FALL 2017

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1510 Royal Palm Square Blvd.
Suite 103
Fort Myers, FL 33919-1068
239-936-6300 • 866-883-2658
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What is the "Best" Age to Start Collecting Social Security?

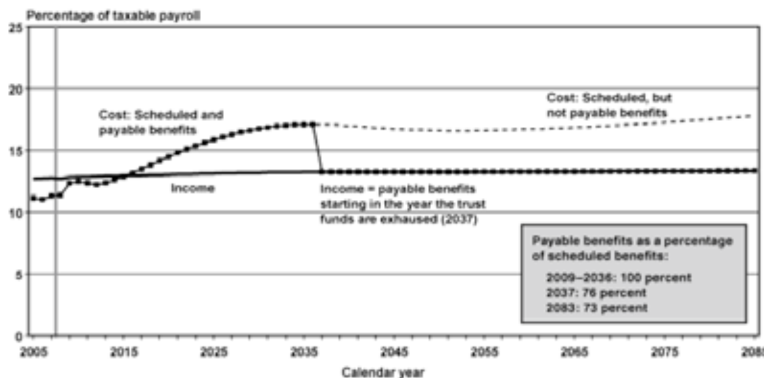
by A. Scott White, CFP®, ChFC®, CLU®
President, Scott White Advisors

People often ask me, "What is the best age to start collecting my Social Security retirement benefits? Should I take them at age 62, at full retirement age, or should I wait until age 70?"

As you may know, people have the option of receiving their Social Security retirement benefit at age 62. But if you start at age 62, you'll receive up to 25 percent less than if you waited until full retirement age at 66 or 67 (depending on the year you were born). And if you wait until age 70, you can get up to an 8 percent additional benefit for every year you postpone.[1] So, what is the "best" year to start collecting benefits?

That's a trickier question to answer than it might appear at first glance. To begin with, we must define the word "best." Often people asking this question have heard or read that Social Security is going bankrupt in 11 years or in the year 2028[2]. Therefore, the person asking the question might suspect my answer to be, "Take your retirement benefit at age 62 because who knows if anything will be left in Social Security after 2028." But this logic simply isn't true. There is no account at Social Security with your name on it that will be drained to nothing if Social Security goes bankrupt. Social Security is and has always been a pay-as-you-go benefit program, meaning currently employed workers pay taxes into the system to cover the cost of the retired workers' benefits going out. The 2028 year simply refers to the time when more benefits will be paid out than workers paying in for Social Security *disability* benefits, not *retirement* benefits.

Because of changes to Social Security enacted in 1983, both disability and retirement benefit are now expected to be payable in full on a timely basis until 2034[3] Most people do not realize that currently Social Security has $2.79 trillion in assets in reserve[3] These reserves would have to be exhausted before current benefits could be cut. The Social Security trust fund reserves are projected to become exhausted in 2035[2] At that point, the taxes continuing to be paid into the system are expected to be enough to pay 76 percent of scheduled benefits. Thus, the Congress will need to make changes to the scheduled benefits and revenue sources for the program to pay full benefits in the future. The Social Security Board of Trustees projects that changes equivalent to an immediate reduction in benefits of about 13 percent, or an immediate increase in the combined payroll tax rate from 12.4 percent to 14.4 percent, or some combination of these changes, would be sufficient to allow full payment of the scheduled benefits for the next 75 years.[4]



Individuals can still expect to receive a Social Security retirement benefit even if Congress does nothing about fixing the program until 2035. And if Congress does nothing to correct the program over the next 18 years, then people can expect their benefit to drop by about 25 percent.

The next meaning someone could reference by inquiring in the "best" age to start collecting Social Security retirement benefits is, "At what age will I collect the most dollars out of the system?" And I understand the emotion behind this statement: "I paid taxes into the system all these years, I want to make sure I get all I paid in out and then some." Again, there is no simple answer to that question,

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COMMENTARY

The Importance of Investing in Quality

by A. Scott White, CFP®, ChFC®, CLU®
President, Scott White Advisors

After the Dow Jones Industrial Average, also known as the Dow,[1] closed on August 2, 2017 above 22,000 for the first time ever, some people asked me if the stock market had reached its peak for this year. While I saw many economic prognosticators the next day on the financial television news networks make proclamations in both directions, the intellectually honest answer is, "I haven't the slightest idea." Because even if we had the underlying thesis correct for either direction before year end, all it takes is an unexpected natural disaster, geopolitical event, or terrorist attack to take place and you can throw all the forecasts out the window. And that is not the basis for a sound investment strategy. That is the basis for *speculation*.

