Mentor Monthly Missive

Financial Planning News

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Why 'annuity' is not always a dirty word

Financial independence means living the lifestyle you choose without fear of running out of money. Whether to work becomes a choice, rather than an obligation. Activity (travel, hobbies, volunteering) does too.

Worst case from a lifestyle point of view is dying too soon. From a purely financial point of view, it's living too long.

One challenge we face when helping clients reach their retirement lifestyle goals is projecting life expectancy. It's as unknown as the other two unknowns: inflation rates and investment returns. No matter how hard we try to predict these things, we're always wrong. The future is never the way we expect or want it to be.

If we could guarantee any aspect of the financial-independence scenario, it would improve our chance of success. Unfortunately, neither investment performance nor inflation can be guaranteed. It's possible, though, to guarantee income. That's a pretty good result, even if it comes at a cost.

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Mentor Capital Client Corner

We are happy to announce the launch of a new website focusing on Fee-Only financial planning in the Chicago area. In cooperation with seven other advisors, John Davis and Dan Carey hope to make it easier for consumers to get objective advice about managing their personal finances.

We are committed to providing these services to our clients. We want people to know they have a choice among fee advisors, and we are confident that the nine sharing the site will focus on keeping clients' best interest as their No. 1priority.

Check us out at www.chicagofeeonlyfinancial.com

Chicago Area Fee-Only
Financial Advisors Network

Meet our Wealth Managers

Mentor Capital Management Inc. was founded in response to the belief that a consumer's best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to clients based on their personal goals and objectives.

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Why 'annuity' is not always a dirty word

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(Note that we are referring here to fixed annuities, not variable annuities or indexed annuities. The latter two flavors offer uncertain payments, high fees and potentially negative tax consequences.)

Cases in which adding a guaranteed stream of income to the retirement scenario are those where Monte Carlo simulations show a less-than-desirable success rate. Monte Carlo is a means of projecting thousands of possible futures by simulating variations we can expect in investment returns and inflation.

Traditionally, fixed annuities purchased for retirement have been SPIAs – single-premium immediate annuities. You take a lump sum, give it to an insurance company, and the insurance company provides you with a guaranteed payout for a certain period or for life. A new product, the SPDA, or single-premium deferred annuity, has been gaining popularity. Here, you pay a lump sum now with a promise from the insurance company to begin your guaranteed payments later.

Both the SPIA and the SPDA are transparent and consumer friendly, starkly different from their variable and indexed annuity cousins. They are pure risk-transference strategies. If the consumer is comfortable with the costs, they can be a valuable tool in the financial independence toolbox.

Now if we could only find a way to guarantee life expectancy… .

Transferring Retirement Risk

Risk transfer is an important element of the wealth management process. When you pay another party to insure against catastrophe, it can be a good move.

Paying an insurance company a reasonable amount to ensure that you won't go broke in retirement can also be smart. The cost, which is your agreement that your heirs will receive nothing upon your death, can be a non-issue when compared to the potential benefit.

We pay property and casualty insurance companies to indemnify us against catastrophic loss of home and car, and life insurance companies to make our families whole in the event of our premature death. Fixed annuities can provide similar protection against loss due to longevity.

Have a question?

Do you have a question or want more information about any of the issues discussed in Mentor's Monthly Missive? Are you concerned about whether the financial decisions you're making are right for you? Would you like a second opinion about an action you're thinking of taking or something recommended to you by a stockbroker or insurance agent?

We offer a no-obligation initial consultation that might help. Please phone to set an appointment with one of our advisors. It could be the most financially worthwhile 45 minutes you've ever spent!

2015 Retirement Plan Contribution Limits

The Treasury Department has announced inflation-adjusted figures for retirement account savings for 2015, and next year there's extra room for savings for wage and salary types and the self-employed. If you have a 401(k), a SEP-IRA, or a SIMPLE, pay attention and if you can swing it, bump up your contributions to the new max. You can stuff $18,000–or $24,000 if you're 50 or older–into a 401(k), for example. Here are the details.

401(k)s. The annual contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan, is $18,000 for 2015, up from $17,500 in 2013 and 2014.

The 401(k) Catch-Up. The catch-up contribution limit for employees age 50 or older in these plans goes up to $6,000 for 2015, up from $5,500. Even if you don't turn 50 until Dec. 31, 2015, you can make the additional $6,000 catch-up contribution for the year.

