September – October 2018

Money Moxie®

TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE

Become Cyber Aware

How Much Money Will You Need in Retirement?

Dear Financial Partners and Friends!

If we were to ask what percentage of your final salary you will need in retirement, you could probably come up with an answer off the top of your head. In reality, determining what you will need to live on and making sure you have enough to meet that need is extremely complex.

A front-page article in the Wall Street Journal's Wealth Management section on September 4, 2018, by Dan Ariely & Aline Holzwarth, made this astute observation: "Answering a question as complex as this requires knowledge far beyond most people's grasp—and far beyond the grasp of many professionals."

Why is retirement planning so difficult? Because it's all about longevity, the future cost of federal and state taxes, cost of property taxes, cost of health care, cost of long-term care, the opportunity cost of being too conservative or the penalty cost of being too aggressive, cost of living, as well as daily living and possible travel expenses, just to name a few. Retirement cash-flow planning is not for the faint of heart.

While many think that health care cost will be the largest expense in retirement, the surprise is that for most folks, taxes are the single, largest expense. It's impossible to generalize for everyone, but taxes are levied on withdrawals from qualified retirement accounts such as IRAs, 401(k)s, and pensions. If you have too much income, your Social Security benefits may also be taxed during retirement.

Integrating tax planning with cash-flow planning may help bring considerable and tangible benefits. Preserving your hard-earned dollars through tax planning is crucial in delivering and providing a sustainable cash flow during your retirement years. Having said this, melding tax planning and cash-flow planning is very complicated.

The great news is that you don't have to go it alone. At Smedley, we can help you navigate the white waters of retirement tax planning and cash-flow planning. Please come and talk with one of our expert wealth managers who have the experience, credentials, and training to guide you to and through your retirement years. Your financial success is our passion at Smedley Financial.

Best Wishes,

Roger M. Smedley, CFP®
CEO

SFS and its representatives do not provide tax advise; it is important to coordinate with your tax advisor regarding your specific situation.

2018 Update Seminar and Webinar

Mark your calendars and plan to attend our 2018 update seminar at Little America in downtown Salt Lake City.

Thursday, November 1st
12:00 p.m. to 1:00 p.m.

We hope to see you there. RSVP required. Call 801-355-8888.

Unable to attend the seminar? Join us for the update *webinar* on

Tuesday, November 6th
12:00 p.m.

Tax Law Changes ***Healthcare in Retirement*** ***Investing Update***

Become Cyber Aware

By Shane P. Thomas

The Department of Homeland Security (DHS) is kicking off Cyber Security Awareness Month with the following online safety tips:

• **Always enable stronger authentication.** Stronger authentication goes beyond a password to help verify that a user has authorized access. For example, multi-factor authentication can use a one-time code texted to a mobile device. For more information visit the Lock Down Your Login Campaign at www.lockdownyourlogin.com.

• **Make your passwords long and strong.** Use complex passwords with a combination of numbers, symbols, and letters. Use unique passwords for different accounts and change them regularly, especially if you believe they have been compromised. Check out LastPass.com.

• **Keep a clean machine.** Update the security software, operating system, and web browser on all of your devices. Updating software will prevent attackers from taking advantage of known vulnerabilities.

• **When in doubt, throw it out.** Links in email and online posts are used by criminals to compromise your computer. If it looks suspicious, even if you know the source, delete it, don't click on it.

• **Share with care.** Limit the amount of personal information you share online and use privacy settings to avoid sharing information widely.

• **Secure your Wi-Fi network.** Your home's wireless router is the entrance for cybercriminals to your devices. Always change the factory-set password and username.

Open Enrollment is Now

By Leah Nelson

Healthcare open enrollment is upon us. Here are some things to keep in mind.

1. Medicare Advantage Plans vs. Medigap Plans: Medicare Advantage plans wrap all of Medicare into one plan. Medigap, also known as Supplement Insurance, plans are separate from Medicare and help pay for medical care not covered under traditional Medicare. The premiums are charged in addition to Medicare Parts A, B, & D and are usually more expensive.

2. Take Advantage of a Health Savings Account (HSA) or Flexible Spending Account (FS). HSAs have higher contribution limits–$3,350/year for individuals and $6,750/year for families. The money in an HSA will roll over year after year; money not used in an FSA is forfeited. FSA contributions are limited to $2,650/year. To qualify for an HSA, you must be enrolled in a high-deductible health plan. Earnings and withdrawals are not taxed in either account as long they are used for qualified medical expenses.

Contributing to an HSA can be as advantageous as contributing to a retirement plan. Since the money in an HSA will roll over every year, you can use it in retirement to pay for eligible medical expenses.

3. Know the Dates of Open Enrollment! Affordable Care Act open enrollment is November 1st through December 15th. Employers often have their open enrollment around this time as well.

