SAMALIN
INVESTMENT COUNSEL

Volume VI Issue 1

February, 2018

Demographic Dilemma: *Is America's Aging Population Slowing Down the Economy?*

It's no secret that the demographic profile of the United States is growing older at a rapid pace. While the U.S. population is projected to grow just 8% between 2015 and 2025, the number of older Americans ages 70 to 84 will skyrocket 50%.[1]

With roughly 75 million members, baby boomers (born between 1946 and 1964) make up the largest generation in U.S. history. As a group, boomers have longer life expectancies and had fewer children than previous generations.[2]

Now, after dominating the workforce for nearly 40 years, boomers are retiring at a rate of around 1.2 million a year, about three times more than a decade ago.[3]

Though the economy has continued to improve since the Great Recession, gross domestic product (GDP) growth has been weak compared with past recoveries. A number of economists believe that demographic changes may be the primary reason.[4]

Spending shifts

The lower birth rates in recent decades generally mean that fewer young people are joining the workforce, so the consumer spending that fuels economic expansion and job creation could take a hit. When young people earn enough money to strike out on their own, marry, and start families, it typically spurs additional spending — on places to live, furniture and appliances, vehicles, and other products and services that are needed to set up a new household.

On the other hand, when people retire, they typically reduce their spending and focus more on preserving their savings. Moreover, retirees' spending habits are often different from when they were working. As a group, retirees tend to avoid taking on debt, have more equity built up in their homes, and may be able to downsize or move to places with lower living costs. More spending is devoted to covering health-care costs as people age. If a larger, older population is spending less and the younger population is too small to drive up consumer spending, weaker overall demand for products and services could restrain GDP growth and inflation over the long term. Less borrowing by consumers and businesses could also put downward pressure on interest rates.

A new normal?

The onslaught of retiring baby boomers has long been expected to threaten the viability of Social Security and Medicare, mainly because both are funded by payroll taxes on current workers. But this may not be the only challenge. A 2016 working paper by Federal Reserve economists concluded that declining fertility and labor force participation rates, along with increases in life expectancies, accounted for a 1.25 percentage point decline in the natural rate of real interest and real GDP growth since 1980. Furthermore, the same demographic trends are expected to remain a structural impediment to economic growth for years to come.[5]

Put simply, a nation's potential GDP is a product of the number of workers times the productivity (output) per worker, and the U.S. workforce is shrinking in relation to the total population.

The labor force participation rate — the percentage of the civilian labor force age 16 and older who are working or actively looking for work — peaked at 67.3% in early 2000, not coincidentally the last time GDP grew by more than 4%. The participation rate has dropped steadily since then;

(Continued on page 2)

*Finance*Focus is published quarterly by Samalin Investment Counsel

Westchester
297 King Street
Chappaqua, NY 10514
914.666.6600
FAX: 914.666.6602

New York City
One Grand Central Place
Suite 4600
New York, NY 10165
212.750.6200
FAX: 212.750.6208

Samalin Investment Counsel is a fee-only, nationally recognized SEC registered investment advisory firm. With offices in Chappaqua NY and NYC, we specialize in wealth management, pre and post divorce financial planning, retirement planning, and other related financial services.

Demographic Dilemma: *Is America's Aging Population Slowing Down the Economy?*

(Continued from page 1)

in August 2017, it was 62.9%. This reflects lower birth rates, increased working years dropping out of the labor force, and large numbers of retiring baby boomers.[6]

Many economists acknowledge that U.S. population trends are a force to be reckoned with, but the potential impact is still up for debate. Some argue that labor shortages could drive up wages and spending relatively soon, followed by higher growth, inflation, and interest rates — until automated technologies start replacing larger numbers of costly human workers.[7]

Even if demographic forces continue to restrain growth, it might not spell doom for workforce productivity and the economy. Another baby boom would likely be a catalyst for consumer spending. Family-friendly policies such as paid maternity leave and day-care assistance could provide incentives for women with children to remain in the workforce. It's also possible that a larger percentage of healthy older workers may delay retirement — a trend that is already developing — and continue to add their experience and expertise to the economy.[8]

1, 3) The Conference Board, February 24, 2017
2) The Wall Street Journal, January 16, 2017
4-5) Federal Reserve, 2016
6, 8) The Financial Times, October 25, 2016
7) U.S. Bureau of Labor Statistics, 2016-2017, Bureau of Economic Analysis 2017

What is Cyber Insurance and Should your Business Have It?

