



Money Minute

"Smart Ideas for Secure Finances"

**Financial Planning
&
Investing Newsletter**

APRIL 2015

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FEATURE

The Ins and Outs of Social Security Retirement Benefits

Social Security is one of the largest and most wide-reaching government programs, most well known for the retirement income benefit it provides workers. The program is fairly complex, and this month, I will run through some of the most important points about the program.

How are Social Security Benefits Funded?

Social Security is a "pay-as-you-go" system, and workers and employers each currently pay 6.2% of each worker's salary/wages up to the first \$118,500 of a worker's earnings (12.4% total). Self-employed individuals pay the entire 12.4% tax. This wage base typically increases each year. Workers who earn this amount or more in 2015 will contribute \$7,347 and \$14,694 total when the employer's share is added in.

A few other facts about the program:

-In 2013, the total Social Security expenditures were \$1.3 trillion, 37% of total federal expenditures of \$3.684 trillion.

-The 12.4% tax rate has been in place since 1990. The tax rate was 2% when

the program started in 1937 and has risen steadily since then.

How Large are Monthly Benefits?

Today, the highest monthly benefit for someone retiring at full retirement age is \$2,663 per month. This is a 1.7% jump from last year due to a cost of living adjustment. The average retirement benefit paid this year is \$1,328 per month. Full retirement age for those born in 1960 or later is 67 years old.

Individuals can increase their monthly benefit by delaying payments and will see their monthly benefit increase by 8% per year until age 70. On the flip side, individuals can elect to receive a lower benefit and start receiving benefits as early as age 62 (a roughly 30% reduction).

When Should You Elect to Start Receiving Benefits?

Social Security benefits are designed to pay roughly the same lifetime dollar amounts for individuals reaching life expectancy. Individuals who live longer than life expectancy will collect greater lifetime benefits by delaying their start date and collecting higher monthly benefits.

QUOTE OF THE MONTH

"The trouble with the world is that the stupid are cocksure and the intelligent are full of doubt."

~ *Bertrand Russell*
(British philosopher and social critic, 1872 - 1970)

DID YOU KNOW ?

A record 2,212 guns were seized from carry-on luggage in 2014, a 22% increase over 2013. 83% of guns seized were loaded.

Source: Time Magazine

Heinz to Acquire Kraft Foods, Fiat CEO Cashes in, Louisville Slugger Sold, etc.

Apple Inc. is planning to launch a Web TV service this fall. The service will offer a slimmed down offering of channels, anchored by national broadcast networks and including major cable channels like ESPN and FX. With a total of roughly 25 channels, the goal is to offer a slimmed-down lineup of channels at a cheaper price point (\$30 - \$40 per month). Traditional providers typically charge \$70 - \$100+ per month and offer hundreds of channels; Apple is targeting “cord-cutters” who refuse to pay such prices but would pay for a slimmed-down, internet-based TV service.

H.J. Heinz Co. will acquire **Kraft Foods Group** in a deal worth roughly \$49 billion. The individual companies generated over \$29 billion in revenue in 2014 and own some of the most iconic food brands in the world such as Philadelphia Cream Cheese, Oscar Mayer, Planter’s Peanuts, Kool-Aid, Cool Whip, Cheez Whiz and Heinz Ketchup. Trends toward healthier, less-processed foods have slowed sales of many brands in recent years, but Heinz owner 3G Capital Partners will attempt to rekindle growth and will certainly implement heavy cost-cutting measures.

Fiat Chrysler Automotive announced that its CEO Sergio Marchionne earned \$72 million in total compensation for 2014 after leading a successful turnaround at the company and overseeing a 61% increase in its share price. Most of the compensation comes in the form of exercised stock options and bonuses. Fiat Chrysler owns 90% of iconic Italian sportscar maker Ferrari.

The private, family-owned company that makes the **Louisville Slugger** announced it is selling the rights to the bat to Wilson Sporting Goods for \$70 million. Hillerich & Bradsby, the company that has manufactured the iconic baseball bats for more than 100 years, will continue to manufacture the bats, but they will be sold by Wilson, which is owned by Finland-based Amer Sports Corp. Amer Sports posted \$2.4 billion in sales last year, while

Hillerich is estimated to have annual sales of roughly \$100 million. Hillerich will lay off 52 employees as a result of the sale, or roughly one-fifth of its workforce.

