BELL INVESTMENT ADVISORS
MAKING A GOOD LIFE HAPPEN®

The Opening Bell

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Middle Retirement Planning

by Forrest Bell, CFP®, President, Financial Planner, and Senior Investment Advisor

If you read financial planning textbooks, you might be left with the impression that people report to the financial planner's office to begin the planning process as soon as they land their first job. However, that's not how it usually happens. Instead, people need a sense of urgency to get started. This often comes after an unexpected change such as a career transition, a divorce, or when someone has a burning financial question such as:

- Should I buy this house?
- What should I do with stock options?
- How should I pay for my child's college education?
- When can I stop working for money?

Creating a financial plan requires the coordinated work of a team. At our firm, that team consists of an investment advisor, a relationship manager, and a paraplanner. Initially, the investment advisor will design and monitor an investment strategy that supports the goals of the financial plan; the relationship manager will open and transfer accounts; and a paraplanner will gather information to build and test the financial plan. But that's only the beginning. There's still much more for the team to do to keep the plan on track.

Later, as a client nears retirement, the financial plan becomes more action-oriented. People need help deciding what they should do with their money. Should savings be invested in a retirement account or a 529 plan or real estate, or should it be used to build an emergency cash reserve?

The most underappreciated time for hiring a financial team is middle retirement.

— Forrest Bell, CFP®

When the person needs cash, which account should it come from? When should the client sell an investment? At this stage, it's the logistics of cash-flow management that become important, and the burning questions for financial planning change to:

- How much money do I need each month, and how should I get it?
- When should I start taking my Social Security benefit?
- How should I plan for a long-term care event?
- Should my investment strategy change?
- When should I rebalance and tax-loss harvest?
- What is the best way to take my required minimum distributions (RMDs) from my retirement account each year?

(For those interested in a deeper exploration of these questions, please refer to the webinar on our website "Retirement Spending: A Blueprint for Smart and Strategic Distributions.")

But the most underappreciated time for hiring a financial team is middle retirement, which we usually consider to begin around age 70. In middle retirement, all our clients (even those without formal financial planning) receive the same investment and cash-flow management as before – but a new and often difficult factor comes into play: the possibility of unexpected death or disability. An actuary might say there is a 50% chance that each person will live beyond the age of 82. But that also means there is a 50% chance that each person will not. When one spouse passes away, a financial team will help with the transition. This involves more than just retitling accounts in the surviving spouse's name and making sure that he or she has enough money to live on. It also involves remapping the cash-flow plan. After a spouse's death, living expenses usually decline by about 15%. At the same time, the decedent's social security benefit may disappear. The same goes for that person's special pension or medical benefits.

In a lot of couples, one member is more passionate about financial matters. She or he enthusiastically does the work of keeping the family's finances organized. For such a household in middle retirement, a financial team can be key. Even if the spouse who enjoys dealing with financial matters ends up living an exceptionally long life, a good

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Middle Retirement Planning

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team will become a contingency plan for a time when that person may no longer want to, or be able to, fulfill that role. The forward-looking couples that recognize this can search for this professional support together. That way, both partners will feel comfortable with the investment advisor and relationship manager who will help them navigate the changes further down the road.

In the final stage of financial planning, the focus expands from taking care of financial matters to supporting estate planning. A client's team here at Bell serves as a record-keeper that understands why certain decisions were made, and how they help fulfill both the financial plan and the estate plan. Estate planning is not just creating a trust and a will – after a spouse passes away, there's a lot of work to do.

At that time, the team works with the estate-planning attorney and the tax professional who wrote the trust and prepared the taxes. While these professionals have the most in-depth understanding of the directions in the trust and the current state of tax filings, they don't often communicate with each other. A dedicated financial team will step in here to translate their advice and to help coordinate the activities of the estate-planning attorney, tax professional, executor, and beneficiaries.

Current law allows that all the assets owned by the deceased receive a step-up in basis. That is, the cost basis of an asset (be it the home, investment account, or other type of asset) is raised to its value on the date of death. A client's Bell team takes direction from the estate-planning attorney as to the date of death, and then researches and documents the valuation of assets as of that date to accurately step-up the basis. When an alternate valuation date is chosen by the estate-planning attorney, we support that work again with the valuation research and documentation needed to settle the estate.

Upon the death of a spouse, the titles of all relevant accounts need to be updated. We do this work on behalf of the beneficiaries and distribute assets to them according to the mandates of the trust and beneficiary designations. Often, this requires establishing new accounts so beneficiaries can receive what was intended for them. After the initial distributions to beneficiaries are complete, we also take care of the second layer of distributions. Inherited retirement accounts, for example, are subject to required minimum distributions. We

calculate the RMDs and ensure their timely processing for our clients, which is especially important as the penalty for untaken RMDs is a frightening 50%.

