McCarthy Asset Management, Inc.
Personalized Wealth Management

August 2018 Monthly Commentary

Sept. 4, 2018

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Stock Market & Portfolio Performance

August 2018: U.S. stocks rose for the month while foreign stocks fell. Bonds rose modestly to reduce their year-to-date decline.

	Aug 2018	YTD 2018	Description:
Without Dividends:			
S&P 500	3.1%	8.5%	500 Largest Public U.S. Companies
Russell 2000	4.2%	13.4%	2000 of the smallest U.S. stocks
MSCI EAFE	-2.2%	-4.3%	international stock index
U.S. Aggr Bond	0.6%	-1.0%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	1.6%	4.7%	non-very conservative MAM portfolios
MAM Conserv	1.0%	2.5%	portfolios with 50%+ bond allocation

The returns showed above are unaudited. Past performance is not indicative of future results. Returns for McCarthy Asset Management Portfolios ("MAM Portfolios") are net of management fees and transaction costs, and reflect the reinvestment of dividends. Results represent a composite of clients using a similar investment strategy, individual results will vary.

Returns for the indices are provided solely as a general indication of current market conditions. MAM Portfolios are not invested in a style substantially similar to any index. Indices do not reflect the deduction of management fees or transaction costs or the reinvestment of dividends. Performance for the indices would be lower if these costs were reflected.

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An Estate Planning Lesson from Aretha Franklin

Last month, “the Queen of Soul”, Aretha Franklin died. While Aretha left a rich legacy of her music for us to enjoy, she failed to take care of her estate planning affairs. She died without a will or trust. Two years ago, pop star Prince left his heirs in the same lurch. To this day, Prince’s heirs have yet to receive any of their inheritance.

Aretha’s estate is estimated to be around $80 million. Her four sons have already filed a document listing them as interested parties. While it is likely they will eventually receive their inheritance, a complicating factor is one of them is a special needs son, who will need financial and other forms of support for his entire life. Furthermore, without her assets held in a living trust, probate fees will add up. In California, for example, a $1 million estate can incur statutory attorney and executor fees of $23,000 each. For a $10 million estate, the fees would be $113,000 apiece.

Recommended Estate Planning Documents: At a minimum, you should have a will, probably a revocable living trust, a durable power of attorney for healthcare, and a power of attorney for brokerage and bank accounts. It’s also critical to let someone know where to find a list of all accounts, passwords for online accounts, stock certificates and titles for anything valuable. To keep track of all this, a digital archiving tool from Everplans can be used. For more information about Everplans, see our March 2018 Monthly Commentary for an article that Lauree wrote.

Financial Update Checklist: Coincidentally, early last month I started creating for clients what I call “The Financial Update Checklist”. It is a 1-page Excel spreadsheet for each client that tracks items related to Financial Planning, Tax Planning, Estate Planning and Insurance. It is a time-consuming process consisting of gathering information from email correspondence with a client, Net Worth Analysis, Retirement Analysis, tax returns, and MAM portal. Once I create the spreadsheet, I email it to the client and highlight in a letter explaining any areas to be addressed. I hope to have this done for nearly all clients before the end of 2018.

Specifically related to estate planning, I indicate on the Checklist whether we have uploaded a copy of the recommended estate planning documents to their MAM portal. If these documents have not yet been created, or are outdated, then I recommend that the client engage an estate planning attorney to have the documents either created or updated.

