



January 2017 Newsletter

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Clients and Friends:

The start of 2017 brings both change and uncertainty to our nation and world.

The first article of this newsletter discusses my thoughts on investing and tax policy in a new era.

The second and third articles talk about issues related to aging and caregiving, topics which I have been discussing with clients and friends on an increasing basis.

Finally, the articles on page four discuss the issues of technology and your money, and those new(er) chip cards that have been arriving in the mail this past year.

As always, feel free to contact me if you have questions, or I can be of assistance.

Eric

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What It Means to Be a Financial Caregiver for Your Parents

Don't Forget to Include Memory Loss When Planning for Retirement

How can technology help me manage my money?

What do you need to know about chip-card technology?

What's Ahead?

The reactions that I have seen following the election ranged from "I cannot believe this, get me out of the market" to "Why am I holding cash and bonds?" What should you do and what should you expect in the future? That depends. There is no one answer that is correct for everyone. I have always tried to work with clients to get them to a place that they are comfortable with, regardless of whether the markets are up or down in a given year.

Vanguard is projecting lower than recent gains in the stock market in the coming years, and relatively low returns in the bond market. I cannot disagree with that conclusion.

With respect to the incoming administration, I will simply say that our economy is bigger than any one person. History (and many studies) tells us that it really does not matter which party is in the White House when it comes to stock market returns. The bigger variable is how the overall US and world economy does.

I continue to recommend a significant allocation to foreign equities, for the following reasons:

* US and foreign stocks do not move in lock step. It is good to have some investments go up, when others go down. That is what diversification is all about.

* US equities have had a long run, starting in March 2009 when the US stock market hit bottom during the 2008- 2009 recession. This is unlikely to continue indefinitely.

* We cannot put the global economy genie back in the bottle. Apple will continue to make iPhones in China. China will continue to import aircraft, machinery and crops from the US. Global trade will continue.

We need to continue doing what has worked for decades: save as aggressively as possible, invest in accordance with both your risk tolerance and your risk need, keep investment costs low, and don't try to time the market. We should also reset our expectations for lower portfolio returns, and higher savings to reach our goals.

Tax policy is another item that has been in the news lately. I have been in the tax business for over 30 years now, and it is hard for me to get excited when politicians talk about tax cuts, tax reform and the like.

Here are some realities that the President-elect and Congress will need to deal with regarding tax policy:

For every dollar of tax cuts that are made, there needs to be a proportionate cut in spending, or the budget deficit will go up.

In order to dramatically cut tax rates, deductions that are very important to many taxpayers need to be eliminated or reduced, such as: the state income tax deduction, real estate tax deduction, mortgage interest deduction, and charitable deduction.

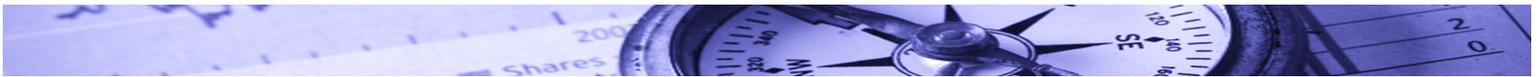
* Want to get rid of the estate tax? This is imposed on single individuals with a net worth over approximately \$5 million, and couples with a net worth over approximately \$10 million. Then we need to find an offsetting \$20 billion of budget cuts, or increase the budget deficit.

* Want to get rid of the Alternative Minimum Tax? This is imposed on millions of taxpayers in the approximate range of \$200-500,000 of income. Then we need to find an offsetting \$35 billion of budget cuts, or increase the budget deficit.

My point is not that we should not look at these things, but that they are not as easy as tweeting "let's eliminate the death tax!"

Tax policy is like a pendulum. The pendulum swung in 1988 to a point where we had two tax rates of 15% and 28%. That did not last long, as the pendulum started to move the other way quite quickly and we had 31% tax rate by 1991. I suspect the pendulum will swing back toward lower rates, but those lower rates will need to be made up by cutting spending and/or increasing revenue elsewhere, or the lower rates will simply be made up by a higher deficits and debt.

I hope these thoughts will put you in a calmer place as we begin a new era.



What It Means to Be a Financial Caregiver for Your Parents



A large majority of caregivers provide care for a relative (85%), with 49% caring for a parent or parent-in-law.

Source: Caregiving in the U.S. 2015, National Alliance for Caregiving

If you are the adult child of aging parents, you may find yourself in the position of someday having to assist them with handling their finances. Whether that time is in the near future or sometime further down the road, there are some steps you can take now to make the process a bit easier.

Mom and Dad, can we talk?

Your first step should be to get a handle on your parents' finances so you fully understand their current financial situation. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis.

You can start by asking them some basic questions:

- What financial institutions hold their assets (e.g., bank, brokerage, and retirement accounts)?
- Do they work with any financial, legal, or tax advisors? If so, how often do they meet with them?
- Do they need help paying monthly bills or assistance reviewing items like credit-card statements, medical receipts, or property tax bills?