SEP IRAs and Solo 401(k)s. For the self-employed and small business owners, the amount they can save in a SEP IRA or a solo 401(k) goes up from $52,000 in 2014 to $53,000 in 2015. That's based on the amount they can contribute as an employer, as a percentage of their salary; the new compensation limit used in the savings calculation is $265,000, up from $260,000.

The SIMPLE IRA. The contribution limit on SIMPLE retirement accounts for 2015 is $12,500, up from $12,000 in 2014. The SIMPLE catch-up limit is $3,000, up from $2,500 in 2014.

Defined Benefit Plans. The limitation on the annual benefit of a defined benefit plan remains unchanged at $210,000 in 2014. These are powerful pension plans (an individual version of the kind that used to be more common in the corporate world before 401(k)s took over) for high-earning self-employed folks.

IRAs. The $5,500 limit on annual contributions to an Individual Retirement Account remains the same for 2015, the third year in a row. Blame low inflation. The catch-up contribution limit, which is not subject to inflation adjustments, remains at $1,000.

Deductible IRA phase-outs. You can earn a little more in 2015 and get to deduct your contributions to a traditional pre-tax IRA. Note, even if you earn too much to get a deduction for contributing to an IRA, you can still contribute; it's just non-deductible.

In 2015, the deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) between $61,000 and $71,000, up from $60,000 and $70,000 in 2014. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is $98,000 to $118,000, up from $96,000 to $118,000. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $183,000 and $193,000, up from $181,000 and $191,000.

Roth IRA phase-Outs. In 2015, the AGI phase-out range for taxpayers making contributions to a Roth IRA is $183,000 to $193,000 for married couples filing jointly, up from $181,000 to $191,000 in 2014. For singles and heads of household, the income phase-out range is $116,000 to $131,000, up from $114,000 to $129,000.

If you earn too much to open a Roth IRA, you can open a nondeductible IRA and convert it to a Roth IRA as Congress lifted any income restrictions for Roth IRA conversions.

The Saver's Credit. The 2015 AGI limit for the saver's credit (also known as the retirement savings contribution credit) for low- and moderate-income workers is $61,000 for married couples filing jointly, up from $60,000 in 2014; $45,750 for heads of household, up from $45,000; and $30,500 for married individuals filing separately and for singles, up from $30,000.

Market Commentary from Vanguard & Co.

There weren't many tea leaves to read for the U.S. economy in this week's relatively short list of economic reports. Retail sales rose modestly, as did inventories.

But there was news from abroad with potentially significant impacts for the global economy. During President Obama's trip to China, progress was announced on eliminating tariffs on a variety of information technology products. One of the challenges in reaching agreement has been the evolving nature over the past several years of what constitutes "information technology." The accord between the United States and China could pave the way for further negotiations to expand the World Trade Organization's (WTO) Information Technology Agreement.

In addition, India and the United States reached an agreement on key issues regarding India's food security program that would facilitate India's ratifying a different tariff agreement negotiated last year by the 160 member countries of the WTO. It has been estimated that this WTO agreement could add $1 trillion to the world economy in the coming years, and create millions of jobs, mostly in developing nations.

For the week ended November 14, 2014, the S&P 500 Index rose 0.4% to about 2,040 (for a year-to-date total return—including price change plus dividends—of about 12%). The yield of the 10-year U.S. Treasury note was unchanged at 2.32% (for a year-to-date decrease of 72 basis points).

Retail sales resumed their advance

After an unexpectedly weak September, retail sales grew 0.3% in October, more than offsetting September's decline. Nonstore retailers, which include online merchants, posted some of the best gains, up nearly 2%. Excluding gas station sales, which fell as pump prices declined, October sales advanced 0.5%. Analysts view the improvement as a sign that lower gasoline prices are leading consumers to spend more elsewhere. Compared with last year, October retail sales rose 4.1%.

"The increase in retail sales is a welcome sign for the economy as consumers are gearing up for the holiday season," said Vanguard economic analyst Ravi Tolani. "In addition to consumer confidence nearing pre-recession highs and gasoline prices falling, fourth-quarter economic growth could see a boost from consumer spending."

Inventories rose again

Inventories continued to increase in September, up 0.3% from August and higher than expected. Sales were virtually unchanged from the August level, which in turn was lower than July. The ratio of total inventory to sales remained at 1.3, unchanged from August despite rising inventories, but the ratio of retail inventories to sales rose.