Social Security– It Pays to Wait

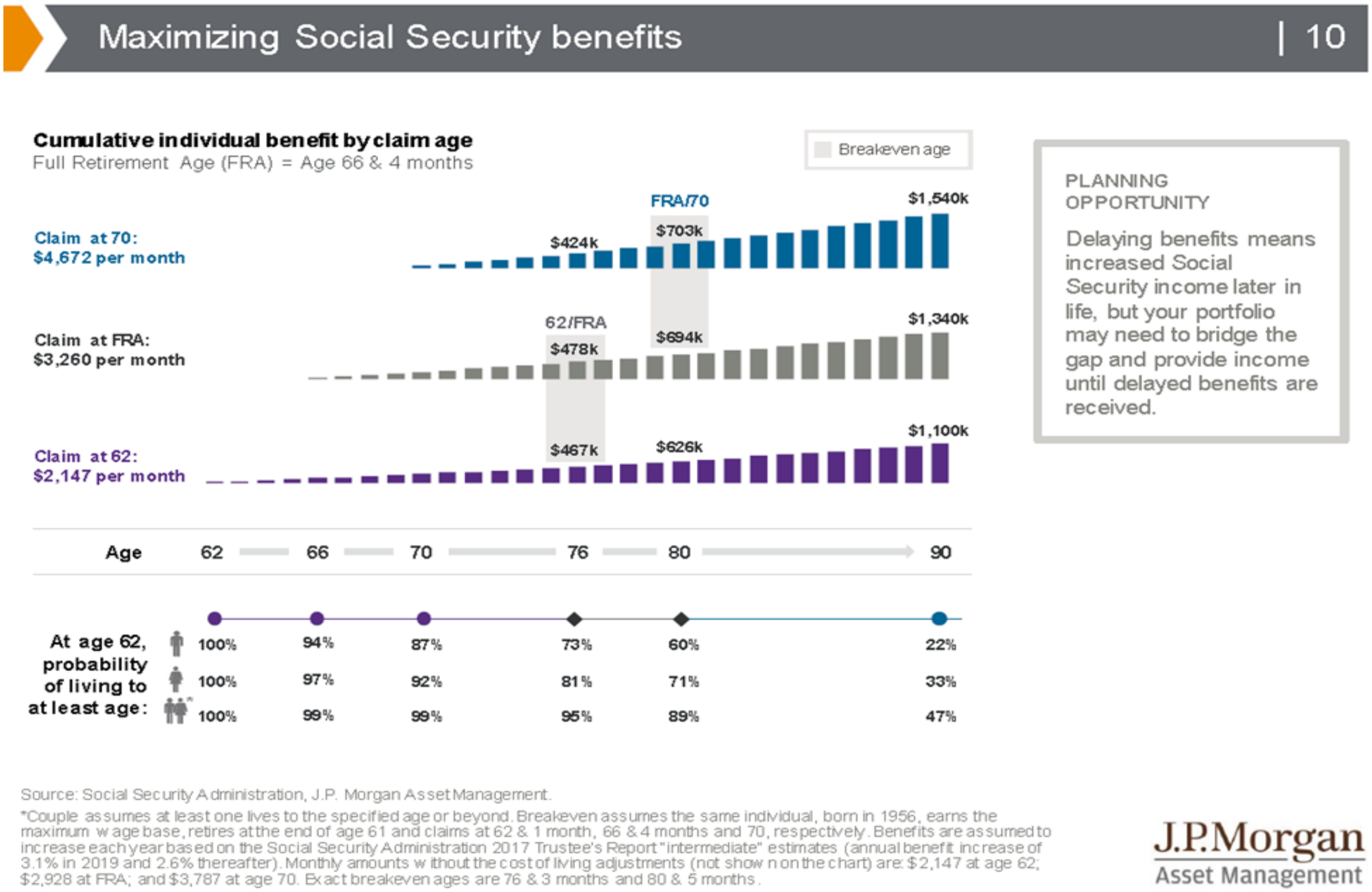
Social Security is the single largest source of income for a majority of Americans over age 65, making up about 40% of the average retiree’s income. When to start receiving your Social Security benefits may be one of the biggest financial decisions you will make in retirement. The age at which you elect to start has a tremendous impact on your monthly income and lifetime benefits. Per the Social Security Administration, in 2016, 56% of men claimed before their full retirement age, as did 62% of women. In many cases, though, this is not the best choice.

There are compelling reasons to wait until 70 to start receiving Social Security. Social Security is probably the best lifetime annuity you can get. The benefit amount is calculated based on two primary factors—your highest 35 years of earnings and the age you elect to start receiving benefits:

- At full retirement age (“FRA”), you receive 100% of your calculated benefit.
- If you start earlier than FRA, the monthly payout is lower to compensate for the additional time you will receive benefits.
- *If you start later than FRA, you receive an 8% higher monthly benefit for each year you delay*.
- You can’t earn delayed credits beyond age 70; therefore, there is no advantage to waiting until after age 70 to start collecting benefits.