Arizona-based company **Lipsmark LLC** has received approval for food labels for its powdered alcoholic drink mix. The Alcohol and Tobacco Tax and Trade Bureau approved labels for the product known as Palcohol, and the company now hopes to have the product on sale by this summer. The FDA has already reviewed the product and said it has no basis to block its sale; however, several states are gearing up to ban the sale of the powdered drink. The product will come in several varieties like vodka, rum, Lemon Drop, Powderita and Cosmopolitan.

A move to increase the **legal smoking age** from 18 to 21 is gaining momentum. Several cities including New York, Columbia, MO and Evanston, IL have recently raised the smoking age to match the legal drinking age, and a government-commissioned study supports the move, saying it would substantially reduce the number of 15- to 17-year olds who begin smoking. Only Congress has the power to raise the tobacco purchase age nationally. The report estimates an immediate 2% reduction in tobacco sales and an eventual reduction in the number of Americans who smoke by 12%. Currently, 16% of high school students report smoking a cigarette in the prior 30 days. In 1999, some 35% of high school students reported smoking a cigarette in the previous 30 days. The study also found that 70% of Americans and 58% of smokers support raising the purchase age.

Wal-Mart has struck a deal to become the exclusive U.S. seller of premium laundry detergent Persil. Persil is a popular brand in Europe, made by Germany’s Henkel AG. Tide is owned by Proctor and Gamble, whose brands account for 60% of U.S. laundry detergent sales and 85% of profits. Tide’s dominance in the industry is such that chains like Home Depot and Staples sell the detergent. Persil already competes fiercely with Tide in other countries around the world, where Tide is known as Ariel.

Market and Economic News

-The final revision for economic growth (measured by gross domestic product - GDP) for the 4th quarter of 2014 remained at +2.2%. We will get a first look at growth estimates for the 1st quarter of 2015 at the end of April.

-This month's Bureau of Labor Statistics employment reports showed a very weak 126,000 jobs added in March after revised gains of 201,000 and 246,000 in January and February, respectively. The unemployment rate stayed at 5.5%.

- U.S. stock market averages ended the first quarter roughly flat, with the Dow Jones Industrial Average slightly down and the S&P 500 and Nasdaq slightly up. Major market indices have not had a 10% pullback in 3 ½ years and have not posted negative returns since 2009.

At a Glance...

(as of April 10)

DJIA – 18,057

S&P 500 – 2,102

NASDAQ – 4,995

10-yr T-note – 1.95%

Q. "Regarding last month's feature story, what is the minimum amount needed to start thinking about setting up a donor-advised fund or private foundation? I'm interested in doing this but am not sure when the right time to start would be."

-Robert - Dallas, TX

A. In terms of money, most entities that sponsor donor-advised funds have minimum contribution levels of \$25,000 or thereabouts. When setting up a private foundation, there is no minimum dollar amount that must be contributed. Here are a few other things to keep in mind when pondering when to take advantage of either of these options.

First, remember that a contribution to a donor-advised fund or a private foundation that you set up during your lifetime usually implies a desire to set aside money for giving, taking a tax deduction now for the amount contributed, then giving the money away to charitable causes in subsequent years. For example, let's say you have \$50,000 of realized capital gains from investment sales during a particular year and that you figure you will owe over \$10,000 in tax on these capital gains. You then figure that a \$37,000 donation to a donor-advised fund or private foundation would yield a

tax deduction that would offset the \$10,000 in capital gains tax owed. Since you know you plan to leave a significant portion of your assets to charity, this may be an ideal time to set up and donate to a donor-advised fund or private foundation.

Alternatively, if you have charities in mind and would like simply to make \$37,000 in donations to charity this year, the same tax-deduction and offset of your capital gains tax owed would occur.

Another thing to consider is how much and when you ultimately plan to leave money to the donor-advised fund or private foundation. Donating a relatively small amount such as \$25,000 may seem too insignificant to start with, but it is more than enough to make you become familiar with how the entity operates, how to do annual filings (in the case of the private foundation), and to decide if the vehicle is something to which you'd like eventually to leave more money. It will also give you time to determine if you'd like to have a successor trustee to have the entity continue on after your death or if you'd rather the entity distribute all of your donations to charity at your death and shut down at that time.

In summary, your long-term plans will determine what you do and how much money you commit now, but in most cases, starting a donor-advised fund or private foundation now with even a modest amount of money can make a lot of sense.