Make sure your parents have the necessary legal documents

In order to help your parents manage their finances in the future, you'll need the legal authority to do so. This requires a durable power of attorney, which is a legal document that allows a named individual (such as an adult child) to manage all aspects of a person's financial life if he or she becomes disabled or incompetent. A durable power of attorney will allow you to handle day-to-day finances for your parents, such as signing checks, paying bills, and making financial decisions for them.

In addition to a durable power of attorney, you'll want to make sure that your parents have an advance health-care directive, also known as a health-care power of attorney or health-care proxy. An advance health-care directive will allow you to make medical decisions according to their wishes (e.g., life-support measures and who will communicate with health-care professionals on their behalf).

You'll also want to find out if your parents have a will. If so, find out where it's located and who is named as personal representative or executor. If the will was drafted a long time ago, your parents may want to review it to make sure their current wishes are represented. You should also ask if they made any dispositions or

gifts of specific personal property (e.g., a family heirloom to be given to a specific individual).

Prepare a personal data record

Once you've opened the lines of communication, your next step is to prepare a personal data record that lists information you might need in the event that your parents become incapacitated or die. Here's some information that should be included:

- **Financial information:** Bank, brokerage, and retirement accounts (including account numbers and online user names and passwords, if applicable); real estate holdings
- **Legal information:** Wills, durable powers of attorney, advance health-care directives
- **Medical information:** Health-care providers, medication, medical history
- **Insurance information:** Policy numbers, company names
- **Advisor information:** Names and phone numbers of any professional service providers
- **Location of other important records:** Social Security cards, home and vehicle records, outstanding loan documents, past tax returns
- **Funeral and burial plans:** Prepayment information, final wishes

If your parents keep some or all of these items in a safe-deposit box or home safe, make sure you can gain access. It's also a good idea to make copies of all the documents you've gathered and keep them in a safe place. This is especially important if you live far away, because you'll want the information readily available in the event of an emergency.

Don't be afraid to get support and ask for advice

If you're feeling overwhelmed with the task of handling your parents' finances, don't be afraid to seek out support and advice. A variety of local and national organizations are designed to assist caregivers. If your parents' needs are significant enough, you may want to consider hiring a geriatric care manager who can help you oversee your parents' care and direct you to the right community resources. Finally, consider discussing the specifics of your situation with a professional, such as an estate planning attorney, accountant, and/or financial advisor.



Don't Forget to Include Memory Loss When Planning for Retirement



¹ **U.S. Preventive Services Task Force, Cognitive Impairment in Older Adults: Screening, March 2014**

² **The Healthy Brain Initiative: The Public Health Road Map for State and National Partnerships, 2013-2018: Chicago, IL: Alzheimer's Association; 2013**

³ **Alzheimer's Association, alz.org**

⁴ **U.S. Department of Health and Human Services (most recent government data available), longtermcare.gov**

⁵ **U.S. Department of Health and Human Services (most recent government data available), longtermcare.gov**

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the long-term care policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

When planning for retirement, an important factor that is often overlooked is the potential for declining cognitive skills associated with aging. Cognitive impairment (CI), often attributable to dementia or Alzheimer's disease, can have profound implications for your overall health and well-being, particularly during retirement. The cost of care can absorb income and significantly deplete retirement savings. It can also deprive you of the ability to effectively manage your financial affairs.

Cognitive impairment — a growing concern

The possibility of suffering from some form of cognitive impairment later in life is real. Dementia affects approximately 2.4 to 5.5 million Americans. Its prevalence increases with age: 5% in persons ages 71 to 79, 24% in those ages 80 to 89, and 37% in those 90 and older.¹ One in eight adults age 60 and older (12.7%) experiences confusion or memory loss that is happening more often or getting worse. Unfortunately, among these individuals, only 19.3% discuss these changes with a health-care provider. Additionally, 34.5% of those affected by CI live alone.²

Financial impact of the cost of care

Dementia, including Alzheimer's, is the most costly disease in the United States and is set to increase like no other. In 2016, Alzheimer's and other forms of dementia will cost the United States an estimated \$236 billion. By 2050, this number is expected to grow to more than \$1.2 trillion. Among all nursing home residents, more than 64% have been diagnosed with Alzheimer's or another dementia. Alzheimer's is the sixth highest cause of death in the United States.³

Unfortunately, those suffering from advanced stages of cognitive impairment often require long-term care. The cost of care can quickly deplete your retirement savings and affect the quality of life for you and your family, leaving little or no income or savings. Average costs of long-term care include the following:⁴

- \$6,235 per month, or \$74,820 per year, for a semi-private room in a nursing home
- \$6,965 per month, or \$83,580 per year, for a private room in a nursing home
- \$3,293 per month for a one-bedroom unit in an assisted living facility
- \$21 per hour for a home health aide
- \$19 per hour for homemaker services
- \$67 per day, or roughly \$2,010 per month, for services in an adult day health-care center

The cost of long-term care depends on the type and duration of care you need, the health-care provider you use, and where you live. While one-third of 65-year-olds may never need long-term care, 20% will need it for more than five years.⁵

Loss of ability to manage finances

Your financial plan should consider not only the potential cost of care if you or your spouse suffer from cognitive impairment, but also determine who will make financial decisions about your care.

