The Ethical Treatment of $omebody Else's Money

Straight From The Horses' Mouth

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RETIREMENTCULTURE©

The idea of “Retirement “needs to change.

It is an archaic system. My generation and the younger “Boomer” generation were brought up in a world where our parents lived the 1930’s version of a three stage life: educate, work, retire.
More and more, that is not what’s happening. People in their late 60s and 70s have part time jobs, volunteer, start businesses, write, draw, play piano. Retirement fit into the 20-30 and 40 year old’s lifestyle even less. Yes, there will always be some who just want to hit an age, kick back and garden or golf or whatever. But, how boring? As I pointed out last week, the combination of longevity and declining retirement savings rate is forcing a change in our thinking

We have been hard-wired into the depression era thinking.
My parents believed that they could retire at 65 with a pension after slaving away at the metaphoric mill for 35 years, collect social security, maybe get a small pension from the mill and live the rest of their days until they had to go into the “old folks home” to die. Neither ever made it. They didn’t leave any savings because they didn’t have any, and never saw a need for it.
As I pointed out last week, the combination of longevity and declining retirement savings rate is forcing a change in our thinking.

There effectively is no financial “retirement crisis”. At least there doesn’t have to be for everyone. We have been led (pulled?) down that path by Big Financial who have been the chief beneficiaries of the “save to retire” mentality. Along came IRAs and 401ks to enable us to “save for retirement”. Where did they actually come from? (No, not Congress, that’s not what I meant).

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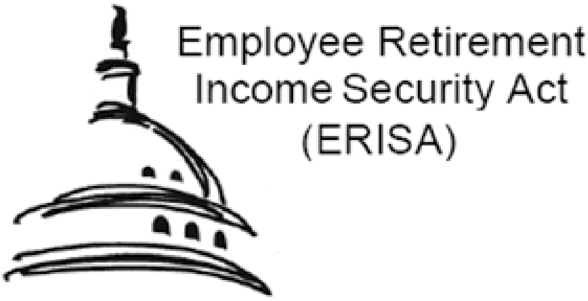

The advent of self-funding

In 1974, Gerald Ford signed ERISA into law. And so IRAs began. As originally contemplated, taxpayers could contribute up to $1,500 per year and reduce taxable income by the amount of the contributions. Additionally, the amount inside the IRA would grow without being immediately taxed. ERISA, by the way was, at least partially due to the devastating losses of participants' poorly funded pensions when Studebaker collapsed in 1966. So, rules.

Initially restricted to those who were not covered by a pension IRAs, it changed in 1981 when Regan's Economic Recovery Tax Act removed the restriction limiting them to those not covered by a pension. After 1981, anyone with income could contribute, tax deductible, up to $2000 for themselves and $250 for a non-working spouse. Amounts and nuances changed, but the basic premise was "save for retirement".

Then and now, you have to begin withdrawing (at least a minimum distribution—the RMD) in the year you turn 70 ½. A few years ago, IRS revised the RMD distribution/withdrawal tables. Today for a 70 year old, the distribution period is 27.4 years. The way the table works is that the longer you live, the distribution period takes you to a longer period. For example, an 86 year old has a distribution period of 14.1 years. 70 year olds will not deplete their IRA until age 97 or so, and that's without any assumed growth; an 86 year old to 101. Called the Lifetime Uniform Table, it goes to a 115 year old retiree. (I couldn't find any.) Also, there are tweaks for beneficiaries and for retirees with much younger spouses. I didn't look up whether the "much younger spouse" category factored a longer or shorter life. Hmm…

Actually, IRS has a system here that makes more sense than I would have expected.

The demise of the Pension

Ok, lets look at 401ks. They were enacted in The Revenue Act of 1978. It is said to have been accidental. Allegedly, the goal was to limit executives at some companies from having too much access to the perks of cash-deferred plans, " because since the 1950s, companies had been fighting with IRS to allow more money to be squirreled away in such plans", according to author/researcher, Tom Anderson.

Anderson claims the "accidental birth of the 401(k) can be credited to Ted Benna. In 1980, Benna, a benefits consultant used his interpretation of the law to create a 401(k) plan for his own employer, The Johnson Cos. It allowed full-time employees to fund accounts with pre-tax dollars and matching employer contributions. Benna then asked the Internal Revenue Service to change some proposed rules under the law that ultimately lead to the widespread adoption of 401(k) plans by employers in the early 1980s. So, the Jimmy Carter administration did something right. Way to go, Ted.

Initially, in the 1980's, 401ks were only open to big companies like Johnson & Johnson. Today, some 94% of private employers offer them. Companies seized upon the 401k or its counterpart to enable them to drop the pension and still attract employees. Saves them money, right? Even with a contribution. Defined benefit morphed into defined contribution.