Does your company use electronic data? Does it store or communicate potentially sensitive information about customers, employees, or competitors? If so, then a breach of that data could cost your company plenty. Some well-known organizations have experienced data breaches, including WalMart, JP Morgan Chase, Yahoo, eBay, Target, the IRS, and, more recently, Equifax. Unfortunately, just about any size company or organization that retains personal information can be hit with a cyber attack. One way to transfer some of the risk and costs associated with a data breach or network security failure is through cyber insurance.

What is cyber insurance?

Cyber insurance provides protection against potential costs and financial losses resulting from data breaches caused by cyber attacks, viruses, and other threats. It also helps cover third-party lawsuits filed against your company resulting from data breaches or your failure to adequately protect sensitive or confidential information.

What does cyber insurance cover?

While individual policies may differ, cyber insurance can help cover:

- Loss of data: Cyber insurance may help cover the cost of restoring or reconstructing data that was lost, stolen, or damaged.
- Losses from data breach or security failure: Cyber insurance assists in covering some of the costs of investigating how and where the breach occurred; expenses associated with regulatory fines; legal costs of defending against lawsuits and settlement of claims brought by victims whose information was inappropriately accessed, shared, or lost; expenses related to notifying victims of the data breach, such as customers and employees.
- Costs associated with extortion or ransom demands: That's right, often a cyber criminal will demand a ransom or try to extort money from your company in exchange for your data. Cyber insurance covers some of the costs of paying the ransom for the data or for the restitution to victims whose information was captured.
- Losses from business interruption: If your company must close while the data breach is investigated and resolved, cyber insurance can help offset the ordinary costs and expenses of your business during its down time.

Who needs cyber insurance?

Your company or organization may be a candidate for cyber insurance if it does any of the following:

- Sends or receives documents electronically
- Communicates with customers or third parties via email, text messages, or social media
- Stores third-party information on a computer network that may be considered sensitive or private, such as an individual's identity, tax information, income, address, Social Security and/or credit card numbers
- Stores confidential company information or data (e.g., tax documents, sales or marketing figures or projections, trade secrets) on a computer network
- Advertises company services or products via a website or social media

Aren't these risks covered by business insurance?

Unfortunately, most of the risks and losses resulting from data breaches or losses are not covered by standard commercial general liability insurance. In fact, many policies contain a specific electronic data exclusion. In addition, loss or damage to electronic data isn't considered property damage under a business policy, so coverage wouldn't apply.

Questions to think about

Cyber insurance has policy exclusions, terms, and conditions. When thinking about the purchase of cyber insurance, here are some questions to consider:

- What specific risks are covered, and what risks are not covered?
- What deductibles or coverage limits apply?
- Will the insurer require your company to undergo a security risk review?
- Are there security controls your company can adopt that will decrease the premium?
- Will the insurer identify security risks and offer alternatives to minimize or eliminate those risks?

Plan ahead

Cyber attacks and loss of data can be devastating to a business. Plan ahead before a cyber attack occurs. Evaluate your business and determine areas of particular vulnerability. Then create cybersecurity policies and procedures for company employees to follow. Finally, consider the purchase of cyber insurance to help cover at least some of the risks associated with a cyber attack.