Even if you suffer from mild cognitive impairment (MCI), you may find it more difficult to manage investments or a household budget. If you are the primary money manager and experience declining cognitive skills, your spouse could be left financially vulnerable.

Make it part of your plan

A comprehensive financial and legal plan is important. It is helpful to prepare as early as possible. Some families use the services of an elder law attorney.

There may come a time when you can no longer make decisions for yourself, including financial and health-care decisions. This can create a hardship for a caregiver trying to conduct financial transactions and make medical decisions. Several types of legal documents can be written before they are needed to help you and family members through this difficult time. These documents include, but are not limited to, an advance medical directive, a medical power of attorney or health-care proxy, and a durable power of attorney, which allows a representative or agent to make financial decisions and transactions on your behalf, should you become unable to do so.

There are generally three ways to pay for long-term care expenses: use your own income and savings, share the cost of care through some form of private insurance, and/or seek the assistance of state or federal government programs, such as Medicare and Medicaid. The choices you make will likely depend on several factors, including your financial and family situation, your age, and your state of residence. In any case, it's wise to consider the ramifications of cognitive impairment when planning for retirement.

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How can technology help me manage my money?

It may seem that there's an app or software program for every purpose, and that includes managing your money. Here are some examples where technology may be useful in helping you get a handle on your money.

Creating a budget: There are multiple apps available that enable you to input your monthly income and expenses to generate a budget that fits your needs. Plus, some programs are able to categorize and track transactions, which could help you see exactly how much you spend in certain areas on a month-to-month basis.

Setting reminders: Do you occasionally forget to pay a particular bill? Or are you looking for a regular reminder to keep an eye on your account balances? Look for an app that lets you schedule reminders that suit your needs, whether it's an alarm that goes off for monthly bills or a service that automates payments you might otherwise forget to make.

Digitizing services: You're probably aware of your bank's direct-deposit services, but did you know that you can send payments, request

refunds, and view transaction history using your bank's mobile app? You can also find apps that feature calculators designed to help you make investment decisions, as well as determine your net worth, calculate the time value of your money, and estimate your insurance needs, among other things.

Shopping (and saving): Some apps are designed specifically to help you save money in a variety of ways, from searching for the best local deals to calculating the cost of driving from point A to point B. If you'd like to dial back your spending, look for an app that can help you cut costs. For example, apps can compare the cost of groceries at one store against another, or help you find the lowest gas prices in your area. That way, you can put the extra money you have from being a savvy shopper toward a long-term goal, such as retirement.

With some exploration, you may find additional money-related apps. But bear in mind that even though many apps and services promise security, technology isn't always reliable, and you could fall victim to hackers. Think carefully before you provide information pertaining to your bank account and income/spending history.



What do you need to know about chip-card technology?

When you're checking out items at the store, should you insert your card into the payment terminal? These days, as the use of chip-card technology grows, the answer to that question is less clear. The computer chip now embedded in debit and credit cards uses EMV (Europay, MasterCard, and Visa) technology, which is meant to reduce fraud at physical retail stores (as opposed to online shops). But because businesses aren't required to upgrade their terminals, it's confusing to figure out what to do at the register. Here are answers to some questions you might have about chip cards.

How does it work? Magnetic strip cards contain information within the strip, so it's easy for a thief to "capture" that information and use it to accrue charges without the cardholder's knowledge. By contrast, the chip card generates a unique, specific code for each transaction that cannot be reused.

Why does it take longer to check out? The unique code generated by the chip for each transaction is sent to the bank by the payment terminal. The bank matches the code to an

identical one-time code and sends it back as verification for the transaction. As a result, it takes a few seconds longer to check out using a chip card because it takes time for the information to be transmitted.

Why aren't some terminals working yet? You might notice that terminals in some stores are equipped with a chip-card reader, but you're told you can't use it. These terminals are awaiting chip-card certification, which can take several months to process. Until their terminals are certified, retailers are responsible for any fraudulent charges.

How much longer will I have to carry a physical card? The answer to this question isn't clear. However, it's important to note that terminals with upgraded chip-card technology are also equipped with technology that can accept wireless near-field communication. This allows data to be exchanged between two different devices (e.g., a cell phone and a terminal) that are a short distance away. This means that one day, instead of swiping or inserting a card at the checkout, you might just be tapping the terminal to make payments.