

CREATIVE

Wealth Maximization Strategies

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JULY 2011

SOCIAL SECURITY: THE DISTANT FUTURE IS HERE...

Because economics is a field that attempts to explain and quantify so many issues and behaviors, reaching consensus on a particular issue can take a long time, and by a long time, we mean centuries. So when die-hard opponents finally come to agreement on a topic, it's almost a surprise. Here's the startling consensus: Social Security, as presently formatted, is unsustainable.

The idea that Social Security might not be sustainable is not news. For at least 20 years, and probably longer, a significant number of economists and financial commentators have been advancing this opinion. According to critics, the problem with Social Security is simple: the demographics of the American population can't support the math, i.e., there aren't enough people working to provide the benefits promised to those either retired or disabled. A June 21, 2010, *Reuters* article noted that, with the first members of the Baby Boom generation now reaching full retirement age, 2010 was the first year Social Security "began paying out more in benefits than it collected in taxes." As a result, using current assumptions, the government-administered program "faces insolvency by 2036, unless reforms are made." (See chart below, labeled "The Long Tale of Social Security.")

In the past, not everyone agreed with this pessimistic forecast. Defenders of Social Security insisted that the program could be preserved – and even enhanced – with just a few "minor" adjustments, usually involving modest tax increases, or incremental upticks in the age at which one could receive full benefits. The possibility of reducing benefits or drastically restructuring the program was considered both unnecessary and politically impractical. In 2005, when then-president George Bush floated the idea of privatizing Social Security, the powerful American Association of Retired Persons lobby (AARP) voiced strong opposition to any change to Social Security that would diminish either its benefits or guarantees, and effectively crushed the idea. As an advocate for senior Americans, the AARP's mantra has been "don't cut benefits."

So imagine the raised eyebrows on June 17, 2011, when a front-page Wall Street Journal article began "AARP... is dropping its longstanding opposition to cutting Social Security benefits, a move that could rock Washington's debate over how to

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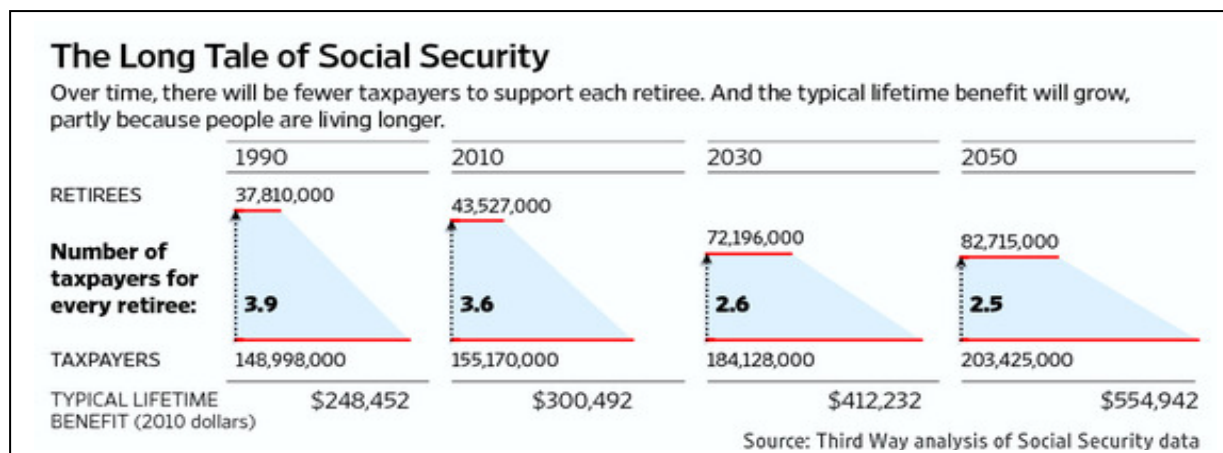
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revamp the nation's entitlement program." Why the change of stance? According to the WSJ, "AARP now has concluded that change is inevitable, and it wants to be at the table to try to minimize the pain." John Rother, AARP's policy chief, was quoted as saying, "The ship was sailing. I wanted to be at the wheel when that happens." When a long-time defender of the status quo like AARP sees changes to Social Security as "inevitable," it is noteworthy.

It should be noted that AARP's "new approach" to Social Security is not calling for radical changes. The Reuters story, which followed a few days after the WSJ article, also reported that AARP characterized the WSJ story as "misleading," and that the organization "has not changed its position on Social Security." However, in the following sentence of the Reuters piece, reporter Tim Reid wrote, "AARP officials acknowledged an openness to consider benefit cuts as part of the solution to shore up the retirement system finances." Setting aside the semantic question of whether their stance is a change in position, AARP acknowledges the inevitability of benefit cuts. And setting aside the political posturing that may be part of reshaping Social Security, here's the takeaway thought for individuals:

After several decades of debate, dithering, and deferred decisions, everyone is beginning to acknowledge that the future version of Social Security will feature diminished benefits.

