Busting 5 Big Retirement Myths

Dear Retirement Seekers,

Urban legends, urban myths, and the latest that's on everyone's lips: "fake news." Whatever you call it, in our age of information, claims of spurious repute can go viral in minutes. Anyone with a PC can start a blog and offer up opinions on just about any subject, whether he or she is an authority or not. Sources? Who needs sources?

Perhaps there's a bit of sarcasm in that last comment, but in many cases, it is the truth these days.

When it comes to retirement, plenty of misleading thoughts, opinions, and fake news float around out there. This month, let's clear up some misconceptions that surround the retirement years.

1. **You'll never see a penny of the money you put into Social Security.** If we only had a nickel every time we have heard someone utter that phrase. Sadly, if a 40-something says he or she is confident of receiving monthly Social Security checks at retirement, they set themselves up for ridicule among contemporaries.

   The hypothesis that young people getting started in the workforce will receive a lower return on contributions into Social Security when they retire is possible, but that's a different argument.

   We have been assured that Social Security is not currently on the verge of bankruptcy. We may also reasonably expect that those people who are many years from retirement will still collect monthly benefits when it's their turn.

   According to the 2017 annual report from the Social Security and Medicare Board of Trustees, Social Security "has collected roughly $19.9 trillion and paid out $17.1 trillion," in its storied 82-year history, "leaving asset reserves of more than $2.8 trillion at the end of 2016 in its two trust funds."

   As an ever-larger number of baby boomers continue to retire and collect benefits, the trustees expect the trust funds to be depleted by 2034.

   Thereafter, expected-tax-income receipts are projected to be sufficient to pay about three-quarters of scheduled benefits. Put another way, recipients of Social Security would receive about a 25% cut in benefits, *if no changes are made* to the current structure.

   Of course, these are simply projections and much will depend on economic growth, job creation, and wages. However, it's a far cry from "I won't see a penny of Social Security."

Most analysts believe that politicians will eventually settle on some type of compromise to extend the life of the current system.

2. **The stock market is too risky.** There's no question about it, the bear markets that followed the dotcom bubble and the 2008 financial crisis were unprecedented, in that we saw two steep declines in less than 10 years.

   Made fearful by what they see as too much risk, many millennials have shied away from stocks, according to a Bankrate survey. What seems like a complete disconnect: Millennials seem to be far more interested in Bitcoin! Most experts, as well as regulators, point out that the word "speculative" doesn't even begin to describe Bitcoin.

   Stocks have always carried a certain degree of risk, even with a fully diversified portfolio. Yet, a well-diversified portfolio is akin to a stake in the U.S. and global economy. Moreover, the U.S. and global economy has been expanding for many decades. It may not be larger next year, but history tells us it will most likely be bigger in 10 or 20 years.

   When it comes to investing in stocks, some people who haven't seriously entertained the idea may be hesitant. When you have all the facts, you can make an educated decision about what's best for you.

3. **Medicare will handle all my health care needs in retirement.** If only Medicare did cover everything – the fact is it does not. If it did, however, the cost to finance it would be much higher.

   Medicare doesn't cover the full cost of skilled nursing or rehabilitative care, according to AARP. Yes, the first 20 days of a stay in a nursing home are covered, but you'll pay over $160 per day for days 21 through 100. And Medicare doesn't cover stays past 100 days.

   You may be paying out-of-pocket for personal care assistance, too. The same holds true for miscellaneous hospital costs, routine eye exams, hearing, foot, and dental care.

4. **Why save today for retirement when you can start tomorrow—there's plenty of time**. This section is designed for millennials and those who are just beginning their journey in the workforce. There's no better day to begin saving than today!

   Let's look at a simple but telling example.

   > Susan invests $5,000 annually between the age of 25 and 35 and earns 7% annually. She puts away a total of $50,000.
   >
   > Bill invests $5,000 annually between the age of 35 and 65 and earns 7% annually. He saves a total of $150,000.

When Susan reaches 65, she will have amassed $602,070, while Bill will have $540,741.

Source: JP Morgan Asset Management

Lesson learned: the sooner you begin saving, the better off you will be as you approach retirement.

