plan should be an integral part of your overall financial plan — a financial plan is a very important way to decrease the likelihood your life plans will be derailed by unexpected circumstances that inevitably arise.

Think seriously about where you might want to spend your money before or during retirement and then build that into your retirement plan. Obviously unexpected circumstances arise, but if you anticipate your children might need help, put that into your plan.

4. Review the implications of taking Social Security benefits before reaching full retirement age. For people who were near retirement age when the Great Recession hit and lost their jobs, taking Social Security at age 62 probably seemed like a far better idea than trying to get a new job at that age. But it's important to understand that while the government will let you start taking benefits at age 62, it will penalize you for it: for an individual born in 1960 or later who retires at age 62 instead of full retirement age, monthly benefits will be reduced by 30%.

5. Have a candid conversation with your parents or other family members who may need care. Talk about how they'll want to be cared for and the means they may have to pay for such care. Urge them to consider long-term-care insurance, which can greatly ease that financial burden.

If you have already been impacted by a retirement detailer — or any other circumstance that has impacted your retirement plans, here are five ways you can get back on track:

1. Take advantage of catch-up provisions. If you are 50 or older, you can contribute more tax-deferred income to a 401(k) or IRA (catch-up contributions). In 2018, you can contribute an extra $6,000 to a 401(k) or 403(b) plan and $1,000 more to an IRA.

2. See where you can trim expenses to save more. Boosting your savings to get back on track for retirement might be easier than you think: most of us spend more than we realize on discretionary things like meals out, clothing, travel, and other personal expenditures. Take a hard look at your budget and see where you can cut back — even $100 per month can make a difference in your retirement savings.

3. Evaluate your investment choices. Review your current asset allocation. Many individuals close to retirement pulled money out of the stock market during the financial crisis; and if you haven't since reassessed your asset allocation, you're probably missing out on significant investment opportunities. That said, you want to ensure your asset allocation is appropriate (not too heavy in equities) given your age and target retirement date.

4. Reevaluate your retirement lifestyle. Most financial advisors recommend you be able to replace at least 70% of your preretirement income during retirement. If you planned to spend 85% of your current income in retirement, you might be able to scale back and still retire comfortably.

5. Work longer. When Social Security was created in 1935, the average American 65-year-old man could expect to live to age 78 and the average American woman to 80. Today, the average American 65-year-old man can expect to live to 84.3 and the average American 65-year-old woman to 86.6 (Source: Social Security Administration, 2017). In that context, working five more years might not be such a sacrifice — and it can make a big difference in the retirement lifestyle you can afford. For a 60-year-old who contributes $2,000 a year and has a retirement account balance of $250,000 today, pushing retirement back from age 65 to age 70 would yield an additional $158,410 in total savings (not counting Social Security) — adding $300 per month to his/her retirement income.

No matter where you are on the path to retirement or whether you've been derailed or not, please call to discuss this in more detail. ❍❍❍

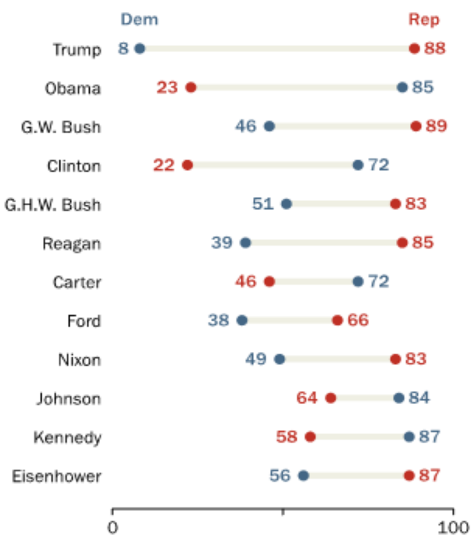
The Great Divide

We have a long history of political partisanship in this country. In George Washington's Farewell Address, he warned "the common and continual mischiefs of the spirit of party are sufficient to make it the interest and duty of a wise people to discourage and restrain it." Our first President experienced the dangers of political partisanship first hand. He reluctantly decided to serve a second term after heated disputes between the Federalist Party, led by Alexander Hamilton, and the Democratic-Republican Party, led by Thomas Jefferson, threatened to tear apart the newly formed union.

In our time of 24-hour news cycles, the proliferation of targeted news and programming, and seemingly unlimited access to information and opinion on the internet, the political partisan divide continues to widen. We all tend to seek out and remember information that supports pre-existing attitudes and beliefs, which effectively reinforces those beliefs. The result is a divided country. As shown in the exhibit below, the job approval rating for President Trump is 80 percentage points higher for Republicans than for Democrats…the largest gap in six decades.

Wider partisan gap on Trump job rating than for any president in six decades

% approving of president's job during first year…



Notes: Based on Republicans and Democrats; does not include those who lean to a party. Trump first-year approval based on surveys conducted Feb.-June. Data from Eisenhower through George H.W. Bush from Gallup.
Source: Survey conducted June 8-18, 2017

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Unfortunately, hyper-partisanship has also affected how we think of others. Research by Alexander Theodoridis and James Martherus finds that 77% of respondents considered their political rivals to be less evolved humans than members of their own side. Surveys also suggest that Americans find their opponents extremely disagreeable. No wonder Republicans and Democrats struggle to find common ground.

This divide seems to be attributable to human nature. In a new book by the political scientist Lilliana Mason, "Uncivil Agreement," Ms. Mason describes psychology experiments that prove people have an urge to belong to exclusive groups (like a political party), and to affirm their membership by beating other groups. In one experiment, members of randomly selected groups were asked to share a pile of cash between their group and a rival group. They were given two alternatives: to split the total in half, or to take less than half themselves while handing an even smaller amount to their rival group. Participants preferred the second option. Winning was more important than the common good, and even more important than receiving a greater amount themselves.

Groucho Marx once said "All people are born alike – except Republicans and Democrats." We consider ourselves very fortunate to have both Republicans and Democrats as clients. Our clients come from across the political spectrum. We have come to know and understand our clients, as well as their strongly-held beliefs. We like and care deeply for so many of our clients, and, as a result, we are more open to different thoughts and opinions. We take pride in educating and providing sound financial advice to our clients, but often learn from our clients as well.

Political partisanship has arguably become a real problem for our democracy. We will do our small part to bring civilized discourse and mutual respect to political debate. Our democracy requires and deserves that. As Winston Churchill once said "Many forms of government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government, except for all those other forms that have been tried from time to time."

Sincerely,

Steven Criscuolo

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