Like IRAs, defined contribution plans are voluntary, tax deferred, and the contribution limits have gone up. There are a lot of "Hybrid" retirement accounts, different types of IRAs, and multiple employer plan 401ks (MEPs), even annuities. Taxable when withdrawn, (subject to amounts tax deferred), there is effectively no RMD.
Although many retirees rollover 401k assets into IRAs, and we discussed the RMD there.

Social Security

Enacted in 1935, it was and still retains most of the reflections of a depression age vehicle. Using Social Security's words, it was designed "to provide social insurance for the aged." Other than the calculation methodology (which follows) it was last changed in 1983, or to Star Wars fans, the year Felicity Jones was born.

In the "just so you know trivia department", a fellow named Ernest Ackerman got the first payment: 17 cents in January 1937. This was a one-time, lump-sum pay-out--which was the only form of benefits paid during the start-up period January 1937 through December 1939. In 1940 a woman named Ida May Fuller, from Ludlow, Vermont was the first recipient of monthly Social Security benefits.

Today's workers (including Congress, BTW) pay 6.2% of their income into it annually. Employers pay a matching 6.2% up to a maximum amount of earnings which in 2017 is $127,200. In 1937, the maximum earnings was $3000. (NOTE, I am disregarding the 1.45% dual payments into Medicare. (We old folks like Medicare).

SS takes the average of your earnings for the highest 35 years of earnings. If you have less that 35 years of social security earnings, they factor a $0 for those missing years. They get an acronym: AIME. The Average Indexed Monthly Earnings. They take the AIME and multiply it by the Social Security Benefit formula to produce the PIA, the benefit payable at FRA. (Primary Insurance Amount/Full Retirement Age). Tired yet? Wait.

Here's the Social Security Benefit Formula (simplified)
1. Multiply the first $885 of AIME by 90%.
2. Multiply the amount over $885, and less than or equal to $5,336, by 32%.
3. Multiply the amount over $5,336 by 15%.
Add em up.
OR: Use a social security calculator, as I do.

The point of this exercise is that it is a convoluted system. It needs to be dismissed. It came out of the Depression and changed little since them. It based a retirement age of 65 at a time when the average lifespan of someone born in 1935 was 58. In light of increased longevity and decreased savings (including more going out of Social Security that is going in it, how can it possibly be suitable or beneficial to my working 38 year old daughter? It is the ponzi scheme that makes Bernie look like an amateur. I think we need to do away with SS. Pay everyone left what they put into it, keep enough to pay off the disabled, those whose spouse dies, the current recipients and maybe everybody over 50, distribute the excess pro rata and shutter the doors.

Some ideas that have been floated as Social Security's successor

1. Create an IRA-like Savings Trust account, and make it mandatory. Take the existing 6.2% and the employer matching 6.2% and deposit it into <u>your</u> Trust. It is not taxable income, and the earnings are not taxable until you withdraw it, but you cannot take it out until you leave your current employer. You can roll it into an IRA or 401k, however.
You can decide how to invest it, limited to cash, CDs, government bonds (you pick the duration), a designated Market-tracking ETF or index fund, or a blend. You can allocate or rebalance annually.

2. The free-for-all. Everyone gets 13% more income to spend or save what they want. Enhance savings options to encourage that, but, basically, it's everyone for themselves.
Or maybe spend it now. Enjoy it. Buy the Harley.

3. Term, dollar cost averaging annuities guaranteed by the government. Your 13% per year goes into a government or regulated insurance company annuity, that can be withdrawn with no penalty after 10 years. There is no sales charge for this product, so Big Insurance won't get rich off of it.

4. A private social insurance plan that works like a variable annuity. No sales charge here either. We do not want our to pay fees for something that they do not pay fees on now.

5. Some hybrid variation of the privatization idea where the Banks, Brokers and insurance companies make another gazillion dollars.

6. It's broken, but don't mess with it; it's <u>our</u> broken.

There are more replacements. Lots more. These listed are probably not the best ideas. Maybe you can come up with one we can run with? It's beyond my capabilities to decide on a perfect system to replace Social Security retirement insurance, but I would really like to know what you can come up with.

The table is open for solutions.

Toss "Retirement?"

So where does that leave retirement, itself? For me, and the boomers after me, maybe no harm, no foul. But the Idea of at 70 years old sunning in the Villages, playing golf and Ma Jong cannot and will not play with the Millennials. This time, they have it right. They are entering the workforce with no sight on a pension and, frankly seldom with an expectation of a healthy career at one place. They are largely working at places where they have time to play: hike, surf, hunt, create art, write, whatever. They are not "saving" or "focusing" on retirement. Ever (mostly). They will change work several times during their long lifetime. They will play more than we did, enjoy life when they are young and will live longer.

To the younger (way younger) generations, Kudos.