4. Take Advantage of Wellness Incentives. Health insurance providers often have incentives. They can be as simple as going to the doctor for a general health assessment. Incentives may include additional HSA contributions, lower premiums, or even gift cards.

5. Compare Costs: High-deductible plans have lower premiums, but out-of-pocket maximums increase with high medical expenses. Other plans with higher premiums may cover more expenses because of the lower deductible and maximums. Make sure you weigh the pros and cons of each plan.

Long-term Care Aware

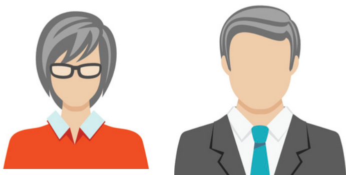
By Mikal B. Aune, CFP®

November is Long-term Care awareness month. So, what is Long-term Care insurance (LTCi) and who needs it? LTCi is insurance to help pay for a care facility because a person can't perform 2 of the 6 activities of daily living: transferring, continence, dressing, toileting, bathing, and eating.

There are many levels of care ranging from independent living to assisted living to a full-blown nursing home. Going into a care facility for independent or assisted living is mostly a personal decision to be closer to peers or to not be a burden on one's family. When a person gets to the point that their families are unable to care for them because of physical or mental impairment, they go into a nursing home.

1 out of 2 Americans

will need long-term care at some point in life.



The costs of a care facility correspond with the level of care that is needed. In Utah, the average cost of assisted living is about $3,000, with the average cost of a nursing home being $5,500 per month. Secure units for Dementia or Alzheimer's patients can cost $7,000 to $9,000 per month. A patient with Dementia can expect to pay about $341,000 in their final five years of life.

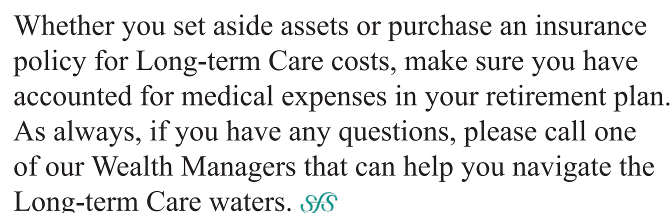
Another scary statistic is that 52% of people age 65 will have a long-term care need in their lifetime. However, keep in mind that this statistic encompasses any stay in a care facility ranging from a few days to years. Men and women turning age 65 have a 22% and 36% chance respectively of needing more than one year in a nursing home. Whether you will have an LTC need will depend on factors such as age, lifestyle, and family heredity.

To protect from these risks, you can either self-insure by dedicating assets to medical care or by purchasing LTC insurance. If you self-insure, you should designate about $300,000 per person for LTC. If you purchase a traditional LTC policy, the optimal age is between 55 and 60, with costs ranging from $50-$200 per month depending on the level of coverage that you get. If you wait until age 65, those costs will double. By age 70 the costs will be about quadruple that amount. LTCi is also costlier for females. There are many different types of long-term care policies, which are beyond the scope of this article. If you have questions about what benefits to look for, please call one of our Wealth Managers.

Keep in mind, even if you don't have insurance, there is still a back-up plan through Medicaid, which is assistance for low-income people of every age. A common misconception is that Medicare (i.e. health insurance for age 65+) will pay for Long-term Care. Medicare will only pay for the first 100 days in a care facility IF that stay is preceded by a hospital stay of at least three days and the condition for admission is the same.

To receive assistance through Medicaid, you will be required to spend down your assets first. The rules are complicated, but generally speaking a spouse will be allowed to keep $102,000 after all other assets are spent down. If you're single you can only keep $2,000, which may include selling your home. Once your assets are spent down, Medicaid will cover all other costs in a facility that accepts Medicaid patients.

There is also a 5-year look-back rule that will require you to count as assets anything given away in the last five years. So, you can't gift away all your assets to family 6 months before you need to go into a care facility and then have Medicaid pick up the tab.



Whether you set aside assets or purchase an insurance policy for Long-term Care costs, make sure you have accounted for medical expenses in your retirement plan. As always, if you have any questions, please call one of our Wealth Managers that can help you navigate the Long-term Care waters.

By Sharla J. Jessop, CFP®

Understanding the intricacies of Medicare can be tricky, and avoiding some of the common mistakes can save you a great deal of frustration and money. If you are getting close to age 65, here are some things to think about.

Medicare Part A

It's easy to get confused about signing up for Medicare Part A, especially if you will be delaying Social Security to receive a higher benefit. When it comes to Medicare Part A, there is no delaying. At age 65 you must enroll in Part A. There is a 7-month window to enroll. It begins 3 months before your birth month and ends 3 months after your birth month. If you miss this window you are not eligible again until open enrollment, which is from October 15th to December 7th each year. Your coverage will not begin until January 1st of the following year. Failure to enroll in Part A coverage can put you on the hook financially if you have a hospital stay.

