[VINTAGE] FINANCIAL SERVICES, LLC

# On the [MONEY]

*Registered Investment Advisor* | www.VintageFS.com | Spring 2016 Vol. XXXII No. I

## *From the Grapevine...*

Congratulations to Jim Burns of Vintage for being named a Five Star Wealth Manager in the Detroit area for the first time this year. The Five Star Professional designation has been presented to less than 7% of local advisors each year since 2011. Jim joins Frank Moore who was named again for the sixth time, Joe Henderson for the third time and Todd Perry for the second time this year.

Also congratulations to Candace Kinsler who will celebrate 20 years with Vintage in early May. Candace joined us in 1996 after working as a legal secretary and with another investment firm. She's been our office manager since then and has seen the firm grow considerably over the years.

Todd Perry, head of our tax planning and preparation services, was recently quoted in a *Financial Planning* magazine article titled "Looking For Loopholes: 10 Outrageous Client Tax Deductions."

## SHRINKING SOCIAL SECURITY CHECKS

Social Security benefits are supposed to increase with inflation each year, but this year many retirees saw their monthly benefit decline. The drop in benefits is due to no increase in the annual CPI adjustment combined with higher Medicare Part B premiums which are deducted from most Social Security checks. While the "core" inflation rate for 2015 came in at 2.1%, Social Security makes the calculations based on the CPI-W index through the third quarter. That index fell slightly over the period, but benefits don't adjust downward, so benefits were flat from 2015 to 2016.

Medicare Part B premiums initially were due to increase by 52% based on rising health care costs. Congress reduced that in October to a 16% increase but that increase will only affect higher income and new retirees. An older law limits the increase in Part B premiums to no more than the cost of living increase so most retirees saw no change in monthly benefits.

The basic monthly Part B premium will stay at $104.90 for many retirees but if your 2014 income exceeded $85,000 ($170,000 joint) then the premiums jump to $170.50 per month. Three higher income brackets kick in at $107,000, $160,000 and $214,000 with monthly premiums rising to as much as $389.80 per month per person. At Vintage, our retirement planning assumption has been that benefits will increase at 1% below the inflation rate and that seems to be on target in recent years.

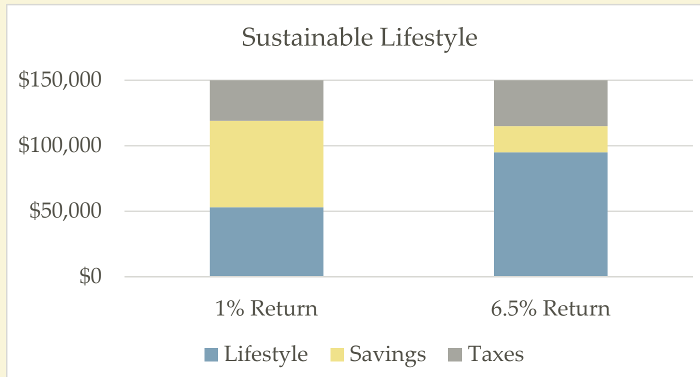
# GUARANTEED RETIREMENT PLANNING

In 2015, most investors saw modest losses on their retirement savings as the average Moderate Allocation mutual fund tracked by Morningstar saw a loss of 2%. In 2016, the markets are off to another rough start as the stock market has hit its second correction (10%+ loss from recent highs) in the past six months. And overall investment returns weren't great in 2014 or the second half of 2013 either. As a result, some investors may be considering moving toward more guaranteed investments for their savings. But there's a substantial cost for those guarantees.

Let's look at a couple, both aged 40, with $500,000 already saved for their retirement years. They want guaranteed investments and are willing to settle for today's 1% returns as long as their principal never drops. They'd like to save enough today so that they can maintain a similar lifestyle in retirement. Together, they currently earn $150,000 and expect that to grow with inflation over the years. They want to retire at age 62 when their Social Security benefits become available to supplement their savings.

