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Rising Long-Term Care Insurance Premiums

Under pressure from the rising costs of health care and increased life expectancies, many long-term care insurance providers are struggling to meet financial obligations to cover nursing home and other expenses. Adding to their financial stress are sustained low interest rates and, for some companies, dossiers of mispriced insurance policies. Some companies have completely withdrawn from the long-term care insurance market, while others have drastically cut back on issuing traditional standalone policies.

In Florida, large insurance companies have received regulators' approval to significantly increase premiums for existing long-term care policies. This forces customers to choose between paying the rate increase, reducing their coverage, or letting their policies lapse, possibly losing the premiums they have already paid and forfeiting anticipated benefits.

If you receive a notice from your long-term care insurance provider indicating a premium increase, please contact us to discuss your options and determine the best course of action.

Record-Breaking Expansion Showing Signs of Slowdown

As the second quarter of 2019 came to a close, both stocks and bonds celebrated robust returns. In addition, the current economic recovery reached a significant milestone, becoming the longest expansion since the Civil War. Looking ahead, a slowdown seems overdue, and economists are predicting that US GDP growth will decline to 1-2%. Economists also forecast that before year-end, the Federal Reserve will come under pressure to cut interest rates in an attempt to reinvigorate growth. A recession is a possibility, but not an inevitability.

Former Federal Reserve Chairman Ben Bernanke quipped that recoveries don't die of old age; they're usually murdered. The Federal Reserve, mandated by law to support the economy, has often been at fault in past economic downturns. On more than one occasion, in their attempts to keep the US economy from overheating, the Federal Reserve has raised interest rates too much and too quickly, slowing business investment and leading to recession.

But that is not the case today. The Federal Reserve has raised rates cautiously over the last few years, nowhere near the levels that normally choke off growth. The President tells us the stock market would be much higher today if the Fed hadn't raised rates at all; he might be right, but pointing to the Fed as the cause of the next recession seems suspect at this point.

Another primary culprit for triggering recessions can be panic sparked by hidden or misunderstood financial crises. Without speculating too much here, we are comforted by the knowledge that the banking system is much stronger today than it was ten years ago. There are potential areas of concern, including high debt levels, especially student loans, and excessive borrowing by certain companies and countries. These issues are certainly long-term concerns, but may not be recessionary forces.

Index	6/30/2019	YTD
Dow Industrials	26,599.9	14.0%
S&P 500	2,841.7	17.3%
S&P Small-Cap	953.2	12.8%
MSCI EAFE	1,922.3	11.8%
Bloomberg US Bond	2,170.5	6.1%
US Treas 10-yr yld	2.0%	

The last trigger for recessions is often a major political event. Previous recessions have followed disruption in the oil markets, a growing concern in light of the currently escalating tensions in the Middle East. Tariffs are already contributing friction to the economy, with the potential to trigger an outright recession, especially if the US were to enact all the tariffs which have been threatened. (More details in the next article.)

We're not able to predict when the next recession will occur or what GDP growth will be in the year ahead. As we discussed in our last newsletter, an inverted yield curve (when short-term bond rates are higher than long-term) remains the primary warning signal of a possible recession in the next 12-18 months. That signal is still a concern. The best-case scenario from economists is that recession is still avoidable; but there is complacency in the broad market, and some investors are overly reliant on the Federal Reserve to manage turbulence.

Any time the economy begins to slow down, it becomes more susceptible to surprise shocks. Whenever the next recession occurs, it will remind us that businesses and the economy have cycles. Cycles are natural; we will survive the next one.

Concerns Over Tariffs

Much of the volatility in the markets during the last quarter has been driven by concerns about tariffs.

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Safety in Numbers: Robo-Caller Warfare

Last year, over ***26 billion*** robocalls were placed in the US alone – that's 80 calls for every single person, over 200 for every household. This year, it's already much worse. Most of these were illegal: robocaller companies don't care about the Do Not Call Registry.