If you have entered middle retirement and have not yet chosen your team, it makes sense to start that search. Waiting until the need is imminent makes the work harder, and introduces concern and anxiety during an already difficult time. Also, attempting to handle these tasks oneself is daunting and error-prone, to say the least.

If you know a couple in middle retirement without a complete financial team, encourage them to change that. Retirees, and even those just approaching retirement, should think about the kind of professionals they want to work with and begin the search as soon as possible for someone with whom each spouse can have a confident and trusting relationship. ■

"What's Bonnie Going to Do?!" – Part 2

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new Women's Leadership Initiative at St. Mary's College in Moraga. And for the time being, I am continuing with certain responsibilities at Bell.

If you or anyone you know is in need of Career/Life Coaching, please email Jane Micallef (jmicallef@bellinvest.com) for a free consultation. For more information about her, please see her profile in the "About Us" section of the Bell website. If you have worked with me before, are in a new transition, and would like to re-engage, (e.g., regarding retirement issues?), please reach out to me: bbell@bellinvest.com. ■

UPCOMING EVENTS

LIVE EVENT: LUNCH & LEARN

Consequences of the New Tax Law on Charities and Estates: What Nonprofits and Their Supporters Need to Know

Wednesday, May 22, 12–1:30pm

Bell invites you to this event, which is no-cost and open to the public, where Jim Bell will review the impact that changes to the tax code are having on philanthropy. Please RSVP to 510-433-1066, ext.100, or RSVP@bellinvest.com, as seats are limited.

WEBINAR

Summer 2019 Investment Committee Update

Wednesday, June 19, 2–2:30pm

Please join us for our next webinar. Our team will share economic and market commentary, discuss the potential impact of current U.S. & world events on markets, and present the most recent thinking from the Investment Committee as it relates to strategy or specific asset classes. This webinar is open to members of the public as well as our clients. Registration will open on our website in mid-May.

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What is a "Normal" Interest Rate, and Why Does it Matter?

by Jim Bell, CFP®, Founder and Chief Investment Officer

At a 2010 lecture discussing the financial crisis of 2007-2009 – *Navigating the New Normal in Industrialized Countries* – Mohamed El-Erian (now chief economic advisor at Allianz) said, "The crisis was not a mere flesh wound. The crisis cut to the bone." Once you start cutting bone, you change the structure of whatever is being cut. In terms of the current global economic structure, low interest rates for a longer duration may be one of the structural changes Mr. El-Erian referred to. There is a movement in America to "normalize" interest rates. This article will explore the current dimensions of normal.

The Federal Funds Rate

Greg Ip, the chief economics commentator for the *Wall Street Journal*, argued in the March 21, 2019 edition that the Fed needs higher interest rates now so that it has ammunition to combat significant declines in the future. One of the important powers vested in the Fed is the power to raise and lower short-term interest rates, by manipulating what is known as the *federal funds rate*. This is the interest rate at which banks can charge one another for short-term loans. When the Fed wants to stimulate the economy, it lowers the federal funds rate to encourage borrowing; when the Fed wants to slow the economy down before inflation runs too high, it raises the federal funds rate to make borrowing more expensive.

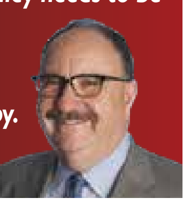
Today, the federal funds rate sits in a range between 2.25% to 2.50%. In 2008, in response to the financial crisis, the Fed dropped the federal funds rate to a range of 0% to 0.25%. The Fed announced no rate increases after that until 2015, when it began a rate increase cycle. The Fed achieved the current range after 9 rate increases.

The Real Interest Rate vs. the Nominal Interest Rate

There is another important term in economics known as the *real interest rate*. The federal funds rate, now at 2.25%, is known as the nominal interest rate because it is not adjusted for inflation. The real interest rate is determined by the nominal rate minus the rate of inflation. The inflation rate is currently calculated at 2% or lower. With the nominal federal funds rate at 2.25%, minus 2% inflation, the real interest rate is 0.25%.

. . . the question of normalcy needs to be examined with a high degree of flexibility, not nostalgia for days gone by.

— Jim Bell, CFP®



The Normal Federal Funds Rate Required to Turn a Recession Around

Mr. Ip is concerned because, at the end of the 2006 tightening cycle, the real federal funds rate was 2.75% – and it was 4% at the end of the 2000 cycle. According to Mr. Ip, the Fed needs the opportunity to cut the nominal rate down by four percentage points in order to successfully assist in an economic recovery. Should the economy stumble soon, the current rate isn't high enough to allow four percentage points to be cut – the Fed can at most cut interest rates by a bit more than 2%, bringing it to 0.25% or so. There is a lot of pressure, especially from the finance sector, to "normalize interest rates" – whatever that might mean. The most common number suggested is a 4% federal funds rate. But what would that do now to the U.S. economy?