Take a moment, and let the significance of that sentence sink in. Once the Social Security Administration makes it official that Americans will be required to work longer and receive less from the program, achieving a comfortable retirement will get a whole lot harder for a huge segment of the population. And the follow-up question resulting from this apparently inevitable change is pretty obvious:

How will you replace the income that won't be coming from Social Security?

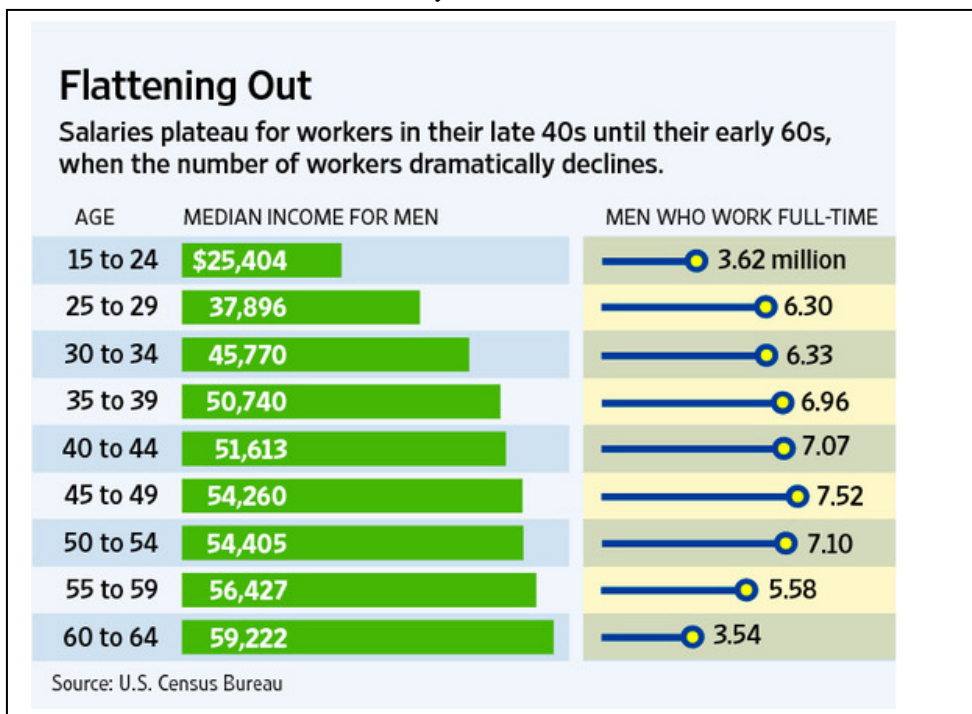
There's really only one answer: **Boost your personal savings.**

That's it. You can't count on an employer pension to make up the difference. Each year, fewer Americans are entitled to an employer-sponsored guaranteed benefit pension, but even if they are vested in such a plan, receiving future payments relies on the ongoing solvency of the employer. There are no guarantees that individuals will be able to make up the difference by simply deciding to work longer and defer retirement, because continuing to earn an income is dependent on outside factors like good health, marketable skills, and an ability to adapt to technological change. Right now, the only retirement plan you can count on is the one you can make for yourself, from your own savings.

Time is Money. And, as if reducing Social Security weren't bad enough, there's another shoe to drop as well: If you aren't saving with a purpose **right now**, you will have a hard time ever making up for the amount you won't receive from Social Security. It is simple math: with less coming from Social Security, you need a bigger pile. Putting off serious saving for another day means you have less time to accumulate it.

Not only is the simple math against you, so are the realities of your earning potential in your later years. As an incentive for older workers who have under-saved, Congress has passed several "catch up" provisions increasing contribution limits to qualified retirement plans for those over 50. This strategy was based in part on the belief that mature workers would be in their prime earning years and have extra income that could be saved. But according to U.S. Census Bureau statistics (see the chart below, labeled "Flattening Out"), salaries for workers plateau in their late 40s then remain flat – or even slightly decline – as they approach retirement. Even worse, should you find yourself unemployed while in your 50s, the prospects of staying on course for retirement are even more daunting. Bureau of Labor Statistics' data found that the unemployment rate for persons 55 and older reached record levels in 2009, and found older workers tended to remain unemployed longer.

