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FROM JOHN CARROLL

I can't believe September is here, but I am excited about the possibility of some cooler nights and some college football. The age-old saying is true: "the older you get, the faster time goes." This month we have some solid tips on addressing issues in "the older years" as well as other good tid-bits of information. Enjoy the read!

DIRECTIONS FOR LIFE

He who walks with the wise grows wise, but a companion of fools suffers harm.

Proverbs 13:20

VOL. 35, NO. 9, September 2019

Five Retirement Lessons from Today's Retirees

Social Security: Shoring Up America's Safety Net

How can you avoid falling for the Social Security imposter scam?



SMITH CAPITAL

DIRECTIONS

The Investor's Guide to Financial Management

Exchange-Traded Funds: ETF Strategies Can Be Trendy or Tried-and-True



As of January 2019, there were 2,007 exchange-traded funds (ETFs) listed in the United States, with about \$3.6 trillion in total assets. Assets held in ETFs have more than tripled since 2010, while the number of ETFs

has more than doubled.¹

An ETF is a portfolio of securities assembled by an investment company, similar to a mutual fund. An ETF's underlying investments are often selected to passively track a particular market index, but some may be actively managed.

The proliferation of ETF choices means they can now be used to create a broad portfolio of core investments, to target narrower sectors, or to gain market exposure that might otherwise be too difficult or costly to access. They are also being used to implement more sophisticated investment themes and strategies.

Trading flexibility

Mutual funds are typically purchased from and sold back to the investment company and priced at the end of the trading day, with the price determined by the net asset value (NAV) of the underlying securities. By contrast, ETFs can be traded throughout the day on stock exchanges, like individual stocks, and the price may be higher or lower than the NAV because of supply and demand.

In relatively calm markets, ETF prices and NAVs are generally close. However, when financial markets become more volatile, ETFs may quickly reflect changes in market sentiment, while NAVs — adjusted once a day — may take longer to react, resulting in ETFs trading at a premium or a discount.

Expenses and taxes

ETFs typically have lower expense ratios than mutual funds. However, you must pay a brokerage commission whenever you buy or sell an ETF, so your overall costs may be higher if you trade frequently, or they may be lower if you hold shares over a long period of time.

The way ETFs are structured also makes them relatively tax-efficient. Normally, ETFs don't distribute capital gains, so investors are not hit with capital gains taxes unless shares are sold for a profit. For this reason, high-income investors may favor ETFs over mutual funds for assets held in taxable accounts. (Some ETFs may occasionally distribute capital gains if there is a shift in the composition of the underlying assets.)

ETF trends

One fixed-income strategy involves laddering exchange-traded bond funds that have defined maturity dates. Such ETFs typically hold many bonds that mature in the same year the ETF will liquidate and return assets to shareholders. ETFs may enhance liquidity, but unlike individual bonds, the income payments and final distribution rate are not fully predictable.

Smart beta ETFs use clearly defined factors (other than market capitalization) to select and weight investments in order to track an existing factor-based index or create a new index. Some of these factors are momentum, risk, volatility, growth potential, dividend growth or yield, earnings, cash flow, and equal weighting of all securities, among others.

The principal value of ETFs and mutual funds fluctuates with market conditions. Shares, when sold, may be worth more or less than their original cost. Bond ETFs are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds.

Exchange-traded funds and mutual funds are sold by prospectus. Because sector funds are typically concentrated in a particular industry or market sector, they carry a significant level of volatility and risk. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

¹ Investment Company Institute, 2019



EBRI consistently finds that setting a savings goal increases the level of confidence among today's workers. Despite that fact, just 42% of survey respondents have tried to determine a total retirement savings goal, and less than one-third have tried to calculate how much they may need for medical expenses. Of those who have calculated a total savings goal, 34% have found they will need \$1 million or more to retire comfortably.

Source: 2019 Retirement Confidence Survey, EBRI

Five Retirement Lessons from Today's Retirees

Each year for its Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) surveys 1,000 workers and 1,000 retirees to assess how confident they are in their ability to afford a comfortable retirement. Once again, in 2019, retirees expressed stronger confidence than workers: 82% of retirees reported feeling "very" or "somewhat" confident, compared with 67% of workers. A closer look at some of the survey results reveals various lessons today's workers can learn from current retirees.