Medicare Part B

The enrollment dates for Medicare Part B hinge on whether you are working after age 65 and are covered by an employer plan. If so, you may be able to delay enrollment until you retire. If not, and you miss the enrollment window, you could be subject to a premium penalty of up to 10% for every 12-month period beyond when you should have signed up. And if that isn't bad enough, the penalty never goes away. Let's say you wait 3 years to sign up for Part B coverage, your penalty could be as much as 30%. In real dollars, the 30% penalty would increase your monthly premium from $134 to $174.20 based on 2018 rates. While that may not seem like a lot of money, it's substantial if you are retired and living on a fixed income.

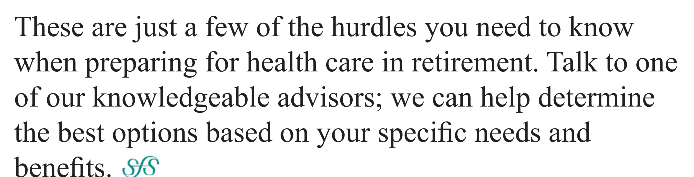
Income-Related Monthly Adjustment Amount (IRMAA)

Medicare Part B premiums can also be affected by high-income years. This could result if you sell a property or business or take large distributions from retirement accounts. If you are subject to IRMAA, your premiums will increase for two years. The trigger points for IRMAA are cliff thresholds, not marginal, and there are 5 in all. For married couples, the first threshold hits at $170,000. What we mean by cliff is if your income is $170,001, you hit the threshold and your premium increases from $134 monthly to $187.50. This increase continues for two years and is per person. For those who are single the first threshold hits at $85,000.

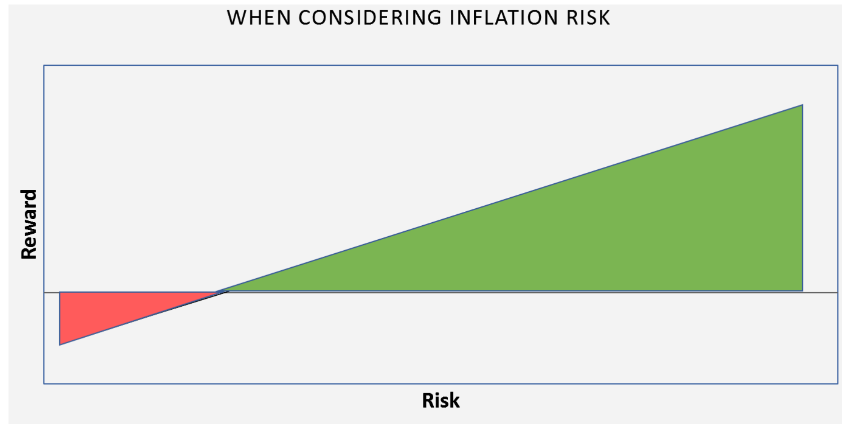
Nursing Care Coverage

There is very little coverage under Medicare for a stay in a nursing care facility – rehabilitation and other limited situations only. Medicare does not provide coverage for help with activities of daily living, which is the type of care most often needed by elderly individuals. Plus, to qualify for coverage under Medicare, you must go directly from the hospital, as an inpatient, to a care facility.

These are just a few of the hurdles you need to know when preparing for health care in retirement. Talk to one of our knowledgeable advisors; we can help determine the best options based on your specific needs and benefits.



What is the
Risk of being too Conservative?



By Jordan R. Hadfield

Are your conservative investments at risk? What about the cash you are keeping in your savings account or in the safe downstairs? "No," you might be thinking, "I keep cash because it's safe." If these are your thoughts, I have some bad news. In an effort to avoid risk, you could be taking on a different kind of risk. I'm talking about inflation risk and it's a silent killer that preys on the innocent.

Inflation can cause damage too small to be seen until it's too large to be avoided. And the more conservative the investment, the greater the risk. "But wait," you might be saying, "I thought conservative investments were safer and risk increased only as I invested more aggressively." That is generally true with market risk, but it does change when considering inflation risk.

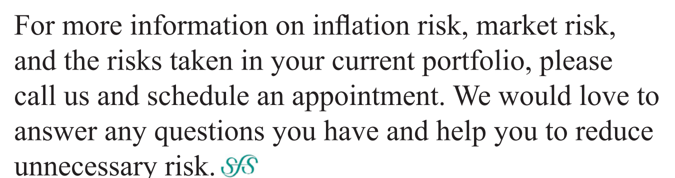
According to inflationdata.com, inflation has historically averaged just over 3%. This means on average a dollar will buy 3% less than it did 12 months earlier. A product that costs $100 dollars today will cost over $2,000 dollars 100 years from now. When my father was young, a candy bar cost 5 cents. I remember paying 50 cents as a child. Today, a candy bar is $1.25. That's inflation.