In case you haven't connected the dots, these financial



trends pointing to decreased Social Security benefits and flattening incomes aren't particularly encouraging. Right now, the only sure response to this dilemma is to save more money. **Starting now.** But how to do it? (continued...)

If you want to realize an immediate increase in savings, start by assessing your financial expenses and your savings allocations.

Strategies for Boosting Savings

There are only four possible actions one can take to increase personal wealth:

1. **Generate more income and save the increased cash flow.** Work longer, get a promotion, change careers, get a second job – anything to bring in more revenue.
2. **Reduce your standard of living and redirect the savings.** Don't eat out as often, take smaller vacations, delay big-ticket purchases, etc. Downsize today's lifestyle to ensure a more comfortable one in the future.
3. **Trim financial expenses and transfer to savings.** You might be able to refinance the mortgage, transfer credit card balances to lower-interest accounts, raise insurance deductibles, or adjust paycheck withholding. Do whatever you can to reduce your "cost of doing business" without sacrificing benefits.
4. **Reallocate your current accumulation to generate a higher rate of return.** Some of these reallocations may involve an increase in investment risk, in order to achieve potentially higher returns. Keep in mind that the trade-off between risk and reward is not always proportional. Increased returns from some financial products can still provide guarantees, while other choices are too risky regardless of their profit potential.

As you quickly review these options, you might see possibilities in each category. But before you start looking for moonlighting opportunities or consider canceling those plane tickets to Hawaii, ponder this thought:

Zero-sum vs. win-win. Generating more income or reducing your standard of living as ways to boost saving are often "zero-sum" decisions; i.e., the only way to get ahead in one area (saving) is to give up something else like time, stability, and personal enjoyment in another. A new career, a second job, or a move may result in increased income, but the extra hours and unfamiliar circumstances may also put additional stress on relationships and families. And while "downsizing" your lifestyle may be doable, it's probably not enjoyable – if it were, you would have done it sooner.

On the other hand, trimming financial expenses and reallocating your current accumulations to generate higher returns aren't zero-sum activities. There is no downside in realizing greater efficiency and productivity from your existing financial transactions. **If you want to realize an immediate increase in savings, start by assessing your financial expenses and your savings allocations.**

The best way to implement this assessment and begin making changes is to tap the expertise of financial professionals with whom you already have a relationship. Besides providing products and services, these people should be able to provide insight and options to help you increase

your capacity to save. Take advantage of their knowledge and resources.

The future is here, the time to change is now. For a long time, the prospect that Social Security might have to fundamentally change in order to continue operating as a safety net for all Americans was an issue for the "next generation" to resolve. The problem was out there in the future, and since no one had a present-day strategy that would satisfy all parties (those paying in, and those receiving benefits), any decision was set aside for another day. Now it appears the future is here. And the only silver bullet most Americans have in their financial holsters is to save more money – starting right now.

INTERESTED IN WAYS TO SAVE MORE BY TRIMMING EXPENSES AND REALLOCATING ASSETS?

WHY NOT SCHEDULE AN APPOINTMENT NOW TO DETERMINE YOUR OPTIONS?



If You Earned \$310,000 a Year, Could You Survive a "Forced Retirement?"

If you were 22 years old, fresh out of college, and looking for a job, how's this for an entry-level position:

- The minimum first-year salary is \$310,000, with a salary scale that rapidly increases each year (stay on the job for six years, and the minimum salary more than doubles). And depending on your resume of previous work experience and performance bonuses, your first-year income could easily approach \$10 million.
- In addition to your regular work, your employer will permit (and even encourage) you to pursue outside opportunities to earn even more income. In some cases, this outside work may double your income.
- You are also a union member, with a deluxe benefit package. This includes a pension plan in which you are fully vested after only three years, and can begin receiving a monthly retirement income at age 55.
- As part of your employment orientation, you will be provided top-flight financial education services from experts who understand the challenges of earning so much money so early in your career.

Of course, like every job, there are some drawbacks:

- The work is extremely physical in nature, with a high incidence of on-the-job injuries, and many of these injuries will have long-term health consequences.
- The average length of employment in this position is slightly more than 3 years. Even those who last a long time are usually out of the business before age 40.
- You may consider moving into management, but in most cases, this will result in a significant pay cut.
- Most workers will not leave the profession on their own terms, but instead will experience “forced retirement.” (“Forced retirement” is just another way of saying someone wants to work, but external events keep them from doing so. This could be the result of a layoff, downsizing, health problem, etc.)