As I said last week, we should all learn a craft or make our hobby work for us in later years.

Retirement? No. Toss it. It is for us old folks, not for the young. The idea has outlived its usefulness. Don't be so captive to saving for retirement that you miss out on life.

FIDUCIARY FORENSICS©

It's June 10. did your life change yet because of the DOL Fiduciary Rule? I thought not.

Here's why the impact on the Financial business will be nominal:

1. It is a "toothless rule. There iso real enforcement until January 1, 2018
2 The DOL Secretary Acosta put out a call for reform ideas,
3 The House committee approved the Financial CHOICE Act to be submitted to the full house for a vote. I'm betting it will pass. In it, there's a provision that the DOL will have to follow the SEC lead on any fiduciary issue. And, the DOL will have to justify that their rule does not adversely affect revenues at Financial firms.
4. Dodd Frank which mandated the rule is being dismantled
5.The SEC just said they are "looking" at a fiduciary rule and are calling for comments. (They have done this for 10 years now).
As. Alfred E. Newman said,
"What me worry?"

DANTE'S CORNER

More about Bernie:

Bernard Madoff, the imprisoned confidence trickster, has laid the blame for his ruinous Ponzi scheme at the feet of banks and wealthy investors he claims didn't care whether his firm was legitimate or not in a series of never-before-heard recordings.
The interviews, part of author Steve Fishman's new audio series, Ponzi Supernova, feature much of Madoff's characteristic refusal to take responsibility for paying his investors out of each other's pockets.

MADOFF TAX REBATE
The disgraced financier Bernie Madoff has received a $13,800 (£8,500) tax rebate, angering clients who lost billions in the biggest Ponzi scheme in Wall Street history.
The jailed fraudster was sent the money after overpaying the property taxes on his waterfront mansion in Palm Beach, Florida, which his wife still owns despite other assets being seized by investigators who unravelled his $65bn investment scam.
The rebate cheque was issued last month and made payable to Ruth and Bernard Madoff. Ruth Madoff sent the cheque back to the tax office asking that it be reissued with her husband's name removed.
Ruth Madoff successfully challenged the property's 2008 valuation of $9.4m, resulting in a revaluation to $8.5m and a 9% discount in the couple's tax bill of $151,000.

The couple's lawyer refused to explain why Mrs Madoff requested the cheque be reissued in her name alone, but any joint assets the couple had were seized to help compensate his thousands of victims, who ranged from Hollywood film stars to retired public service employees.

IT DOESN'T QUIT:
Pump and Dump Coffee

A California federal judge gave the green light on Wednesday for four offshore investors to pay the U.S. Securities and Exchange Commission nearly $1.7 million in disgorgements and interest to settle allegations that they participated in a $78 million pump-and-dump scheme involving shares of Jammin' Java Corp., a coffee company originally founded by Bob Marley's son Rohan.

As part of the settlement that U.S. District Judge Stephen Wilson approved, Michael K. Sun, Mohammed A. Al-Barwani, Rene Berlinger and Kevin P. Miller will also be banned.

Hedge Fund Founder guilty

A would-be hedge fund founder pled guilty Thursday in New York federal court to a conspiracy charge tied to his alleged ploy to lure investors into a new fund by touting its great prior performance — performance that didn't exist — prosecutors said.

San Francisco-based Nicholas Mitsakos copped to a charge of conspiracy to commit securities and wire fraud Thursday, just six months after putting in his not-guilty plea on fraud and conspiracy charges, court records show.

Kingdom Legacy Fraud:

A Florida investment adviser has agreed to fork over more than $4.1 million in disgorgement, interest and civil penalties to the U.S. Securities and Exchange Commission to settle accusations that he had fleeced his hedge fund's investors out of millions of dollars by charging them hidden fees, according to documents filed in Florida federal court on Thursday.

The SEC asked U.S. District Judge Sheri Polster Chappell to sign off on the proposed consent order holding Mark C. Northrop and his company Kingdom Legacy General Partner LLC

Fiitbit Pump and Dump

Manhattan federal prosecutors on Friday charged a Virginia man with orchestrating a $100 million stock manipulation scheme using shares of Fitbit, in which he posed as an officer of a Chinese company and tendered a sham offer for all of the wearable technology company's outstanding stock.

Robert W. Murray, 24, of Chesapeake, Virginia, was arrested and charged with securities fraud and wire fraud for filing a bogus tender offer with the Securities and Exchange Commission to buy all outstanding Fitbit stock at a premium, causing a price spike, which, of course, he profited from.

Still, there's money to be made legitimately in fraud cases:

Whistleblower Who Tipped SEC To Scheme Gets $5.5M Bounty

A corporate whistleblower who tipped the U.S. Securities and Exchange Commission to "an ongoing scheme" to defraud "vulnerable" investors has received a $5.5 million bounty,

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