If our money is not earning at least the rate of annual inflation, our purchasing power is decreasing. My father could've bought almost 20 candy bars with a dollar when he was young. With the same dollar, a child today couldn't even buy one.

As you can see in the Risk vs. Reward graph I've provided, the more aggressive the investment, the greater the potential should be for gain, especially over long periods of time. However, I want to call your attention to the left side of the graph, the conservative side. This side of the graph shows little to no risk being taken and yet there is a loss. That is the risk of being too conservative. This loss isn't a loss of principal, but a loss of purchasing power.

Keeping up with inflation should be an investor's number one goal, and some conservative investments struggle to do that. Conservative investments do serve an important purpose and are a great choice for short term goals and emergency funds. But if your goal is long-term, adding a little more risk may actually reduce inflation risk. Investing in a diversified portfolio that includes stock market and bond market risk may help protect you from inflation risk.

A real area of concern for inflation risk is in retirement. If these investors don't keep up with inflation, they could risk living longer than their money. At a 3.5% inflation rate, the cost of goods will double every 20 years. This means an 85 year-old couple who keep their investments in cash will have half the purchasing power they did when they retired at 65. Although the principal amount would be the same, it would be like a 50% loss. That is a risk I hate to see investors take.



For more information on inflation risk, market risk, and the risks taken in your current portfolio, please call us and schedule an appointment. We would love to answer any questions you have and help you to reduce unnecessary risk.

Lessons of the Great Recession

By James R. Derrick Jr., CFA®

In January 2008, stock markets were near all-time highs, U.S. unemployment was at just 5 percent, and George W. Bush was about to sign the Economic Stimulus Act, which provided tax rebates for Americans and tax breaks for businesses. Americans were unaware that the "Great Recession" had already begun (National Bureau of Economic Research).

The consequences of excessive debt began to slowly spread across corporate America. Several companies were on the brink of failure before being saved, including Bear Stearns (March 2008), Countrywide Financial (July 2008), Freddie Mac (September 2008), and Fannie Mae (September 2008). Each of these was saved by unpopular government intervention.

Then came Lehman Brothers. It was "too big to fail," and yet it did. At 1:45 AM on September 15, 2008, Lehman Brothers filed for bankruptcy protection—the largest and most complex bankruptcy in American history. It had over $619 billion in loans it could not repay and it marked a tipping point: a moment when investors around the world woke up to reality.

There was too much debt, especially American mortgage debt. In 2008, over 800,000 families lost their homes to foreclosure.[1] In 2009, there were around 2.5 million.[2] Unemployment doubled to a rate of 10 percent.[3]

The cost of recovery weighed on the government as it shifted the debt from overburdened Americans to the U.S. deficit (Now over $21 trillion). The Federal Reserve lowered its rates to zero and kept them there for seven years. When that was not enough, it purchased $4.5 trillion dollars of debt—essentially injecting the American economy with money. It seems to have worked by many measurements.

What's Changed?[4]

	September 2008	September 2018
U.S. Debt as Percent of Economy	70%	106%
Household Debt	$870 Billion	$830 Billion
Homes in Foreclosure One in every . . .	45	2055
Dow Jones Industrial Average	11,516	25,964

No Longer Accommodating Growth

Federal Reserve Policy

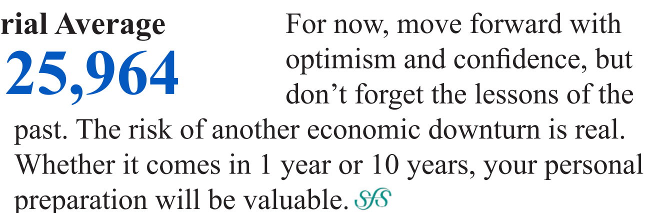
Year	Interest Rate Increases
2008-2014	0
2015	1
2016	1
2017	3
2018	3 (+1 more expected)

As the economic recovery firmed, the Federal Reserve began to raise rates. At first, it was cautious. Now, it plans to keep going higher at regular intervals. This change may be an important shift.

One day in the future there will be another recession, but it will be different than the Great Recession.

A lot has changed in the last 10 years. Americans have less mortgage debt. The government has much more. While the housing market is strong, it does not seem to be as inflated as 2008.

For now, move forward with optimism and confidence, but don't forget the lessons of the past. The risk of another economic downturn is real. Whether it comes in 1 year or 10 years, your personal preparation will be valuable.



1. "Foreclosures up a Record 81% in 2008," *CNN Money*
2. "Great Recession Timeline," *History.com*
3. Federal Reserve Bank of St. Louis
4. "Looking Back at Lehman's Demise," *Wealth Management*

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

Employers and Self Employed
- Health Insurance
- 401(k) Plans

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