If you haven’t guessed already, this unique “entry-level position” is a professional athlete, specifically a football player in the National Football League. And while pro football players are statistical outliers – both physically and financially – compared to the general population, there are some areas where these

high-profile individuals are just like everyone else, maybe even more so. Here is how:

Even though they have earned far more than the average American in a very short period of time, and even though they know their high-salary career will most likely be brief, most pro football players are ill-equipped for surviving the loss of their incomes. Catch this statistic: according to a March 23, 2009, *Sports Illustrated* article “How (and why) Athletes Go Broke”...

(B)y the time they have been retired for two years, 78% of former NFL players have gone bankrupt or are under financial stress because of joblessness or divorce.

At first glance, the numbers are shocking. How can almost four of every five ex-NFL players be broke within just two years after they stop playing? When you take a deeper look, this information isn’t really surprising. In fact, bankruptcy and/or financial distress are what happen to most people who suffer forced retirements in their chosen field of work. An often-repeated statement is that,

(M)ost American families can only maintain their current living expenses for 60 days or less when their income is interrupted for any reason.

(From “16 Causes of Financial Distress” by Jon Griffith, www.jongriffith.com.)

If this statement is accurate, pro football players who can survive for two years without an income from playing football are actually *doing better* than the general public! But really, the only difference for pro football players is that forced retirement usually comes sooner, and the size of the income loss is larger. Otherwise, the circumstances and financial conditions of most NFL players are just like those of the average American.

“FORCED RETIREMENT” Protection Checklist

- Liquid cash reserves equal to 6-12 months of living expenses.
- Individual life insurance.
- Portable disability income insurance.
- Contingency plans for obtaining medical insurance if no longer part of an employer-sponsored plan.

Question set #1: If your income suddenly stopped tomorrow, how long could you survive financially? Do you have the savings and insurance protection you need to avoid bankruptcy?

Question set #2:

If you have older or adult children, are they prepared to survive a forced retirement? If not, you may become their financial lifeline. Would it be wise to encourage them to make better plans?

The factors that result in forced retirement for an NFL player – declining productivity, health issues, changes in management, and the need for employers to cut costs – are issues for other workers as well. Similar to many Americans, the *Sports Illustrated* story observes that a majority of NFL players aren’t financially literate, they don’t keep good financial records, and they tend to overspend. And even though they have far greater resources, many NFL players never develop the discipline of saving, and have a difficult time “saving for a rainy day” – just like much of the American populace. Getting cut from the team is usually a shock for NFL players, just like it is for any other employee who gets fired or laid off – they just didn’t think it could happen to them, or that it would happen when it did.

So, what can you do? Of course, the solutions to the problems of a forced retirement are fairly simple: Plan ahead. Save. Secure insurance to protect your greatest asset, which is your ability to generate an income. The plan is simple, but the follow-through is challenging, even for those with high incomes.

For many Americans, the greatest challenge in protecting against a forced retirement/job loss is not having enough money to simultaneously save and insure for the future while staying current with the cost of living today. But the challenge may run deeper than money.

By most measures, a 22-year-old earning \$310,000 a year should be able to save something, even if his cost of living expenses include an agent, personal trainer, and private chef. But the *Sports Illustrated* story indicated many athletes appear to have an aversion to addressing the unpleasant possibility of a forced retirement. Agent Leigh Steinberg related the story of a “certain group of athletes who believed that if they ever sat down to write their wills, they were going to die.” Whether this aversion is superstition or simple avoidance of a mundane task, the fact is many Americans, not just pro football players, drag their feet when it comes to taking preemptive measures against forced retirement.

Your greatest asset is your ongoing ability to earn an income. A forced retirement not only stops your income, but threatens to undo all your financial accomplishments. Your greatest assets, and those who depend on its productivity, are worth protecting.

Estate Planning for Blended Families: Relevant in the American Colonies and Today.

During the historical period that encompassed the formation of the United States, women had far fewer rights than men. In the 17th century in colonial America, women could not vote or hold public office, and could not control property except under special circumstances. Before they married, a woman's economic affairs were directed by her father, and after marriage, her husband made all the major business decisions. Only widows could be free from the economic control of men – and only when their late husbands made it possible.



The social norms of the 17th century colonists would not appear to have much in common with 21st century cultural standards, but there is one unique parallel: a concern for the equitable distribution of the property and estates of blended families.

A blended family is a household unit that includes children of a previous marriage from one spouse or both. According to recent data compiled by the U.S. Census Bureau, **blended families now actually outnumber traditional nuclear families.** One report shows that for Americans born after 1970, there is a 50% likelihood that they grew up in a blended family.

