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Retirement, Cyprus & Social Security

JIM'S JOURNAL

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On March 12 & 13th, I attended the 4th Annual Financial Advisor Retirement Symposium in Orlando, Florida (my first time attending). With our Michigan winter extending well into March this year, it was nice to get away for a few days to mostly sunny Orlando. However, the conference and its impressive array of speakers was the real reason for the journey and my expectations were greatly fulfilled with the information that was presented. I would like to share a few of the highlights with you.

There were three keynote speakers as well as a dozen different presentations on issues that affect retirement. In his keynote address, Texas Congressman Ron Paul made a case for limited constitutional government, low taxes, free markets and a return to sound monetary policy based upon commodity-backed currency. I know that my clients have a wide range of political views and I try not to mix politics and investing so let me just say that it was interesting to hear and see a high profile political figure speaking in person. Besides being a congressman, Ron Paul is also a pediatrician who has delivered over 4,000 babies in his medical practice. When asked whether he preferred to be called Congressman Paul or Doctor Paul, he quipped that doctor was preferable since most people like doctors better than politicians.

More in line with the financial side of the business was the address by Robert L. Reynolds. Mr. Reynolds is President and Chief Executive Officer of Putnam Funds and Putnam Investments with its $133 billion in assets under management. He was named Fund Leader of the Year at the Mutual Fund Industry Awards presentation in 2010. This honor was given in recognition of a series of strategic changes he implemented to improve investment performance and position Putnam as an industry leader. In my opinion, one of his most insightful comments at this symposium was: "We find ourselves moving – ever-so-tentatively – into a financial future with seemingly only one certainty: It will likely be very different than the investment world in which we all grew up. This suggests that conventional wisdom shaped by decades of high-return investing – first in equities from 1982 to 2000, then in fixed-income markets over most of this young century – needs to be re-examined, revised or even scrapped."

Reynolds pointed to the lower returns and increased volatility of core equity and bond markets over the past decade as the deepest source of investor anxiety. He suggested, among others, that we look beyond the mainstream indexes (DOW, S&P 500 etc.), adapt strategies to help curb volatility, incorporate absolute return strategies into our portfolios, apply a risk-allocation approach and invest in low-beta stocks. I was very happy to hear these recommendations from such a highly respected industry leader such as Robert Reynolds since I have been incorporating these concepts into the Haas Financial Money Management Program for several years now.

The third keynote speaker was a gentleman named Mitch Anthony. Mr. Anthony is the founder and president of Advisor Insights Inc. Advisor Insights is a leading provider of financial life planning tools and programs for both individual advisors and major organizations throughout the world. His column, "Financial Life Planning" regularly appears in *Financial Advisor* magazine.

Anthony states that "Retirement is an artificial finish line. Somebody decided that at this age, you're done." He defines "work" as "an engagement that brings value to others and meaning to me." He contends that financial advisors should be helping boomer clients plan for the life they want, and for most, that is to continue working if they can. An interesting point he makes is that the concept of "vacation retirement" with fishing poles, golf clubs, beaches and Mai Tais is an institutionally manufactured idea. "You can trace it back to the early 1950s, when people in the insurance industry said, "We need to come up with some sort of alluring sales pitch to get people to save for retirement." Amazing what those marketing folks can do, isn't it?

I could probably write another six pages on the rest of the retirement symposium but would like to finish with a few words on Cyprus. The tiny country of Cyprus is hardly a household name for most Americans. It is an island nation located in the eastern Mediterranean about 50 miles south of Turkey, 100 miles west of Syria, and 250 miles north of Egypt. It is a member of the 17-member European Union and like several other EU members, it needs a financial bailout. Compared to other loans given, this one is relatively small - €10 billion (Euros). This is equivalent to about $13 billion U.S. dollars. To put this number in perspective, Apple had $137 billion in cash at year-end and could have bailed out Cyprus at least ten times over.

So why all the fuss? Well, the stipulation for receiving the bailout loan was that private citizens and other bank customers would be taxed 6.75% on their deposits of less than €100,000 and 9.9% for larger amounts. As you can imagine this solution did not sit very well with the depositors. The parliament of Cyprus rejected the bailout deal but with no deal and therefore no loan money, the banks could collapse. If the same "solution" is forced on the other problem countries - Portugal, Italy, Ireland, Greece and Spain- and rejected, the European Union could be in trouble. The EU was relatively quiet in 2012 even though no real solutions were in place to truly solve its financial problems. However, if you look back to 2011, the EU financial turmoil had a major effect on the U.S. stock market. It could happen again. Let's hope for the best but plan for the worse.

On the reverse side, I have included a chart and some additional information to help you better understand the Social Security Full Retirement Age (FRA) concept discussed in the last newsletter. Thinking and hoping for spring - soon. Take good care!!!

Social Security benefits – The Foundation of Retirement

Social Security payments are important to most Americans. And because retirement could last 30 years or longer, it's *very* important to consider how and when you should start receiving income.

The *average* monthly Social Security benefit for a retired worker at the beginning of 2012 was about $1,230, while the maximum possible benefit for someone retiring at their full retirement age (age 66 in 2012) will be $2,513. Since the amount of your benefit is permanently affected by your age when you start your income, it's critical to be aware of the long-term impact of taking benefits before you reach your "full retirement age."

- You can start your Social Security retirement benefits as early as age 62, but the benefit amounts you receive will be less than your full retirement benefit amount. If you start your benefits early, the amount will be permanently reduced based on the number of months you *receive* benefits before you reach your full retirement age.

  For example, if you were born in 1955, full retirement age is 66 years and two months. If you draw Social Security at age 62, the benefit would be reduced by 25.83%.

- If you collect Social Security before reaching full retirement age, your Social Security benefits will be reduced if you earn over $15,120 in 2013. When you reach your full retirement age, any month in which benefits were reduced will be removed from the early retirement deduction calculation, which may raise the benefit paid.
- If you reach full retirement age in 2013, delaying benefits beyond full retirement age will result in an 8% per year benefit increase. This Increase will reach its maximum value when you reach age 70.
- As much as 85% of your Social Security benefits may be subject to the federal income tax.
- Since a surviving spouse's survivor's benefit is based on the deceased spouse's income amount, you should consider a death scenario when thinking about taking Social Security before reaching full retirement age.
- You may want to adjust the age you take retirement income in order to gain the maximum benefit over your lifetime. Since there are many variables to consider (income tax, life expectancy, survivor's benefit, etc.) you should be careful when considering any break-even analysis.

Many people take a reduced Social Security Benefit by drawing income before they reach their full retirement age. While each situation is different—and drawing early might be appropriate in some cases—there are a few issues to keep in mind:

- If you expect to live longer than average, the reduced benefit will stay reduced for a long time. Consider the amount you may be giving up over your lifetime.
- If you plan on working while drawing Social Security—before reaching full retirement age—consider how working will affect your Social Security benefits.
- Drawing a reduced retirement income benefit may also reduce the income benefit your spouse receives if you die before your spouse.
- If there is a significant difference between your age and that of your spouse, Social Security benefits are likely to be paid over a greater time period than when spouses are close in age. In situations like this it is even more important to understand how different assumptions might impact the possible results. Variables such as the age benefits start, longevity, and survivor's benefits can combine to produce substantial differences in total benefits received.

Year of Birth	Full Retirement Age	Age 62 benefit reduction
1937 or earlier	65	20%
1938	65 and 2 months	20.83%
1939	65 and 4 months	21.67%
1940	65 and 6 months	22.50%
1941	65 and 8 months	23.33%
1942	65 and 10 months	24.17%
1943-1954	66	25.00%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 and later	67	30.00%

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