The Financial Navigator – October 2015 Newsletter

Happy Halloween. Although you may feel you are too old to celebrate Halloween, you may be 15 years younger than you think, as explained in the article, *Why You May Be 15 Years Younger Than You Think You Are*. Check out the website livingto100.com and take the survey, it might produce an interesting result; maybe you should be making a costume for Halloween.

If you are thinking of moving when you retire, check out *Look Before You Move* which provides some tips that might make you reconsider the 'lower cost of living' in your retirement state.

Finally, if you are retired, near retirement or have parents/grandparents in that stage of their life, check out *No COLA, No Cry* and *Medicare Cost Increases* which discuss the unfortunate news that seniors aren't getting a raise this year despite the fact that the cost of living is increasing.

Enjoy the fall, and as always feel free to forward this email to anyone that may share your interest, and let me know if you have questions about a specific situation.

Sincerely,

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Why You May Be 15 Years Younger Than You Think You Are

How long are you and I going to live? None of us knows, of course, but this number is important for a variety of planning issues—including, of course, how long your money will have to last in retirement. Actuarial tables tell us how long people will live on average, but that isn't much help for planning a specific person's life, and the averages conceal a lot of variation.

Living today is a huge advantage over living in the past, and living in a developed nation is a benefit as well. Most children born in the late 1700s had a life expectancy below age 35; today, the global average is 70, and people who make it to age 65 have a good chance of living to 85 or longer.

If you're above the national average in wealth and income, and especially if you have certain lifestyle characteristics like regular exercise and no tobacco usage, then there's a good chance you'll live longer than these averages.

There's a website that can help you get a better feel for your expected lifespan; it's called Living to 100 (www.livingto100.com). The site asks you a series of questions including your birthday, gender and marital status, and some interesting questions related to the number of new relationships you've developed over the last 12 months, the way you cope with stress and some of the sources of stress you're currently experiencing, your normal sleep habits and your education level.

There are questions on nutrition, your height and weight, how often you eat red meat and sweets, and at the end, you are told how well your answers match up with the tendency to live a long life. At the end of a tutorial on your answers and suggestions for improvement, you get a calculated life expectancy, and a list of things that could add as many as ten years to that life expectancy.

Chances are, you'll be surprised at how long you're expected to live, and astonished at the possibilities suggested in the list of potential changes to your lifestyle. That means that you've managed your life and your health intelligently, and the extra years could be an unexpected bonus. Of course, it also means that you should take a second look at how much you've saved and the possibilities of using your skills and experience to earn income during retirement.

Bottom line: you may discover that you have 15 more years to live than you expected based on your experience with your parents, which means you can start thinking of yourself as 15 years younger when you look at your options and personal timeline.

Source: https://www.livingto100.com

Look Before You Move

Each year, thousands of people retire and immediately move to a state that assesses lower income taxes, on the theory that they will save money and make their dollars stretch further. Then they discover that they would have been better off at home, either because of a tax trap, or because they didn't consider the source of their income when they calculated their state tax bill.

Certain states—like Mississippi and Pennsylvania, for instance—exempt money received from private pensions and IRA distributions from taxation, which may reduce the state tax bite to near zero. Some states exempt government and military pensions as well. So many retirees might discover, after moving, that they would have paid less in state taxes in the state they relocated from.

The biggest potential tax trap is capital gains on their existing home. Consider a couple who move to another state, and decide to rent out the house they currently own. Eventually, they decide to sell that house and put the money into their retirement account.

But hold on: if they haven't used the house as their principal residence for at least two of the five years prior to the sale, they lose the $500,000 capital gains exclusion on their tax form. The difference can be enormous on a valuable home.

Another unexpected tax bite is property taxes, which vary by municipality in unpredictable ways. If you're considering a move, you should research not just the cost of buying a home in the new location, but the property tax bite, which could be higher than the income taxes you would otherwise have paid. And if you think the bill is unreasonable, consider the fact that most assessment information is now required to be available online, so you can consider how to appeal it.

The bottom line: look before you leap. And don't forget to consider such "soft" factors as the network of friends you have in your current location, and proximity to family.

Sources:

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No COLA, No Cry

You've probably heard by now that the 2016 cost of living (COLA) adjustment for Social Security benefits is zero—the third time this has happened in the last seven years. (2010 and 2011 were the other recent years.) In fact, Social Security benefit increases have stalled since the Great Recession; only once since 2008 have they risen by more than 2%.

For many retirees, this was surprising news. Anybody who has visited the grocery store lately knows that the price of food is rising. Every day, the papers tell us that housing costs are increasing and medical care costs are also rising.