Within the last few years, technology has advanced to help suck this particular genie back into its bottle: there are reputable subscription services and apps that can block the majority of robocalls to cell phones, and physical robocall blocking devices for landlines. Some phone carriers are beginning to offer robocall blocking services as extras.

New call verification protocols, catchily named SHAKEN and STIR, have now completed testing and are ready to roll out on a wide scale. In early June, the FCC implemented a rules change to promote the use of the new protocols by all telecom carriers, and to allow robocall blocking to be the new default.

Telecom companies would prefer to pass the full cost of the new technology on to their customers, but they already have competition from the subscription services that did not wait for FCC prodding. With luck, market forces will drive down the price of robocall blocking, and we'll finally have some peace, at least on our phones.

Tariff Concerns

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Tariffs are utilized for many different reasons: protecting new industries; national security concerns; mitigating production inequities; or as a retaliation technique. In a best-case scenario, tariffs can partially equalize US trade deficits with our friendly trade partners, while restraining adversarial partners such as China. But most economists believe that tariffs and other trade barriers lead to inefficient use of resources, limiting flow of the means of production to the most economically efficient geographic location.

Consumers are the ones most likely to suffer the negative consequences of tariffs. A tariff is a tax imposed on imported goods, but tariffs work in practice like a tax on purchases. Customers pay higher prices for both imported and domestic goods, as domestic producers have more power to raise their prices.

In the last couple of years, President Trump has imposed significant tariffs on the European Union, Turkey, Russia, India, China, Canada, and Mexico. These led to retaliatory tariffs against the US by at least eight countries. In May of this year, the President increased existing tariffs on Chinese products, but removed hikes on steel and aluminum tariffs he had previously established for Canada and Mexico. In turn, those two countries reduced their own retaliatory tariffs on US goods.

Another round of tariff increases on a wide range of consumer goods is now threatened. The result would be widespread price increases for retail consumers on many everyday purchases. Meanwhile, China has been lowering its own tariffs imposed on countries other than the US, to open new markets and make its own goods more competitive elsewhere.

At the G-20 Summit in late June, which focused on world trade, the US and China agreed to restart trade talks. Perhaps a compromise can be worked out with. The US is in a stronger trade negotiating position than any other country in the world, but unless an agreement is reached, it is likely that US growth will slow and inflation will rise as a result of these policy decisions.

Sustainable Retirement Income

One of the most challenging aspects of retirement is working out how to use your savings to replace your paycheck. In a low-return environment, the strategy of our parents' generation – spending interest and dividend income, seldom tapping principal – no longer works.

Typical spending patterns change over the decades: the seventies are the "Go-Go" years, as retirees take advantage of newfound leisure time; the eighties are the "Go-Slow" years; and the nineties become the "No-Go" years, when people generally become far less mobile and begin to encounter significant health issues.

Many of our clients are seeking a prosperous retirement, where their spending doesn't decline at all when they retire and can actually increase, especially in the "Go-Go" years. Cruises aren't cheap! In the "Go-Slow" years, typical expenditure usually drops 10-20%, as less is spent on travel, entertainment and transport. In the "No-Go" years, spending increases again, because of age-related issues.

The after-tax, after-inflation income from stocks, bonds, or real estate isn't sufficient today to meet most retirees' needs. To support sustainable and robust spending levels in retirement, retirees need to create a diversified total return portfolio to provide for retirement needs, combining growth – capital appreciation – with income. This produces more spendable cash flow than relying on dividend and interest income alone.

In practice, we find that retirees who wish to support a full retirement without depleting their savings should look to keep annual spending at 3-4% of their nest egg. Flexibility in budgeting is also important: in years with lower market returns, it may be necessary to reduce your spending in order to avoid depleting savings. Withdrawing too much money from the portfolio in a poor year leaves a smaller amount of money working once the markets improve; as a result, an overtaxed portfolio never catches up.

The key to retirement income is having a plan, and the best time to start the retirement conversation is well before retirement. Once retirement begins, make a point to review your budget on a regular basis. We'll help along the way.