The Significance of Core Inflation

Fed Chairman Jerome Powell has stopped further rate hikes in 2019 because he sees inflation falling and global economic growth slowing, including in the U.S. One of the inflation measures the Fed pays attention to is known as *core inflation*. This measure of inflation excludes food and energy because those sectors tend to be too volatile, and can distort the inflation picture. Recently, core inflation hit 2% which is the Fed's target rate, but that rate has now slipped below 2%. In response to this fallback, Powell said, "Ten years into this expansion and inflation is still clearly not meeting our target."

A certain amount of inflation is healthy for an economy, because it shows that there is more demand than supply of goods and services. This causes prices to rise, and it also causes producers of goods and services to catch up to demand by buying more equipment and materials, and hiring more workers. High inflation is not good for an economy. It shows that prices are rising too fast, causing businesses to slow down as they struggle to forecast the costs of production and to set prices for profitability. This is why the Fed is so important as an economic regulator to keep price increases manageable for business and to create jobs by managing short-term interest rates.

My Conclusion

The Fed is already considering the idea that they are too strict and rigid about controlling their 2% inflation target. The suggestion inside the Fed is to loosen up about inflation rising above that target. This attitude may provide a context where the economy can grow with less friction. Runaway inflation seems to be a very remote possibility given our current situation. I suggest that the question of "normalcy" needs to be examined with a high degree of flexibility, not nostalgia for days gone by. A 4% federal funds rate may not be normal in the context of how things are now.

The Great Recession that got us here was not normal. Former Fed Chair Alan Greenspan predicted that there would never be a nation-wide drop in real estate values – but it did occur causing an avalanche of job losses. Alan Greenspan also believed that financial institutions would never be so careless and neglectful in protecting their self-interest. There were compliance departments challenging sub-prime real estate loans, but they were shot down by their institutions because the sub-prime marketplace was on fire with profitability. We have also never had a president that loves tariffs and trade wars, as we do now. Tariffs are instruments of economic destruction. You tariff something like steel and cars, and the world produces less steel and cars, and the prices for both go up – paid for by U.S. consumers.

Because of so much abnormality, we may have to tolerate low interest rates and slower growth until some of the abnormality subsides. Slow growth is still growth, and it produces investment opportunities. ■

"What's Bonnie Going to Do?!" – Part 2

by Bonnie Bell, MA, MDiv., Principal, and Director of Career/Life Coaching

Most of you know by now that, as of January, I began cutting back my hours at Bell and moving into a career transition most commonly known as "Semi-Retirement." I have to say, it has been smoothing out a bit since the first quarter of the year, which is good news. Don't get me wrong, I am still stumbling into walls and getting my days mixed now and then, but I am definitely beginning to see new light, and a few doors are opening.

I've had two significant dreams that might tell you what's going on with me better than my consciousness can. One night a couple of months ago when I was particularly confused, irritable, and sad (moods characteristic of transition, good or bad) I dreamed that a huge door – a thick, heavy, medieval-looking door – was ajar. I knew something important was behind the door, and that I was okay with not knowing for now. Sometimes my dreams are utterly meaningless to me, and sometimes they are ridiculously obvious, as this one seems to be. I think it's saying, "Settle down. It's going to be okay. Doors are opening."

And just a couple of nights ago (you're going to think that I'm making this up!) I dreamed I was walking by myself on a on path through a leafy wood when a golden light began to illuminate the wood from behind the trees. Really! Could that be

I am feeling lighter, freer, and kind of excited about the future.
— Bonnie Bell, MA, MDiv.

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more obvious? It was telling me, "Pipe down. You are beginning to see the light."

All I know for sure at this point is that, rather than feeling sad or irritable or confused, I am feeling lighter, freer, and excited about the future. I am having some pretty wonderful days off. It's a general excitement about vague but very good possibilities, based on a pretty solid list of activities I love, most of which I am already doing to some extent. I will write more about **The Love List Exercise** in my next blog post.

For me, these activities include: reading, writing, walking, listening to classical music, attending live musical performances

(including the Oakland Symphony and Piedmont-East Bay Children's Choirs), having lunch and deep conversation with good friends, spending more free time with Jim, taking long walks with Jim, and watching lots of stand-up and late night comedy on cable (mostly Seth Meyers, Seinfeld in *Comedians in Cars Getting Coffee*, and anything with John Mulaney).

In the slightly more "meaningful" category of activities I love and which bring me joy, I can list: continuing to follow my spiritual path, participating in more activities at our church, and making more room for them. I am also continuing to serve on two non-profit boards: Points of Light for underserved youth in East Oakland, and the James Toland Vocal Arts (JTVA) for young, budding, hugely talented and economically-disadvantaged opera singers. I am also very proud to be a founding member of the Advisory Board for the

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