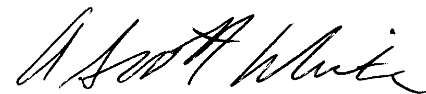
The inevitable answer, however, is the Dow is going higher. We just don't know when. (But that's not guaranteed, since I guess it's possible the entire economic system could implode.) And that is why the basis for investing is developing a sound investment strategy as part of an overall comprehensive financial plan—to make sure money will be available when you need it regardless of whether the Dow is up or down. Therefore, I believe there are only two attributes that matter for any investment: price and quality. These two attributes may not matter much to a speculator, but for the long-term investor, I believe there is nothing more important in building a sound investment strategy. In this article I'll discuss how price and quality matter in investing in equities (stocks of businesses); however, the same is true for bonds and real estate which might also make up a part of a sound investment strategy. And as far as price goes, all I will mention in this article is, if you think price doesn't matter then remember Microsoft. Despite making billions of dollars in profits the past 17 years, if you bought stock in Microsoft on December 29, 1999 for $58.72 a share, you would have needed to wait until October 21, 2016 for the stock to close at a higher price.[2] So yes, price matters.

Regarding quality, I believe that three attributes are critical to investing in stocks of publicly traded businesses. The first is to realize we are investing in highly successful businesses, not trading their stock. Or as I like to say, we are investing in businesses whose stock just happens to trade in stock markets; we are not betting on these markets to move in either direction. Most highly successful businesses are characterized as being very profitable. And not only are they profitable, but they operate in an industry where the company is a leader and it is difficult for competitors to replicate what they do. That said, it is possible to trade in the stock of unprofitable businesses and make money. Take Sears for example. Here is a company that has been losing huge amounts of money consistently in recent years.[3] It is possible that if Sears somehow manages to survive, some speculators might make a lot of money trading in Sears stock today. On the other hand, if Sears does not survive, we all know what that would mean to its stock price, so why take that chance? I prefer to invest in some of the world's most highly profitable businesses—and leave the speculation to others.

A second attribute to look for when deciding which businesses to invest in is: Does the business management team work on behalf of the shareholders, or is it trying to run the business to line their own pockets at the expense of shareholders? There are many ways to determine if a company is putting its shareholders' needs first. Most boil down to determining if the company rewards management for maximizing company value or is it focused on trying to manage earnings and providing earnings guidance. Management teams that focus on earnings expectations are often trying to manipulate share price for their own benefit.[4] I prefer management teams that focus on making strategic decisions that maximize the expected value of the business, even at the expense of lower near-term earnings, to create shareholder value. To ensure that our portfolio managers keep this principle first and foremost, I spend a lot of time discussing companies' use of free cash flow with our portfolio managers. That is why I do not mandate portfolio managers only select businesses that pay a dividend to invest in. Dividend policy is up to the CEO of the business to manage in a way to maximize shareholder value. If we own stock in a highly profitable business that is growing its earnings faster than the stock market is growing, of course I'd want the management team to plow those earnings back into activities to continue its superior growth. On the other hand, I'd expect the company to return cash to shareholders in the form of dividends when there are no credible value-creating opportunities to invest in the business and earnings of the business are not growing at a faster rate than the stock market's growth rate.

Finally, if you have a highly profitable company that puts shareholders' needs first, we want to make sure the company has a solid balance sheet that does not have too much debt. This might be the most difficult principle for an investor to adhere to, particularly when stock markets are moving higher. Since the financial crisis of 2008, interest rates have been stuck close to zero. And when Wall Street bankers approach corporate CEOs about the possibility of using the bank's money, instead of their own, to finance growth, it is tempting with such low rates. Often corporate leaders recognize it might be cheaper to use the bank's money than their own revenues to finance technology updates, marketing, research and product development. This is often referred to as 'leveraging up'. When those revenues are suddenly freed up from covering expenses, they often drop to the bottom line as corporate profits. And higher profits can lead to higher stock prices, particularly in rising markets. So it is easy for the average investor to give up on solid balance sheet businesses, whose stock price may not be rising as rapidly, and chase after companies 'leveraging up' their balance sheet. But when the next unexpected recession strikes, and the 'leveraged up' companies have difficulty paying the interest on their debt, many will disappear in a corporate takeover or go bankrupt. If an investor will stay away from these potentially ticking time bombs to start with, I believe your chances of having a portfolio designed to meet your long-term goals might be greatly enhanced.

