November, 2014

Lighthouse Monthly

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LIGHTHOUSE
WEALTH MANAGEMENT

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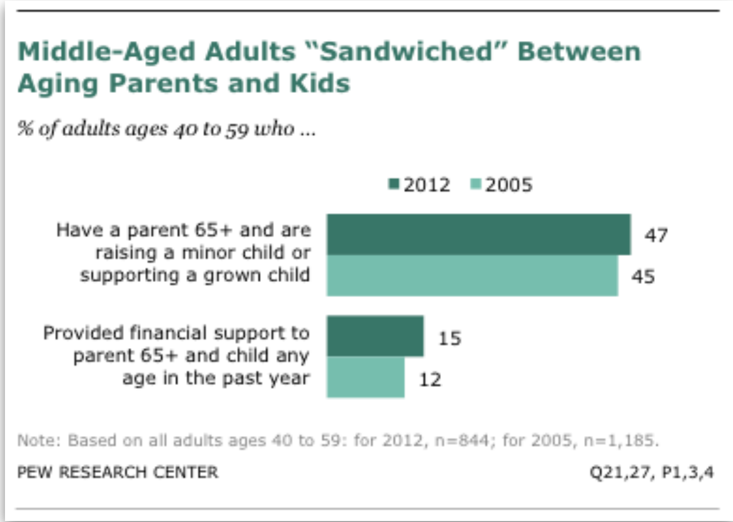
164 W. Main Street
Suite F
New Market, MD 21774
P: 301.865.9740
TF: 1.800.944.5852
F: 301.865.9741
www.LighthouseWlth.com

Feeling the Squeeze

Andrew P. Wilson, CFP® - Founding Partner

Since the first Baby Boomer (Boomers) filed for Social Security in 2008 the media has been filled with stories about looming retirements of the offspring of the 'greatest generation.' Over the last year or so there have been a growing number of articles and white papers referring to Boomers also as The Sandwich Generation.

The Sandwich reference is shedding the light on the fact that a large number of Boomers are finding themselves supporting aging parents as well as young adult children. According to a January, 2013 Pew Research Center white paper, *The Sandwich Generation: Rising Financial Burdens of Middle-Aged Americans,* the squeeze on Boomers is not being helped by the fledgling economy.



As you can see in the chart on the right, the numbers support that the Boomers and some of Generation X are feeling the squeeze. The research paper makes the claim that the increased pressure is coming from grown children rather than from aging parents. The paper goes on to outline that nearly half of the 40-59 year old survey respondents stated that they provide some financial support to a young adult, while 27% provide primary support. ⤚ **More**

Dealing

Here at Lighthouse we have encountered a number of clients that are feeling the squeeze of being in The Sandwich Generation. Keep in mind that this is not just about financial support but sometimes the more draining emotional support of young adults and elderly parents. In the rest of this article we will share some tips that others have shared in helping them deal with the stresses of feeling the squeeze.

1. **Slow down** - Just as a rolling stone will gather speed down hill, so too will life when you are frantic. Just like when you were raising little kids, if there was not something broken or someone bleeding it was likely not a real crisis. Slow down, clear you head, and be rational.

2. **It all counts** - Every little thing you do to help someone matters. Often times when caring for or helping others we feel as if we are not doing enough or we could do more. Instead of feeling regretful at times, remind yourself that you are making a difference in someone's life.

3. **Ask for help** - You will be amazed by the response when you actually ask for help. The reality is that someone who is helping an older family member and younger family member cannot do it on her own. You will need help. So, ask for it and graciously accept the offers when they come.

4. **Make me time** - You are going to have to have time to yourself whether it be alone time, or time with friends. A stressed out helper in some cases is worse than no helper. And, if you can think of nothing better to do, just go for a walk in the woods, on the beach or watch kids play baseball or soccer.

5. **Keep your connections** - When we are busy or overwhelmed it is easy to lose touch with friends or family members. Be sure to keep those people in the loop even if it is a quick email to share what is happening in your life. The best thing you can do is schedule time with those important people and stick to meeting them.

By no means is this list of tips all encompassing. Hopefully, if you are feeling the squeeze of being one of those Sandwich Generation folks, you now know that you surely are not alone.

Here at Lighthouse, our clients are always welcome to come in for a coffee and a chat. If we can help alleviate the squeeze on you with financial advice, an ear to listen, or a coffee in our conference room, please take us up on the standing offer.