We've run their scenario through our retirement planning software and have assumed a future rate of inflation of 2%, in line with the current rate, but well below the average of the past half century. Income taxes likely consume about $31,000 and we'll assume both of them max out their 401(k) plans, each contributing $18,000. While that $36,000 in annual savings consumes 24% of their gross income, it's nowhere near enough to fund a retirement that could last over 30 years. By earning a steady return of 1% below the inflation rate, they would need to save an additional $30,000 per year! In order to balance their current spendable income with a similar retirement lifestyle, they would need to reduce their annual spending to about $53,000 after taxes. They'd have $150,000 gross income, less taxes of $31,000, 401(k) savings of $36,000, additional after tax savings of $30,000, leaving them just $53,000 to live on. Even then, well over half of their $50,000 in after tax retirement income would come from Social Security.

In their retirement years, they would effectively be spending principal every year. While the funds would last beyond their life expectancy, they would run out of money at around age 100 if they lived that long.




If we look at a similar 40 year old couple that is willing to accept some volatility for better long term returns, the story is much better. Using the same assumptions, except for a 6.5% average annual investment return, the second couple only needs to save $20,000 per year to their 401(k) on top of their initial $500,000. With less savings required, their after tax spendable income is around $95,000 during their working years and stays at that level in retirement. Aside from Social Security, they're able to draw about three times as much income from their portfolio and will likely leave a nice inheritance for their children even if they live to age 100.

One way to look at the cost of the guaranteed investments is to take the $42,000 per year reduction in spendable income ($95,000 less $53,000) and multiply that by 40, 50 or 60 years that they may live. Over time it totals in the millions. So as you watch your long term retirement savings balance rise and fall, consider how much better off you'll likely be in the long run.

# BIG CHANGES IN INVESTMENT ADVICE

Most people think that their financial advisor looks out for their best interests but, in most cases, that can be a costly assumption. Registered representatives, or brokers, that work for a firm that is a member of FINRA, work for their employer first and their investment recommendations only need to be "suitable" for their customers. The real conflicts come in when the reps have the ability to earn fat commissions on expensive financial products. Fortunately, the government is trying to help—maybe.

Early last year the Obama administration supported a Department of Labor regulation that would require anyone giving advice on retirement accounts, including IRAs, to put their customer's interests first. The rule would still allow commissions, but would make it much more difficult for reps and insurance agents to sell expensive products that benefit themselves much more than their customer.

Frank Moore, Vintage's founder, is currently the chairman of the board of NAPFA, the National Association of Personal Financial Advisors, and he's been actively involved in trying to get the DOL rule implemented. In his role, he's worked for the past year with the Financial Planning Coalition which is comprised of NAPFA, the Financial Planning Association and the Certified Financial Planner Board. The Coalition has been a strong advocate of the rule and has testified at the DOL hearings in August and again before a Congressional subcommittee last fall. The rule has overcome many hurdles but is expected to be published in the next few weeks with an implementation date within the next year.

The brokerage and insurance industry has fought hard against the rule and for good reason. The White House issued a study a year ago that estimated the cost of conflicted advice at $17 billion per year. Despite the millions Wall Street spent lobbying Congress, the DOL rule is still on track.

While the rule would impact advice given on retirement accounts, it doesn't cover advice on other investment accounts. The SEC was given a mandate in the Dodd Frank legislation in July, 2010 to study and implement a rule providing a fiduciary standard for brokers. Nearly six years later, they have yet to propose anything to protect investors. Many experts expect the SEC to act following the DOL rule release, but investors could find that their financial advisor may be providing different levels of advice for their IRAs and regular investment accounts next year.

Investors that want an advisor that truly has their best interests at heart should seek out a Fee Only (not "Fee Based") advisor that is a Registered Investment Advisor and not a Registered Representative of a FINRA member firm. These Fee Only advisors charge transparent fees and the advisors only compensation comes from their client. When you are the only one paying them, it's easy for them to put your interests first. Hopefully, someday, the rules will require all financial advisors to put their client's interests first, but in the meantime look for a Fee Only advisor.

# MORE NEWS FROM VINTAGE

In addition to this print newsletter, we offer a monthly E-News and our Monthly Market Report. The E-News offers additional financial planning articles while the Monthly Market Report provides an update of how various investment classes have performed for the month and year-to-date.

You can sign up for these complimentary monthly e-mails at www.VintageFS.com.

## VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management, financial planning,
and tax preparation.
Minimum portfolio $500,000
(401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office at (734) 668-4040 or (800) 666-9237 or e-mail:
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Or visit our website at www.VintageFS.com

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*Plan to succeed.*

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