YOUR HEALTH



Maligned Chemical in Plastic BPA Again Considered Safe

It has been a bumpy ride for Bisphenol-A (BPA for short), a chemical used in the production of some plastic containers and in the lining of canned goods. BPA had been widely used since the 1960s and had been considered safe until 2008, when animal studies highlighted possible risks to humans. BPA-free plastic water bottles, baby bottles, formula containers and cans, and sippy cups were then in high demand. In 2010, the FDA altered its position on BPA. It said that while human studies at low levels of exposure show the chemical to be safe, evidence from mostly animal studies were a cause for concern and that there were potential effects on the brain, behavior, and prostate glands of fetuses, infants and young children. At that time, it began a four-year review of more than 300 studies on the effects of BPA on humans to see if a revision to its position on BPA was warranted. Now completed, the FDA has confirmed that no new evidence suggests that BPA is unsafe for use in food containers for adults or children.

The studies examined show that oral BPA ingestion results in metabolism of BPA to an inactive form, resulting in much lower internal exposure. Humans metabolize and excrete BPA much more rapidly and efficiently than rodents. Less than 1% of BPA ingested by humans of all ages remains unmetabolized and in active form. Nevertheless, public pressure led many states and cities to ban the sale of some products containing BPA over the past five years, and even where formal bans do not exist, finding baby products mentioned above for sale that actually still contain BPA is very difficult today.

The FDA's recent announcement that BPA is indeed safe is not likely to change consumers' or manufacturers' behavior, but it is nice to know that exposure to BPA does not seem to present a danger to humans of all ages.

*Source(s): FDA.gov

Money Minute Trivia Question



Which comedian is replacing Jon Stewart as host of "The Daily Show," a post Stewart occupied since 1999 on the successful Comedy Central show?

- A) *Samantha Bee* B) *Craig Ferguson* C) *Michael Che* D) *Trevor Noah*

Last Month's Question – Which T.V. news anchor was recently suspended without pay for 6 months after it was discovered that he embellished reports of being in a downed helicopter in Iraq in 2003? ***A) Brian Williams** B) *Lester Holt* C) *Katie Couric* D) *Scott Pelley*

The Ins and Outs of Social Security Retirement Benefits

(Continued from page 1)

Every individual should analyze his options carefully to see when the “break even” point is between the various options. With so many possible scenarios, it would be impossible to cover every situation here, but here are a few general guidelines:

-Most financial planners encourage individuals to delay their start date as long as possible due to the significant increase (8% per year) in monthly payout.

-For married couples, the higher-earning spouse should strongly consider waiting until age 70 to receive benefits since his/her surviving spouse will continue to receive that higher benefit as a survivor benefit.

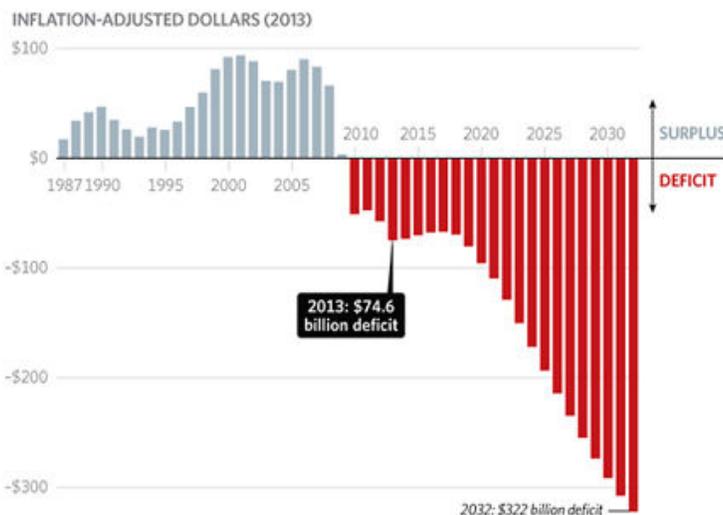
-Spouses with little or no working record can elect to receive a “spousal benefit.” At full retirement age, a spouse can receive a spousal benefit equal to one-half of his/her spouse’s full retirement age benefit.

-There are numerous calculators online that can explain the various options an individual or couple has with respect to Social Security benefits. I strongly recommend allotting several hours to fully analyze options when an individual or the older spouse turns 60.

Will Social Security Benefits Even Be There When I Retire?

In a word, yes. Again – Social Security is a pay-as-you-go system, meaning today’s payroll taxes fund today’s beneficiaries. That being said, changes will be necessary in order to continue to pay future beneficiaries at currently-planned levels. Here are the numbers:

Annual Social Security Surplus / Deficit (billions)



Source: Heritage Foundation

-Social Security took in more in payroll taxes than it paid out in benefits up until 2010. In 2010, more benefits were paid out than payroll taxes collected.