Andrew P. Wilson, CFP® is a founding partner at Lighthouse

Email: andy@lighthousewlth.com

Not Your Grandma's Retirement

Katy Chase, MBA - Support Paraplanner

It used to be that stereotypical pre-retirees were empty nesters focused on getting their mortgage paid off and planning their life in retirement which often times included traveling, volunteering, and babysitting grandchildren for their remaining 10 or 15 years. Once the pre-retirees actually retired they would pull income from their pension, Social Security, and any retirement savings they had accumulated and enjoy their days debt-free and job-free. While this retirement picture still rings true for some retirees, the face of retirement is shifting as the realities of today's world present themselves. Why and how is modern retirement different from your grandma's retirement?

Dependence, or rather independence

The reality of pre-retirees and retirees independence is being tested, but not in the way you might think (i.e. health concerns that cripple independence). The independence of the pre-retiree, or even the retiree, is being tested because their kids are moving home after college, jobless and in debt. Another version of this scenario is the pre-retiree becoming bogged down by student loans they take out for their children, close to retirement. The promise of retirement becomes more complicated as children move home (increasing costs) and debt mounts. College costs are growing exponentially and the job market remains flat; careful planning can help pre-retirees and retirees avoid these hurdles before they present themselves so that retirement is a reality.

Longevity

The fact of the matter is people are living longer due to advances in healthcare, technology, and general health/wellness knowledge. With longevity increasing, associated costs also increase. The cost of health care, long term care, nursing home expenses, and other miscellaneous costs are consuming a large portion of retirees' strict budgets. On top of increased costs, income might need to last 30 years or longer. Planning for a retirement that could last 30+ years is different than planning for a retirement that lasts 10 years – especially when the sources of income are changing (i.e. pensions are fading away). Generating a reliable source of income and diversifying where income originates from becomes a focus.

Calculation

There are multiple ways to calculate how much income a certain client needs for retirement. One popularly accepted way to calculate this income is to base the calculation on a specific attained age. For example, an advisor would assume a male client is going to live until age 90, and then his ability to pull a ➳ More

certain amount of income is determined based on the assets in his portfolio. Another way to calculate this income, and the process by which we at Lighthouse use, is to determine the retirement income needed to keep the same standard of living as pre-retirement, and then determine a withdrawal rate that can be used for taking income without depleting accounts. As you can see in the picture below, this is a sample couple that earns $250,000 in income while working.

RELEVANT DATA	
INCOME	
Client's Salary	$150,000
Spouse's Salary	$100,000
Total Income	***$250,000***
REDUCTIONS	
Client's Retirement Plan Contributions	$23,000
Spouse's Retirement Plan Contributions	$23,000
Client's FICA	$11,475
Spouse's FICA	$7,650
Mortgage Payments *(if paid off at retirement)*	$18,000
Total Reductions	***$83,125***
TOTAL INCOME NEED AT RETIREMENT	***$166,875***

We start with their current income and take away anything that will go away in retirement. For example, when you are retired, you won't contribute to a retirement account. So for this couple, that is a 'savings' of $46,000 each year. The reality is that you are already living on the $166,875 because that is your gross pay after all of your savings. This way of planning for retirement doesn't put an end date on how long you will live, but rather helps a client to plan for the income she can take without dipping into principal every year. This approach is intended to protect against a client living longer than she had anticipated and subsequently running out of money.

Modern Retirement

Modern retirement seems to have a farther reaching definition than the old, accepted, stereotypical definition of retirement. Retirees these days might not be fully retired. Maybe they act as a consultant in their industry of expertise; maybe they work part-time in a field that always interested them; maybe they continue to work full time in another industry that is less physically demanding. I know an older gentleman who retired 15 years ago from his desk job at an Ivy League college only to work 35 hours a week at a Christmas tree farm year round. His current job includes greeting shoppers and bailing the trees during the busy season, and cutting grass and spraying the trees during the off season. His job keeps his body and mind active, gives him a purpose in the day to day, and boosts his social life. The face of retirement has changed; our overall financial analysis is a flexible process that we change to keep up with the realities clients face every day.