Forty-eight states and the District of Columbia have laws requiring private or governmental entities to notify individuals of security breaches of personally identifiable information. In addition, the Health Insurance Portability and Accountability Act (HIPPA) requires HIPAA-covered entities and their business associates to provide notification following a breach of unsecured protected health information.

WHAT ARE STATE-SPONSORED PAYROLL DEDUCTION IRA PLANS?

Generally, these are state-sponsored IRAs that are intended to help workers save for retirement. A state authorizing such a plan may require that private-sector businesses that don't sponsor a retirement savings plan provide their workers with access to a state-administered payroll-deduction IRA plan. Employees are auto-enrolled in the plan, but have the ability to opt out.

BACKGROUND

According to the U.S. Department of Labor, one-third of the nation's workers don't have access to retirement savings plans through their employers. And even though these employees could establish their own IRAs, most do not.[1] Concerned that inadequate retirement savings could stress their social programs, some states are turning to the payroll deduction IRA plan as one possible way to address the problem.

At least eight states have enacted legislation enabling these (or similar) plans, and many others have legislation pending. Adoption has been slow because of significant legal uncertainties.[2]

In particular, states are concerned that the Employee Retirement Income Security Act of 1974 (ERISA) could apply to these plans, rendering them too complicated and burdensome to operate, and placing fiduciary responsibility on the state and/or its participating employers.

DEPARTMENT OF LABOR TO THE RESCUE (TEMPORARILY)...

States thought these concerns were alleviated at the end of 2016 when the Department of Labor issued final regulations that provided a roadmap of how these plans could be structured to avoid ERISA coverage:

- Employee participation in the program must be voluntary. If the program requires automatic enrollment, employees must be given adequate advance notice and have the right to opt out.
- The employer's activities must be limited to ministerial activities such as collecting payroll deductions and remitting them to the program.
- Employers cannot contribute employer funds to the IRAs.
- Employer participation in the program must be required by state law.
- The state must be responsible for investing the employee savings or for selecting investment alternatives from which employees may choose.
- The state or its governmental agency or instrumentality may also contract with others to operate and administer the program.

ONLY TO FALL VICTIM TO REGULATORY REVIEW...

This relief was, however, short-lived. Several members of Congress objected to allowing states to invest employees' retirement funds without ERISA protections, and questioned the ability of states to run retirement programs for private-sector employees. Other critics saw no need for the state programs to be competing with the private sector, which already provides low-cost IRAs. Still others objected to a state-by-state approach for what is perceived to be a national retirement savings problem. For these and a number of other reasons, pursuant to the Congressional Review Act, the House and Senate passed Joint Resolution 66 to "disapprove" the regulations. President Trump signed the resolution on May 17, 2017, repealing the Obama-era regulations and leaving the states once again without any formal guidance.

THE ROAD AHEAD

Despite this setback, a number of states have indicated their intent to push ahead with their payroll deduction IRA plans. In July 2017, Oregon launched its pilot program, OregonSaves, and is phasing in coverage. California has also vowed to move ahead with its plan, Secure Choice: "We will continue to implement and defend our Secure Choice retirement savings program so Californians who have worked hard all their lives can retire at a reasonable age with a measure of dignity."[3] New Mexico Senator Martin Heinrich and Connecticut Senator Chris Murphy have also introduced legislation (the Preserve Rights of States and Political Subdivisions to Encourage Retirement Savings, or PROSPERS Act) that, if passed, would effectively amend ERISA to incorporate the substance of the repealed DOL regulations.

[1] U.S. Department of Labor, EBSA News Release, August 25, 2016
[2] pensionrights.org
[3] Statement of Kevin de Leon, May 3, 2017

How much money should a family borrow for college?