-Yearly deficits are projected to balloon in the coming years as more baby boomers retire (see chart). It should be noted that these deficit estimates have become increasingly pessimistic over the past 6-7 years.

-The program has a trust fund that has accumulated excess contributions over the years. Excess benefits have been covered by assets in this trust fund since 2010. This trust fund will be exhausted by the year 2033 according to the most recent estimates, at which point only 77% of benefits will be able to be paid.

There has been much debate as to how to “fix” Social Security, but there are several methods:

-Increase the wage base (beyond \$118,500)

-Increase the tax rate above 12.4%

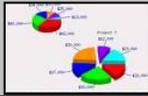
-Raise the early retirement age

-Means-test benefits, and phase out benefits for those who earn above \$48,000. This is highly unpopular, but it is an idea.

-Reduce benefits for new retirees by 3-5%, which would eliminate 18-30% of the funding gap.

Up until this point, the political will to make the changes necessary to the system has simply not been present. I’m hopeful that we will see legislation to address the shortfall within the next 5-10 years as the economy improves and more voters will tolerate a payroll tax increase, which is one of the ways I believe this situation will be addressed. **Social Security provides almost 40% of Americans’ income for those over age 65.** For those in the lowest earning 60% of the population, Social Security accounts for 75% - 86% of their income, according to Census data. In 2012, Social Security benefits alone kept 15 million Americans out of poverty. The program is simply too important for lawmakers to ignore.

Please feel free to contact my office with questions or for recommended resources related to your Social Security planning or for questions related to your retirement savings plans and income planning.



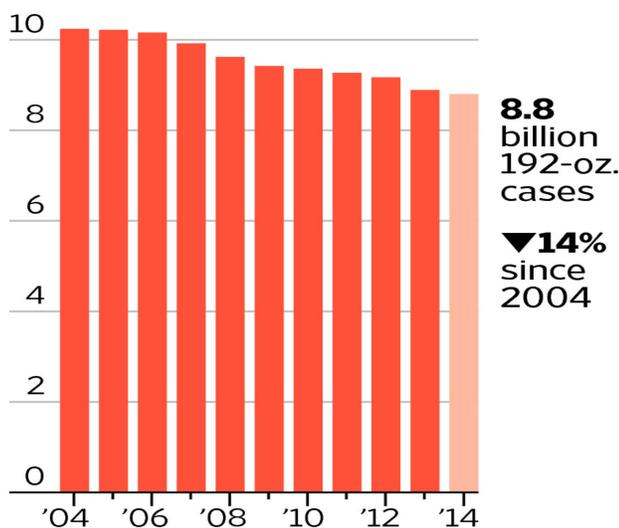
UP CLOSE

In-Depth Information for Smart Investors

U.S. Soft Drink Sales Drop for 10th Consecutive Year in 2014

It's official: U.S. soda sales are in steep decline. 2014 marked the 10th straight year of declining consumption, and current consumption levels are now 14% below 2004 levels. Overall sales of non-alcoholic beverages were up 2.2% in 2014, the majority of which was attributable to bottled water sales. Increasingly health-conscious consumers began to lose their taste for sugary soda several years ago, and more recently sales of diet sodas began to decline amid concerns about artificial sweeteners such as Aspartame. Diet Coke has held the number two spot over full-calorie Pepsi since 2010 but dropped back to number three in 2014. Pepsi-Cola sales were down 1.8% last year, but Diet Coke sales fell a whopping 6.6%, resulting in the rankings shakeup.

Carbonated Soft Drink Sales (2004 – 2014)



Top 10 Sodas by Sales Volume - 2014

- 1) Coke Classic
- 2) Pepsi
- 3) Diet Coke
- 4) Mountain Dew
- 5) Dr. Pepper
- 6) Sprite
- 7) Diet Pepsi
- 8) Fanta
- 9) Diet Mountain Dew
- 10) Coke Zero

Source(s): Wall St. Journal, Beverage Digest

Some interesting facts and figures:

-U.S. bottled water consumption totaled just under 11 billion gallons in 2014, a 7.3% increase from 2013 and the fastest rate of growth since 2006. Soda consumption, on the other hand, was down 1% to 12.76 billion gallons. Bottled water consumption is expected to overtake soda consumption by 2017 if current trends continue.

-Diet Pepsi and Diet Mountain Dew saw sales declines of 5.2% and 3%, respectively.