Current sources of retiree income

Let's start with a breakdown of the percentage of retirees who said the following resources provide at least a minor source of income:

- Social Security: 88%
- Personal savings and investments: 69%
- Defined benefit/traditional pension plan: 64%
- Individual retirement account: 61%
- Workplace retirement savings plan: 54%
- Product that guarantees monthly income: 33%
- Work for pay: 25%

Lesson 1: Don't count on work-related earnings

Perhaps the most striking percentage is the last one, given that 74% of today's workers expect work-related earnings to be at least a minor source of income in retirement. Currently, just one in four retirees works for pay.

Lesson 2: Have realistic expectations for retirement age

Building upon Lesson 1, it may benefit workers to proceed with caution when estimating their retirement age, as the Retirement Confidence Survey consistently finds a big gap between workers' expectations and retirees' actual retirement age.

In 2019, the gap is three years: Workers said they expect to retire at the median age of 65, whereas retirees said they retired at a median age of 62. Three years can make a big difference when it comes to figuring out how much workers need to accumulate by their first year of retirement. Moreover, 34% of workers reported that they plan to retire at age 70 or older (or not at all), while just 6% of current retirees fell into this category. In fact, almost 40% of retirees said they retired before age 60. The reality is that more than four in 10 retirees retired earlier than planned, often due to a health issue or change in their organizations.

Estimating retirement age is one area where workers may want to hope for the best but prepare for the worst.

Lesson 3: Income is largely a result of individual savings efforts

Even though 64% of current retirees have defined benefit or pension plans, an even larger percentage say they rely on current savings and investments, and more than half rely on income from IRAs and/or workplace plans. Current workers are much less likely to have defined benefit or pension plans, so it is even more important that they focus on their own savings efforts.

Fortunately, workers appear to be recognizing this fact, as 82% said they expect their workplace retirement savings plan to be a source of income in retirement, with more than half saying they expect employer plans to play a "major" role.

Lesson 4: Some expenses, particularly health care, may be higher than expected

While most retirees said their expenses were "about the same" or "lower than expected," approximately a third said their overall expenses were higher than anticipated. Nearly four out of 10 said health care or dental expenses were higher.

Workers may want to take heed from this data and calculate a savings goal that accounts specifically for health-care expenses. They may also want to familiarize themselves with what Medicare does and does not cover (e.g., dental and vision costs are not covered) and think strategically about a health savings account if they have the opportunity to utilize one at work.

Lesson 5: Keep debt under control

Just 26% of retirees indicated that debt is a problem, while 60% of workers said this is the case for them. Unfortunately, debt can hinder retirement savings success: seven in 10 workers reported that their non-mortgage debt has affected their ability to save for retirement. Also consider that 32% of workers with a major debt problem were not at all confident about having enough money to live comfortably in retirement, compared with just 5% of workers who don't have a debt problem.

As part of their overall financial strategy, workers may want to develop a plan to pay down as much debt as possible prior to retirement.



Social Security: Shoring Up America's Safety Net



Future projections

In 2019, the trustees of Social Security reported that the Old-Age and Survivors Insurance (OASI) trust fund is projected to run out in 2034. At that time, payroll tax revenue alone would be sufficient to pay 77% of scheduled benefits.

Ever since a legal secretary named Ida May Fuller received the first Social Security retirement check in 1940, Americans have been counting on Social Security to provide much-needed retirement income. For many older Americans, Social Security is their main source of guaranteed retirement income — income that continues throughout their lifetimes and is indexed for inflation every year (in 2019, the cost-of-living adjustment, or COLA, was 2.8%).

Social Security provides more than just retirement income, though. It also provides disability and survivor insurance benefits. About 62 million people — more than one in six U.S. residents — collected some type of Social Security benefit in 2018, with approximately 80% of these recipients receiving Social Security retirement or survivor benefits.¹

How Social Security works

Social Security is a pay-as-you-go system, which means that payments from current workers (in the form of payroll taxes) fund benefits for current beneficiaries. The payroll tax rate for Social Security is 12.4%, with 6.2% paid by the employee and 6.2% paid by the employer (self-employed individuals pay the entire 12.4%). These payroll taxes are deposited into the Old-Age and Survivors Insurance (OASI) trust fund (for retirement and survivor benefits) and the Disability Insurance (DI) trust fund (for disability payments).