Take full advantage of your company's retirement program. If your company doesn't have a savings plan, there are many simple ways for you to get started. Speak with your financial advisor to explore your options.

5. **Retirement is easy.** Many look forward to the day when they will no longer prepare for Monday mornings at the office, the factory, the job site. For those who face the work challenges that crop up daily, retirement may seem like a welcome oasis in the distance.

   But that oasis sometimes turns out to be a mirage. Often, the transition from decades of working to retirement isn't so simple.

   For a better retirement, set goals, and not simply financial ones. Can you transition to part-time in your job? Consider part-time employment or consulting. It will ease the transition, keep you busy, and extend your savings.

   Volunteer with your local church or local community organizations. Are you familiar with Meetup.com? Look for groups with similar interests. You'll not only derive an enormous amount of satisfaction from helping others, but you'll meet like-minded folks and make new friends.

   Try something new. You may want to learn to play an instrument, go back to school for some interesting classes, or volunteer at a hospital.

   Keep up any exercise routines – and it's never too late to start a new one. Check with your doctor, who will be happy to prescribe a fitness plan that's suited to you.

   How you considered writing a book? Expanding your knowledge or sharing your ideas can be quite fulfilling.

   The most important thing you can do to make retirement enjoyable is to stay active and keep your mind and body sharp.

2018—Meet the new boss, same as the old boss

Any thoughts that 2018 might start with a pause in the bull market were quickly dispelled in the first week of the year. A "buy the rumor, sell the news" view on tax reform has shaken out to be more aptly described as buy the rumor *and* buy the news.

The credit for a strong market start for the year likely goes to the dramatic reduction in the corporate tax rate: from 35% to 21%, beginning in 2018.

On January 1, analysts were forecasting a 12.2% rise in Q1 2018 S&P 500 profits (Thomson Reuters) – pretty impressive. By January 31, analysts had sharply raised the Q1 estimate by a full 5 percentage points to 17.2%.

There's only one word to describe the dizzying upward surge in estimates—astounding. And it's not simply Q1 2018: analysts have sharply boosted profit outlooks for all four quarters.

Earnings, and expectations of earnings, play a big role in the stock market price equation. The run-up we've witnessed, most analysts concur, is due to investors pricing in a much rosier profit outlook for the year.

Warren Buffett, who called the cut in the corporate tax rate a "big deal…a huge, huge reduction," summed it up this way in a CNBC interview in the middle of last month—

> *"You had this major change in the silent stockholder in American business, who has been content with 35%…and now instead of getting a 35% interest in the earnings (he noted foreign earnings from U.S. firms are more complicated) they get 21% and that makes the remaining stock more valuable."*

It's a unique and colorful way to describe the new tax regime.

By month's end, a modest bout of volatility re-entered the landscape, as investors took note of an upward creep in Treasury bond yields. It's a reminder that stocks don't rise in a straight line.

Time to time?

Let's end this month's letter with a recent comment by Burton Malkiel.

He's not a household name like Buffett, but he is the author of *A Random Walk Down Wall Street*, a well known and well-respected book published in 1973.

> *"I think one of the cardinal rules of investing is don't try to time the market. And the reason is that you'll never get it right. I've been around this business for 50 years and I've never known anyone who could time the market and I've never known anyone who knows anyone who could time the market. You can't do it. It's very dangerous."*

Key Index Returns

	MTD %	YTD %	3-year* %
Dow Jones Industrial Average	5.8	5.8	15.1
NASDAQ Composite	7.4	7.4	16.9

S&P 500 Index	5.6	5.6	12.3
Russell 2000 Index	2.6	2.6	10.6
MSCI World ex-USA**	4.6	4.6	6.3
MSCI Emerging Markets**	8.3	8.3	9.3
Bloomberg Barclays US Aggregate Bond TR	-1.2	-1.2	1.1

Source: Wall Street Journal, MSCI.com, MarketWatch, Morningstar
MTD returns: Dec 29, 2017—Jan. 31, 2018
YTD returns: Dec 29, 2017—Jan. 31, 2018
*Annualized
**in US dollars

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