There is no magic formula to determine how much you or your child should borrow to pay for college. But there is such a thing as borrowing too much. How much is too much? Well, one guideline for students is to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned by taking out larger mortgages than they could afford (even though lenders may have told them they were qualified for that amount), students can get burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years or longer. A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car payments come into play? What if a borrower steps out of the workforce for an extended period to care for children and isn't earning an income? There are many variables, and every student's situation is different. Of course, a loan deferment is available in certain situations, but postponing payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently $27,000 for four years of college. Over a 10-year term with a 4.45% interest rate (the current 2017/2018 rate on federal student loans), this equals a $279 monthly payment. Borrow more by adding in co-signed private loans, and the monthly payment will jump: $40,000 in loans (at the same interest rate) equals a monthly payment of $414, while $60,000 in loans will result in a $620 monthly payment. Before borrowing, students should know exactly what their monthly payment will be.

As for families, there is no one-size-fits-all rule on how much to borrow. Many factors come into play including, but not limited to, the number of children in the family, total household income and assets, and current and projected retirement savings.

How Can Families Trim College Costs?

Trimming college costs up front can help families avoid excessive college borrowing and the burdensome student loan payments that come with it. Here are some ideas.

1. Pick a college with a lower net price. You can use a college's net price calculator (available on every college's website) to estimate what your net price (out-of-pocket cost) will be at individual colleges. A net price calculator does this by estimating how much grant aid a student is likely to receive based on a family's financial and personal information. Colleges differ on their aid generosity, so after entering identical information in different calculators, you may find that College A's net price is $35,000 per year while College B's net price is $22,000. By establishing an ideal net price range, your child can target schools that hit your affordable zone.

2. Investigate in-state universities. Research in-state options and encourage your child to apply to at least one in-state school. In-state schools generally offer the lowest sticker price (though not necessarily the lowest net price) and may offer scholarships to state residents.

3. Research colleges that offer generous merit aid. All colleges are not created equal in terms of how much institutional aid they offer. Spend time researching colleges that offer generous merit aid to students whose academic profile your child matches.

4. Graduate early. Earn college credit in high school by taking AP/IB classes and then graduate a semester or two early. Or look at colleges that specifically offer three-year accelerated degree programs.

5. Seek out free room and board. There are two ways to do this: The first is to live at home (though transportation costs might eat into your savings), and the second way is to become a resident assistant (RA) on campus, a job that typically offers free room and board.

6. Work during college. Working during college and contributing modest amounts to tuition along the way — say $1,500 to $3,000 a year — can help students avoid another $6,000 to $12,000 in loans.

7. Combine traditional and online courses. Does the college offer online classes? If so, you may be able to earn some credits at a lower cost over the summer or during breaks.

It's Time for Baby Boomer RMDs!

In 2016, the first wave of baby boomers turned 70½, and many more reach that milestone in 2017 and 2018. What's so special about 70½? That's the age when you must begin taking required minimum distributions (RMDs) from tax-deferred retirement accounts, including traditional IRAs, SIMPLE IRAs, SEP IRAs, SARSEPs, and 401(k), 403(b), and 457(b) plans. Original owners of Roth IRAs are not required to take RMDs.

If you're still employed (and not a 5% owner), you may be able to delay minimum distributions from your current employer's plan until after you retire, but you still must take RMDs from other tax-deferred accounts (except Roth IRAs). The RMD is the smallest amount you must withdraw each year, but you can always take more than the minimum amount.

Failure to take the appropriate RMD can trigger a 50% penalty on the amount that should have been withdrawn — one of the most severe penalties in the U.S. tax code.

DISTRIBUTION DEADLINES Even though you must take an RMD for the tax year in which you turn 70½, you have a one-time opportunity to wait until April 1 (not April 15) of the following year to take your first distribution. For example:

• If your 70th birthday was in May 2017, you turned 70½ in November and must take an RMD for 2017 no later than April 1, 2018.

• You must take your 2018 distribution by December 31, 2018, your 2019 distribution by December 31, 2019, and so on.

IRS TABLES Annual RMDs are based on the account balances of all your traditional IRAs and employer plans as of December 31 of the previous year, your current age, and your life expectancy as defined in IRS tables.