The growth of blended families in the late 20th and early 21st centuries in the United States is attributed primarily to two factors: longer life spans, along with a steady and high rate of divorce and remarriage. As people live longer and marry more often, the result is more blended families. The U.S. Census Bureau estimates that 1,300 stepfamilies are forming every day in America, and that more than 50% of American families represent a remarriage or re-coupling.

Four centuries ago, blended families were also the norm in the United States, but for different reasons. In 17th century colonial America, men had a much shorter life expectancy (less than age 50), and, as the colonies were a “new world” dominated by explorers, pioneers and adventurers, there was a distinct shortage of eligible women. In a predominantly agrarian society where manpower and land were principal assets, the remarriage of widows and widowers was common practice, a pragmatic way to provide for children and protect assets.

To ensure the financial well-being for her children from a previous marriage, a remarried woman in 17th century America could make legal arrangements to protect her estate from the control of her second husband. If such a legal

agreement were not executed, the new husband by default acquired the right to own and manage all the assets from the previous marriage.



The Story of Hannah Bennett Turner Tompkins Arnold (1630-1693).

An example from history illustrates the lengths to which colonial law considered and enforced the financial rights of heirs in blended families. Hannah Bennett was born in 1630 in colonial Virginia, near the original Jamestown colony. She was her parents' only child to reach adulthood, and when her parents died, she inherited 450 acres of land. Hannah married Mr. Turner, and through legal documents he ensured that she continued to hold this property in her name.

Mr. Turner died, so Hannah Bennett Turner inherited his possessions as well. As was the custom, Hannah remarried a Mr. Tompkins, and surviving records suggest that she and her second husband probably entered into a marriage agreement that protected her rights to the property she had previously acquired. In time, Mr. Tompkins died, and Hannah acquired her second husband's estate, then remarried again, becoming Hannah Bennett Turner Tompkins Arnold.

Before she married a third time, Hannah drew up a deed of gift to bequeath her land and possessions to her children and protect their rights in case she died before her husband. Yet she outlived her third husband (Mr. Arnold) and inherited his estate as well.

Hannah's story is featured in a section of the Historical Jamestown Museum in Jamestown, Virginia. In an exhibit regarding the status of women in the early colonies, there is the following commentary: “By accumulating land from her father and three husbands, her wealth and influence in the community grew. She had used legal strategies and the help of her first husband to maintain control of her property.”

Updating Colonial Estate Issues for 21st Century Concerns. Though the particulars of Hannah Bennett Turner Tompkins Arnold's three marriages and subsequent blended families are far different from most blended family situations today, many of the same legal and financial issues are still relevant. In a newly-established blended family, the questions are:

- Which properties are mine, yours and ours?
- What assets are my children, your children and our children entitled to receive?

However, unlike Hannah, today's blended families may also have to account for the property rights of still-living

former spouses as well. In some instances, the assets may be divided according to the legal instructions at the time of a divorce, such as stipulations for payments of child support and alimony. But other assets may only be transferred according to specific instructions, such as beneficiary designations; **if you don't change the beneficiary to match your new circumstances, it can be difficult to override the established instructions.** Here's an example of a 21st century blended-family dilemma, provided by California estate attorney Jay A. Rose, from his website (www.trust4u.com):

In Egelhoff v. Egelhoff, 121 U.S. 1322 (2001), the United States Supreme Court held that federal law under the Employee Retirement Income Security Act of 1974 (ERISA) preempted state law regarding the retirement plan of a recently divorced and deceased man.

Mr. Egelhoff had failed to replace his ex-spouse with his children as the named beneficiaries of his retirement plan prior to his death. State law automatically disinherited ex-spouses. In a 7-2 decision, the Court found that the retirement plan administrator must follow the ERISA statutes requiring distributions to the named beneficiary, even when the end result conflicts with state law. Bottom line: Mr. Egelhoff's former spouse inherited the sizeable ERISA retirement plan instead of his own children.

Besides the disposition of retirement assets, add other 21st century issues into the mix such as qualifying factors for federal student financial aid, extended caregiving for dying spouses, changes in Social Security benefits, appointment of fiduciaries and guardians, as well as the unique ownership and beneficiary details of a wide range of financial instruments. It's easy to see that the potential for mistakes, misunderstandings and bad feelings increases exponentially in the financial affairs of blended families.

For anyone who is serious about maximizing the benefits from their long-term financial programs, regular reviews are a must. For blended families, these reviews are even more important. Wills, trusts, beneficiary designations, and account ownership should be carefully evaluated with the help of qualified professionals to ensure that assets intended for the benefit of one party – a spouse, a child, a grandchild, a relative, whomever – will be delivered according to your current plans, and not old arrangements that no longer reflect your wishes.



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