You will undoubtedly see websites which blame the Obama Administration or Congress generally for trying to balance the federal budget on the backs of people who have paid into the Social Security system, but in fact the annual COLA calculation is automatic and set by formula.

The formula is something called the Consumer Price Index for All Urban Wage Earners and Clerical Workers, known to economists as CPI-W, calculated by the government's Bureau of Labor Statistics in an effort to make the purchasing power of Social Security as close as possible to the same each year. The CPI-W was attached to Social Security payments in 1972 and has never been replaced. There are many components, and indeed most of them rose in 2015. Food was calculated to be 1.6% more expensive than it was last year; shelter costs rose 3.2% and medical costs were up 2.4%. Ironically, the falling price of gasoline was the factor which drove the CPI-U back to zero; the index tells us that energy prices declined 18.4% this year.

Is this a fair way to calculate actual costs of living? Many believe it is not, for several reasons. First, the CPI-W is a weighted formula, based on the costs of urban workers, not retirees. Therefore, it presupposes, in the weightings, a very different lifestyle than most Social Security recipients are living. The price of gasoline, for example, is assumed to represent 20.1% of a retiree's total expenditures, which may be true for somebody who commutes to work every day in one of America's major cities, but doesn't reflect the normal lifestyle of a retiree. Medical care is assumed to be 5.1% of a retiree's annual expenditures. For a young office worker, that may be a slight overstatement. For a retiree over age 70, it is almost certainly a gross understatement.

Recreation is assumed to be 5.4% of expenditures, which again sounds about right for the office worker who brings home work on the weekends. But a retiree almost certainly spends more on travel and greens fees. (Amusingly, college tuition is assumed to be 1% of the average CPI-W person's expenditures.)

Is there a way to fix the formula so it more accurately reflects the actual costs of living in retirement? The Bureau of Labor Statistics actually calculates, each year, something called the Consumer Price Index for the Elderly. In that index, transportation costs are assumed to make up a more realistic 14% of yearly expenditures, and medical care counts double the CPI-W figure: 10.9% of assumed expenditures. Curiously, the index assumes that retirees spend less money on recreation (4.4%) and food away from home (4.6%, compared with 6.4% for that urban worker). The Social Security Administration has calculated that if it had been using the CPI-E COLA each year, rather than the CPI-W, the result would have been significantly higher Social Security benefits, more than 15% higher than today's payments.

So is it time to push for a switch? Alas, the proposals currently in Congress have nothing to do with the CPI-E. Our elected representatives want to switch the index tied to Social Security benefits to something called the "chain-weighted CPI," which annually comes up with lower COLA figures—and would, indeed, help balance the budget on the backs of seniors. Instead of complaining, should we celebrate the fact that the cost of living calculation wasn't negative for next year?

Sources:

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http://www.nbcnews.com/business/retirement/social-security-benefits-remain-unchanged-next-year-n445066

http://www.socialsecurity.gov/policy/docs/ssb/v67n3/v67n3p73.html

Medicare Cost Increases

The same time it was announced that Social Security recipients won't receive any increases in their benefits, the government was announcing that certain Medicare participants would be paying dramatically higher premiums for Medicare Part B, the highest price jump in the program's history. In general, the higher premiums will affect new enrollees in 2016, enrollees who don't yet collect Social Security checks; enrollees with incomes above $85,000 (single) or $170,000 (married), and dual Medicare-Medicaid beneficiaries. In all, that represents 30% of 2016 Medicare beneficiaries—roughly 7 million Americans.

This jump in some recipients' costs is, ironically, tied to a relative bargain for others. Under something called the "hold harmless" clause in Social Security, in years when there is no cost of living increase in Social Security payments, the government also has to keep Medicare Plan B the same for those receiving Social Security payments. Under current law, the government has to collect 25% of all expected Part B costs from recipients each year. As a result, this relative bargain for many retirees had to be paid for by others—meaning: those NOT receiving Social Security checks.

Medicare recipients who are not taking Social Security checks, who fall below the income thresholds, will see their monthly premiums go up from $104.90 to $159.30. Those whose income is above the threshold could see increases of $223 a month up to $509.80 a month for individuals whose family income exceeds $428,000 a year.

So next year will see some retirees make out better than expected on their Medicare costs, while others will lose big. There are proposals in Congress to fix this situation, but you shouldn't expect any big reform in an election year. Should you take matters into your own hands and start collecting Social Security benefits—putting you in the protected class of Medicare recipients? Probably not. First, for those under age 70, it means locking in lower Social Security benefits. And second, if your income is above the $85,000 (single)/$170,000 (joint) thresholds, you will pay higher premiums anyway.

Sources:

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