Most people use the Uniform Lifetime Table (Table III). If your spouse is more than 10 years younger than you and the sole beneficiary of your IRA, you must use the Joint Life and Last Survivor Expectancy Table (Table II). Table I is for account beneficiaries, who have different RMD requirements than original account owners. To calculate your RMD, divide the value of each retirement account balance as of December 31 of the previous year by the distribution period in the IRS table.

AGGREGATING ACCOUNTS If you own multiple IRAs (traditional, SEP, or SIMPLE), you must calculate your RMD separately for each IRA, but you can actually withdraw the required amount from any of your accounts. For example, if you own two traditional IRAs and the RMDs are $5,000 and $10,000, respectively, you can withdraw that $15,000 from either (or both) of your accounts.

Similar rules apply if you participate in multiple 403(b) plans. You must calculate your RMD separately for each 403(b) account, but you can take the resulting amount (in whole or in part) from any of your 403(b) accounts. But RMDs from 401(k) and 457(b) accounts cannot be aggregated. They must be calculated for each individual plan and taken only from that plan.

Also keep in mind that RMDs for one type of account can never be taken from a different type of account. So, for example, a 401(k) required distribution cannot be taken from an IRA. In addition, RMDs from different account owners may never be aggregated, so one spouse's RMD cannot be taken from the other spouse's account, even if they file a joint tax return. Similarly, RMDs from an inherited retirement account may never be taken from accounts you personally own.

BIRTHDAY GUIDE: This chart provides sample RMD deadlines for older baby boomers

Month & Year of Birth	Year You Turn 70 ½	First RMD Due	Second RMD Due
January 1956 to June 1946	2016	April 1, 2017	December 31, 2017
July 1946 to June 1947	2017	April 1, 2018	December 31, 2018
July 1947 to June 1948	2018	April 1, 2019	December 31, 2019
July 1948 to June 1949	2019	April 1, 2020	December 31, 2020
July 1949 to June 1950	2020	April 1, 2021	December 31, 2021

SAMALIN
INVESTMENT COUNSEL

Westchester
297 King Street
Chappaqua, NY 10514

New York City
One Grand Central Place
Suite 4600
New York, NY 10165

Why is it Important to Factor Inflation into Retirement Planning?

Inflation is one of the key factors you will need to consider when planning for retirement. Not only will the cost of living rise while you're accumulating assets for retirement, but it will continue to rise during your retirement, which could last 25 years or longer. This, combined with the fact that you will not likely earn a paycheck during retirement, is the main reason your portfolio needs to maintain at least some growth potential for the duration of your retirement.

Consider this: If inflation runs at 3% (which is approximately its long-term average, as measured by the Consumer Price Index), the purchasing power of a given sum of money would be cut in half in 23 years. If it averages 4%, your purchasing power would be cut in half in 18 years.

A simple example illustrates the impact of inflation on retirement income. Assuming a consistent annual inflation rate of 3%, if $50,000 satisfies your retirement income needs this year, you'll need $51,500 of income next year to meet the same income needs. In 10 years, you'll need about $67,195 to equal the purchasing power of $50,000 this year. And in 25 years, you'd need nearly $105,000 just to maintain that purchasing power![1]

Keep in mind that even a 3% long-term average inflation rate conceals periods of skyrocketing prices, such as in the late 1970s and early 80s, when inflation reached double digits. Although consumer prices have been relatively stable in more recent decades, there's always the chance that unexpected shocks could cause prices to spike again.

So how do you strive for the returns you'll need to outpace inflation by a wide enough margin both before and during retirement? The key is to consider investing at least some of your portfolio in growth-oriented investments, such as stocks.[2]

[1] This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Note that these figures exclude the effects of taxes, fees, expenses, and investment returns in general.

[2] All investing involves risk, including the possible loss of principal, and there is no guarantee