So, whether the Dow goes higher or lower before the end of year might make for an interesting conversation for some people. But I do not believe the level of the Dow has anything to do with building a successful investment portfolio designed to meet your family's unique goals and circumstances. To build an investment portfolio you need to focus on price and quality, with a diversified portfolio structured to provide cash for you to meet your goals outlined in a comprehensive financial plan. After all, those are really the only aspects an investor has any control over. ■



[1] Individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance.
[2] Why Microsoft Stock Just Hit an All-time High by Dan Frommer, October 21, 2016.
[3] Sears has 'Substantial Doubt' that it can Survive by Chris Isidore, @CNN Money, March 23, 2017.
[4] Ten Ways to Create Shareholder Value by Alfred Rappaport, Harvard Business Review, September 2006.

Current Events

Scott and his wife, Adriana, on vacation in Chattanooga, Tennessee.

Scott and Adriana having fun on top of Rock City in Georgia.

Scott and Adriana white water rafting on the Ocoee River in Tennessee. Scott is in the white shirt and Adriana is in the blue shirt. (Their children are not in this photo.)

Scott was proud recipient of the Paul Harris award — for the 7th time. Jim Pelstring presented the award to Scott.

What is the "Best" Age to Start Collecting Social Security?

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because for me to honestly answer that question, I would have to know what year you will die, and I suspect most people can't tell me what year that will be. Obviously if you knew you were going to die at a relatively young age then the answer is clear: Take your benefit at 62. And when I point out I can't answer the question unless I know when you'll die, the question might get restated to ask, "If I took my retirement benefit at 62, and invested it until I was 70 years old, how much would my investments need to earn for me to break even at 70?" And my answer then is, "You need to earn a guaranteed annualized return of 8 percent to break even, and I do not know of any investment like that in existence." You might make more than 8 percent, but it won't be guaranteed. Besides there being no such thing as a guaranteed 8 percent investment return, most people continue working past age 62. And when that happens you'll probably need a lot more than an 8 percent return to break even. The reason? Because Social Security calculates your benefit based on your 35 years of highest earnings, and for most people with even a part time job at age 63, most likely you'll be earning more than what you were making at age 28.

What I do suggest for those who can defer collecting benefits is to wait until age 70. Of course, if you don't have the ability to wait until 70, there really is no question to ask, because you're forced to take it before then. But if you can wait, I suggest you consider the biggest risk in retirement, which is inflation. And the longer you live, the more devastating inflation is for a retiree living on a fixed income. But I suggest for people who are able to wait to 70 that I'd rather see them wait, even if it means dipping into their investment portfolio. This way they will get the highest Social Security benefit possible and all future inflation adjustments Social Security offers will be on the higher amount.

Another way to frame the question about what age to begin taking Social Security benefits is to think of your real risk in retirement: living too long. After all, if you have the means to defer to 70 before receiving benefits, and you did die young, what difference would it make when you started receiving Social Security benefits? You would not have run out of money during your lifetime. The number one thing I worry about, as a financial planner, is if there is a reasonable chance a client might run out of money in retirement. Studies have also found that poverty rates were more than 50 percent higher for people 85 and older compared to retirees in their late 60s and early 70s—suggesting that the longer you live, the more likely your money is to run out. While more recent studies have found poverty rates not quite as bad, these newer studies still confirm that older women are poorer than older men.[5] And since Social Security calculates a female widower's benefits based on the husband's Social Security benefit, I want to make sure he's receiving the biggest benefit he can get. And if he died while waiting to get his benefit at age 70, then the worst case for the widow is that Social Security would use his full retirement age (66 or 67) benefit to determine the possible widower's benefit.

So, to answer the question, "What is the 'best' age to start collecting Social Security benefits?", I answer the question with a question: What is the highest use of our Social Security retirement benefit? In my mind, there is no higher use for our benefit than to offset the risks of living too long. And if that is the intent, then my answer is to wait as long as you can if you believe you'll live to 70 and have the financial means to do it. Because if you are one of the unfortunate few living in poverty in your 90s, then having the largest Social Security will possibly make a difference. ■

[1] *Is 70 Too Late to Claim Social Security? By Todd Campbell for The Motley Fool @ CNNMoney, August 3, 2016.*
[2] *Scathing New Report Shows Just How Bankrupt Social Security Really Is by Tyler Durden, Zero Hedge, June 29, 2016.*
[3] *Is Social Security Going Broke? By Jill Schlesinger, Money. August 16, 2016.*
[4] *The Future of Financial Status of the Social Security Program by Stephan C. Goss Social Security Bulletin, Vol. 70 No. 3, 2010.*
[5] *Older Americans Aren't as Poor as We Thought by Ben Steinberg, Bloomberg News, Aug 1, 2017.*

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