GLOBAL FINANCIAL
Private Capital
COMPREHENSIVE WEALTH MANAGEMENT

The Cost of Retirement Isn't Rising?

SYNOPSIS

- Thanks to falling energy prices, our nation's 65 million Social Security recipients will not receive a cost of living adjustment for 2016.
- The absurdity that seniors' and retirees' cost of living have remained flat over the last year is just another example of the headwinds that this cohort faces in this market.
- Managing your retirement continues to face new challenges, but the good news is that it can still be done as long as your strategy evolves with the changing landscape.

COSTS AREN'T RISING?

Thanks to the infinite wisdom from our elected officials, the 65 million Social Security recipients will not receive a Cost of Living Adjustment (COLA) for 2016. Said another way, the U.S. government does not think that seniors and retirees are facing rising costs in their daily lives.

Since 1975, the COLA for Social Security has been indexed to the Consumer Price Index (CPI) for Urban Wage Earners. This index tracks the price of a basket of goods to determine the overall inflation rate.

As items such as food, clothing, and energy prices fluctuate, the prices of goods that are rising are compared against those that are falling. Hence, if the CPI is rising due to an overall increase in the cost of living, then the government will adjust Social Security benefits in order to match inflation.

However, this logic only works if the goods in the basket accurately represent the true costs that retirees face. This year, the index has remained relatively flat because the increases in many of the goods in the basket have been mostly offset by the drop in energy prices.

By not increasing Social Security benefits, the government is effectively taking the position that retirees are not seeing their overall cost of living rising. Ask yourself the following to see if you agree with the government:

- Are your medical bills rising each year?
- Is your rent and/or property tax rising each year?
- Are your grocery bills rising this year?
- Are your phone, internet, cable, transportation, and other bills rising each year?

65 million Social Security recipients will not receive a Cost of Living Adjustment (COLA) for 2016.

If you answered "yes" to any or all of these questions, try to get an overall sense of how much more you anticipate spending next year. Then take that number and compare it with how much you are currently saving at the pump. Do they cancel each other out?

I am going to guess and say that it doesn't come anywhere close. The fact is that retirees have very different cost structures than urban workers. For example, they drive less and spend far more on medical bills.

Oh, and speaking of medical bills, one other notable and rather unsettling fact that emerged from the government last week is that 30% of Medicare recipients could face premium increases of as much as 52%, which is based on Medicare cost projections in the 2015 Social Security Trustees Report issued in July.

NOTE*: To make matters worse, premiums will rise for the poorest Medicare recipients, referred to as "dual eligibles" who have their premiums paid by state Medicaid programs, instead of taken out of their Social Security benefits.*

Nothing is set in stone just yet, and seniors' groups and other organizations are lobbying Congress to step in and prevent the massive premium hike. Only time will tell if this double whammy will actually hit the millions of Americans who rely on these programs.

Even if the government does decide to reverse course on both decisions, it may not help all that much for most retirees. The table below shows the history of Social Security COLA increases over the last 5 years:

Year	COLA Increase
2011	0%
2012	3.6%
2013	1.7%
2014	1.5%
2015	1.7%
2016	0%

Source: Social Security Administration

Based on this table, the government believes that costs to retirees will have only risen 8.7% from 2010 through 2016, or at a meager 1.45% annually. Retired or not, do you feel like your cost of living is only rising by one and a half percent each year?

To be fair, Congress is not the only party to blame for making retirement that much more difficult for seniors. The Fed deserves their fair share because they have kept interest rates close to zero percent for over six years as an attempt to ignite economic growth (low interest rates were expected incentivize consumers to buy cars, homes, and other goods).

However, for those Americans who are retired and living on income from their investments, zero interest rates are having the exact opposite effect. Since this cohort cannot earn any income on risk-free investments, they are actually spending less money in order to preserve their nest egg.

Simply put, Congress has sided with the Fed in this war on seniors and savers, and their combined policies have changed the way retirees should approach their golden years.

IMPLICATIONS FOR INVESTORS

When I was young and our family car needed maintenance, my father would grab his toolkit and get to work. He was no expert on automobiles, but many repairs back then did not require a skilled mechanic. A basic understanding of the components was all that was needed to get by.

Think about the advances in automobiles we have seen since then. Most of the new cars today are computers on top of four wheels, and the overwhelming majority of consumers have no business even attempting repairs because they do not possess the skill and/or tools to do so.

Said another way, the market for automobiles has changed. Is this a good or bad thing? Hard to say, but what I do know is that we have little choice but to accept this reality. If our car needs repairs, we need a professional.

The same applies to retirement. Years ago, a retiree could have managed his/her own retirement by relying on a pension and then mixing in a blend of near risk-free investments (money market funds, bank CDs, and blue-chip corporate bonds). In those days, interest rates were much higher, and a conservative blend of these investments could beat inflation over time.

However, much like the automobile industry, retirement has evolved over the years, and those who continue to try to use the strategies of the past on today's market pose real risk to outliving their money. This is the bad news.

The good news is that not all is lost. Much like our cars today are fine in the hands of skilled mechanics, retirement is still possible with help from those who have the right training and experience. Accept this reality, and challenges such as our government's ineptitude around managing your Social Security become less of a concern.

The bottom line is that the days of easy retirement planning are over, but those who are willing to adapt to strategies managed by professionals skilled in navigating the current market can still enjoy a long and prosperous retirement.

Sincerely,

Mike Sorrentino, CFA
Chief Strategist,
Aviance Capital Management
mikeonmarkets.com