Because of demographic and economic factors, including higher retirement rates and lower birth rates, there will be fewer workers per beneficiary over the long term, worsening the strain on the trust funds. This year, the trustees of Social Security reported that the OASI trust fund is projected to run out in 2034. After that, payroll tax revenue alone would be sufficient to pay 77% of scheduled benefits.

Ideas for reform

There has been little national consensus by policymakers on how to deal with Social Security's looming demographic challenges. Meaningful reform will require broad bipartisan support, and the trustees have urged Congress to address Social Security's challenges sooner rather than later, so that solutions will be less drastic and can be implemented gradually, lessening the impact on the public.

Some Social Security reform proposals on the table include:

- Raising the current Social Security payroll tax rate — according to the 2019 trustees report, an immediate and permanent payroll tax increase to 15.1% (up from the current 12.4%) would be necessary to address the

long-range revenue shortfall (16.05% if the increase started in 2035)

- Raising or eliminating the ceiling on wages currently subject to Social Security payroll taxes (\$132,900 in 2019)
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later)
- Reducing future benefits — to address the long-term revenue shortfall, the trustees have noted that scheduled benefits would have to be immediately and permanently reduced by about 17% for all current and future beneficiaries, or by approximately 20% if reductions were applied only to those who initially become eligible for benefits in 2019 or later
- Changing the formula that is used to calculate benefits
- Changing the formula that is used to calculate the annual cost-of-living adjustment for benefits

Understand your retirement benefits

The amount you'll receive from Social Security is based on the number of years you've worked, the amount you've earned over your lifetime, and the age when you file for benefits. Your benefit is calculated using a formula that takes into account your 35 highest earnings years, but you don't need to work for that long to qualify for retirement benefits. Generally, you need to have earned a minimum of 40 work credits, which is about 10 years of work in a job covered by Social Security. If you haven't worked long enough to qualify on your own, you may qualify for spousal benefits based on your spouse's work record. A spousal benefit claimed at your full retirement age is generally equal to 50% of the primary worker's full benefit.

You can get an estimate of your future Social Security retirement benefits by visiting the Social Security website at ssa.gov and using the Retirement Estimator tool or by viewing your Social Security Statement. Your personalized statement contains a detailed record of your earnings history, as well as estimates of the retirement, survivor, and disability benefits you can expect at different ages. To view your statement online, you'll first need to register. If you haven't registered online, you'll receive your Social Security Statement in the mail every year if you are age 60 or older and not yet receiving benefits.

¹ Top Ten Facts About Social Security, Center on Budget and Policy Priorities, August 14, 2018



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How can you avoid falling for the Social Security imposter scam?

The scam generally starts like this. You answer a call or retrieve a voicemail message that tells you to "press 1" to speak to a government "support representative" for help in reactivating your Social Security number. The number on your caller ID looks real, so you respond. The "agent" you reach tells you that your Social Security number has been suspended due to suspicious activity or because it has been involved in a crime.

You're worried. You know how important it is to keep your Social Security number safe. So when the caller asks you to confirm this number to reactivate it, or says your bank account is about to be seized but the Social Security Administration (SSA) can safeguard it if you put your money on gift cards and provide the codes, you don't know what to do. If you balk, you may be reminded that if you don't act quickly, your accounts will be seized or frozen.

Although none of this is true (the SSA will never threaten to seize benefits or suspend numbers), many people have fallen for the Social Security imposter scam, and the numbers are rising. According to the Federal Trade Commission

(FTC), more than 76,000 reports of the Social Security imposter scam were filed between April 2018 and March 2019. Reported losses during this period were \$19 million, and almost half of the reports were filed in February and March 2019.¹

Here are some tips directly from the FTC to help you avoid becoming a victim.

Do not trust caller ID. Scam calls may show up on caller ID as the Social Security Administration and look like the agency's real number.

Don't give the caller your Social Security number or other personal information. If you already did, visit IdentityTheft.gov/SSA to find out what steps you can take to protect your credit and your identity.

Check with the real Social Security Administration. The SSA will not contact you out of the blue. But you can call the agency directly at (800) 772-1213 to find out if the SSA is really trying to reach you and why. (You can trust this number if you call it yourself.)

¹ FTC Consumer Protection Data Spotlight, April 2019