Katy Chase, MBA is a support paraplanner with Lighthouse

Email: katy@lighthousewlth.com

Market Review

The Income Pinch

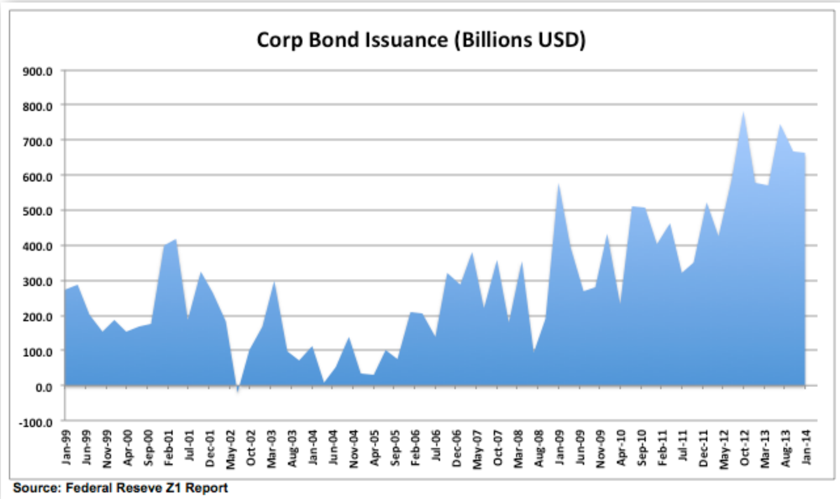
Henry L. Becker, Jr., CFP® - Director of Investment Research, Partner

It has almost become a foreign idea to earn a rate of return on savings. Since the US Federal Reserve (FED) took the benchmark Fed Funds Rate to effectively 0% in 2008, we have all been sent out in search of yield. Or, as the FED would refer to it, we are in a reach-for-yield.

The Federal Reserve, for the most part, has been glossing over investor's reach-for-yield. In recent press releases the Fed claims that there is some evidence of a reach-for-yield. I beg to differ and say it is blatantly obvious from the FED's own research sources.

Consider Chart One at right that shows the corporate bond issuance in the United States from 1999 until 2014. As you can see, as interest rates have moved to zero there has been an explosion in corporate bond issuance. It is important to note that this is partially due to companies taking advantage of low rates but also it is demand by investors to snap up such offerings. ➣ **More**

Chart one



Source: Federal Reseve Z1 Report

In Chart Two at right you can see that from 1980 until now the amount of interest income as a percent of personal income has been dropping steadily as interest rates have fallen. Now consider the fact that real (inflation adjusted) personal income has hardly budged since 1980. So, if real income has not grown, prices have risen and interest income is falling, then income has to be sought from somewhere else.

Bottom Line

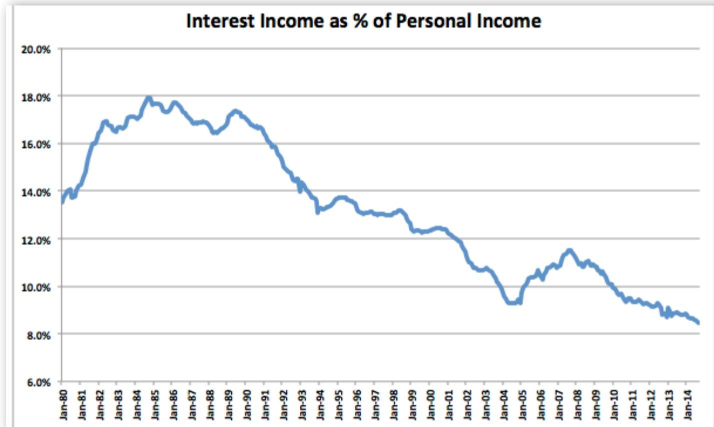
Today, investors are being sent further out into the risk spectrum to have their assets produce a return. The worst impact of the zero interest rate policy (ZIRP) is being felt by retirees. In the good old days one could actually earn a reasonable return on savings and take little to no risk. Today, just to keep pace with inflation, investors are having to add assets to their portfolio that they likely would have eschewed in the past as too risky.

With the shortfall in interest income investors are looking to grow portfolios through capital appreciation. Capital appreciation investing presents a different risk dynamic with which income investors must become accustom. In the end, capital appreciation investing involves higher levels of capital risk.

The pinch that global central banks have put savers in to is quite a quandary. If you want to survive on your hard earned savings you are going to have to place that savings in harms way and risk losing what could be a substantial chunk. This is not really a fair position to put savers into but it is the reality we live in currently.

Our hope is that we return to a point where savers do not have to assume extraordinary risk to live on hard earned savings. In the meantime, we all have to balance risk and return carefully.

Chart two



Henry L. Becker, Jr., CFP® is a partner & Director of Investment Research with Lighthouse

Email: henry@lighthousewlth.com

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