Social Security– It Pays to Wait-Con't

For an illustration of this concept, see below for a chart from J.P. Morgan:



The chart shows:

- The probability of a 62-year old man, woman and at least one of a married couple living to various ages.
- The breakeven age is 76 for waiting until full retirement age versus starting at 62.
- The breakeven age is 80 for waiting until 70 versus starting at full retirement age.

Two more points:

- Those who live a really long life are most at risk for outliving their assets. **Maximizing Social Security benefits by waiting until age 70 provides longevity insurance.** In the illustration above, the monthly benefit will be $4,672 if started at age 70, compared to only $2,147 if started at age 62.
- ***For a married couple, it may be even more important for the spouse with higher benefits to wait until age 70 to start.*** The reason is that if the spouse with higher benefits dies first, the surviving spouse will be able to switch to receiving payments based on 100% of the deceased spouse's benefits.

On the Ballot in November: California Prop 5, Property Tax Transfer Initiative by Lauree Murphy

If passed, Proposition 5 will amend Proposition 13 to change how tax assessments are transferred for CA homebuyers over age 55. As many people know, if you are age 55 or older, under certain conditions you can take your property tax assessment with you to a replacement home.

The law as it currently applies:

- You must be at least 55 years old. For a married couple, only one needs to be age 55 or older.
- You can only transfer the property tax assessed value once in your lifetime.
- The home you are selling must be your principal residence.
- The replacement home must be your new principal residence.
- The market value of the replacement home must be equal to or less than the property you are selling.
- You can move within the county you currently live in.
- Some counties will accept intercounty transfers, but not all do. There are currently only 11 counties that will accept a transfer from another county.
- It's not automatic; you must file a form with the county to get the transfer.

Proposed changes to the law:

- No limit to the number of moves you make
- No limit on the amount of assessments you can carry with you.
- The market value of the replacement home no longer needs to be less than or equal to the home you are selling. There will be an adjustment up or down from the current assessment to the new assessment.
- You will be able to move to any county in the state and take your assessment with you.

How the adjustment would work if Prop 5 is passed and becomes law:

1. You buy a less expensive home:

Prior home assessed value x (new home's market value/ prior home's market value)

Example: Assessed value of prior home $500k, market value of prior home $1.2 million, new home purchased for $1.0 million

New assessed value: $500,000 x ($1,000,000)/$1,200,000) = **$420,000**

2. You buy a more expensive home:

Assessed value of the prior home + (the new home's market value – the prior home's market value)

Example: Assessed value of prior home $500k, market value of prior home $1.2 million, new home purchased for $1.5 million.

New assessed value: $500,000 + ($1,500,000 - $1,200,000) = **$800,000**

On the Ballot in November: California Prop 5, Property Tax Transfer Initiative by Lauree Murphy– Con't

It's important to note that the property tax bill is made up of a general tax, which is 1% of your assessed value, plus special charges. The location of the replacement home will determine the special charges that apply. For instance, some areas have special assessments for school bonds, fire districts, sewer, trash pick-up and other things added to the property tax. Additionally, some areas have Mello-Roos taxes (also called CFDs or Community Facilities Districts), which are special charges added to your property tax bill after the assessed value.

Who Benefits from Prop 5- Those who want to move and are over age 55 with homes that have appreciated significantly. It would eliminate a "moving penalty" that keeps some seniors from moving to less expensive areas.

Who Loses with Prop 5- Cities, Counties, and School Districts who depend on property taxes to fund their operations.

Sincerely,

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Our Services

McCarthy Asset Management, Inc. (MAM) is an independent, privately owned Registered Investment Advisor firm. We provide clients with the peace of mind that comes from knowing professionals are managing their financial affairs. The services we offer include:

Investment Management Services:

- **MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.**

Financial Planning Services:

- **The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.**
- **"Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.**
- **Social Security Planning is an analysis of the best strategy for when and how to start claiming Social Security benefits.**

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- **Tax Return Preparation**
- **Income Tax Projections**
- **Tax Minimization Ideas**
- **Tax Authority Representation**

Other Services: MAM has retained outside experts, whose services are available at no cost to our clients:

- **Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.**
- **Medicare Advisory Program (MAP) - Eileen Hamm**

Reminders/Updates

Please let us know if you have any topics or questions you would like to have us address in a future Monthly Commentary.