-Though sales volume was down, revenue on soda sales was up 1.4% last year to \$77.4 billion (retail) as soda makers raised prices and adjusted packaging sizes. U.S. bottled-water sales totaled \$13.02 billion (wholesale), and prices have dropped for the last several years due to fierce competition.

-Full-calorie Coke is the top-selling soda with a 17.6% market share. It bucked the negative trend and actually increased sales volume last year by 0.1%, its first increase since 2000.

-Ready-to-drink coffee and tea sales volume increased by 11% and 3.7%, respectively, in 2014.

Editorial: Revisiting Obama's Free Community College For All Proposal

Back in February, I wrote about the somewhat startling statistics surrounding college completion rates among students from low-income families. The correlation between median earnings and highest level of education completed is very strong, so any steps taken to help students complete degree programs would, in theory, be a positive. President Obama recently proposed offering two

years of community college to all graduating high school seniors, a step that theoretically would help more students attend and complete a college degree. With a Republican-controlled Congress, this proposal is far from becoming law at this point, but I'd still like to explore some of the pros and cons of this idea.

As for the pros, the idea of more students furthering

Editorial: Revisiting Obama's Free Community College For All Proposal

their education is a positive. Removing the cost barrier would, I assume, draw more students to community colleges. Also, more students may choose to attend community college instead of traditional 4-year public and private colleges and universities, which may force these schools to rethink their annual tuition increases. Last, it may be time to recognize that a K-12 education, to which every student in this country is entitled free of charge, is not worth what it once was and that we should extend that entitlement to include 2 years of community college.

On the flip side, the price of tuition at community college is very modest and is not likely a barrier to attendance for most students. For example, 15 credit hours at a Dallas, TX community college costs \$885, or \$59 per credit hour for a county resident for the 2014-2015 school year. As for free tuition acting as a damper on tuition increases at 4-year institutions, I don't believe that will happen. Some students already make the decision to pay minimal tuition for their first two years at community college, then transfer to four-year colleges to earn a bachelor's degree. Doing so is saving these students considerable money already...perhaps \$10,000 - \$15,000+ per year compared to in-state tuition at a public university. I doubt very much that an additional \$1,700 per year of savings will impact many students' decision, certainly not enough to alter annual tuition increases.

Some other considerations:

-According to Gary Kaplan, Executive Director of JFYNetWorks in Boston, 52% of incoming community college students don't have basic reading and math skills to do college-level coursework. Many students spend their first 1-3 semesters taking remedial, non-credit courses that don't count toward a degree.

-There is a roughly 20% graduation rate within 3 years at community colleges across the country.

-Just 12% of community college graduates go on to complete a bachelor's degree (Dept of Education).

Mr. Kaplan argues that high schools should offer free preparatory classes for college placement tests such as the Accuplacer, a test on which many students applying to community college perform miserably.

An obvious question is, how much would a free community college program cost and how would we pay for it? The state of Tennessee has a free community college program in place paid for with lottery proceeds. President Obama proposed taxing the investment growth on 529 college savings plans, an idea from which he quickly backed away after strong public backlash. As for total cost, I am unaware of any cost estimates, and it is very difficult to predict how many students would take advantage of such a program. One major problem with attempting to come up with a cost estimate is what effect this program would have on tuition prices at community colleges. The past two decades saw huge demand for and soaring tuition/fees at four-year institutions. A big part of schools' ability to raise tuition so much each year was and continues to be the easy access to federal student loans. A glut of free money would almost certainly lead to tuition hikes at community colleges if large numbers of students show up.

Another fact to consider is that recent census data shows that a professional certification or educational certificate pays off more than an associate's degree when it comes to median earnings. Creating and helping students complete more focused, vocationally-oriented certifications would be more helpful in terms of earnings power, and such programs may be particularly helpful for students from lower-income families who would benefit from spending less time (18 months to 2 years or less) in school and starting to earn money as opposed to spending 4-5 years earning a bachelor's degree. Many middle income jobs do not require a bachelor's degree, and certainly do not require much knowledge learned in college.

If the goal is to help students rise into the middle class, pushing all students toward a traditional bachelor's degree is not the only answer and is probably not the best solution, particularly for lower-achieving students. The median household income in the U.S. was just under \$52,000 in 2013. If it is just about money, many students would benefit from educational alternatives such as vocational training and certificate programs completed in partnership with private employers rather than burying themselves in student loan debt.

Comments? Send e-mail to Brad@R1FinancialGroup.com.

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