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InvestmentNews
WOMEN to WATCH

Congratulations to Karen Altfest who was honored by InvestmentNews as one of 'The 20 Most Influential Women to Watch in 2016'!

THE
Financially Savvy Woman™

Financial Topics to Live By (Continued from page 3)

not buy a competitor to a U.S. company that is more reasonably priced just because of where it is headquartered?

KCA: Do you think someone who is retired should invest the same way as someone who is working?

AA: Asset allocation comes down to a few important things: your personal financial needs and objectives, your time horizon, and your risk tolerance. When questions about asset allocation are asked, it is interesting to think about a framework we invented called Total Portfolio Management (TPM®), which is now taught at financial planning classes across the country. Under Total Portfolio Management, the biggest asset for the typical young person is their future earnings power. Investment assets can decline significantly in early years but it does not have a big effect on long-term financial goals because future earnings and portfolio contributions matter most. While a retiree does not have earnings power, most retirees replace earnings at least partially with annuities, or Social Security, which is an inflation-indexed annuity. Some retirees have pensions, others have income from insurance products.

The second variable is longevity. Americans are living longer these days. With a potentially long time horizon and the need for portfolios to last for many years, stocks which provide the potential for more growth can increase the chance one does not outlive one's money, particularly with bond yields close to historical lows. You just have to be comfortable with the more roller coaster ride stocks provide.

KCA: What about someone who wants to leave money to family members vs someone who is on her own?

AA: The first priority for most people is to maintain their standard of living through retirement. Once you know you have enough money to support your needs, you can think of how to provide money to your beneficiaries. Even if giving to family is less important, many of our clients have charities they want to support. There are ways to give money to those you care about in a tax efficient manner in accordance with your wishes. Portfolio construction is definitely tied to estate planning. For example, the more allocated to stocks the greater the potential inheritance. Questions should be asked like should money be gifted or donated today, or left in one's estate? Are you subject to Federal or State Estate Tax? If you gave now could you minimize estate tax by having portfolio growth outside of your estate? Do you have investments in your portfolio bought at low prices with a large tax liability that would not be taxable if sold upon death? Taxes, financial security, and one's wishes are important considerations in portfolio construction and should be discussed individually with Altfest and your legal and tax advisors.

KCA: Thank you all.

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Financial Topics to Live By

On November 10, 2015 at the Cornell Club Executive Vice President Karen C. Altfest moderated a panel of Altfest advisors on three topics of interest to our clients: College Plans, Social Security, and How Altfest Makes Investment Choices. Speakers were Senior Advisor Dawn Brown, Director Mike Prendergast, and Executive Vice President Andrew Altfest. Here Karen interviews the three speakers.

Karen C. Altfest: Dawn, in your opinion how does a 529 plan rank compared with some other choices in college funding?

Dawn Brown: I believe a 529 plan is a top choice to save for college. Funds grow tax free and withdrawals are tax free for qualified expenses. Some states also offer incentives to save in the form of a deduction on your state tax return for contributions made to 529 plans.

KCA: How does a 529 Plan work?

DB: 529 plans are operated by the state, which chooses the investment manager for the program. The account owner opens a plan and names the future student as beneficiary. The account owner chooses the investments in the plan which can be changed once per year. Withdrawals from 529 plans can be paid directly to the school, the beneficiary or the account owner.

KCA: Are there other tax benefits?

DB: Qualified withdrawals which are tax free, include tuition, fees and room and board. Some states, like New York and Connecticut offer a tax deduction of up to $5,000 ($10,000 for a married couple) for contributions to 529 plans.

KCA: Are there limits to funding a plan?

DB: Each state sets an overall limit for contributions. In New York the limit is $375,000, New Jersey $305,000 and Connecticut $300,000. Contributions are classed as gifts to the beneficiary. The annual gift exclusion allows you to gift $14,000 to an individual. A special rule applies to 529 plans allowing you to gift 5 years' worth of gifts in one year, currently $70,000.

KCA: Does having a 529 Plan for a student make getting aid less likely and if so are there ways to work around this?

DB: Assets in a 529 plan are counted as if they were held in a parent's account and up to 5.64% is counted as being available to pay for college. This is more favorable than funds directly in the child's name where 20% is considered available to pay for college.

KCA: Should you invest in the donor's state, the student's state, or any state you

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Altfest professionals Mike Prendergast, Dawn Brown, Karen Altfest and Andrew Altfest

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choose?

DB: It is best to do some research to determine the answer. Check to see if your state offers a tax deduction for contributions or if the state the student resides in offers a scholarship for opening a 529 plan. You can also open a plan in more than one state to try and take advantage of both benefits.

KCA: Mike, we've read so much about Social Security lately. Is it running out of money? If so, who will be affected?

Mike Prendergast: According to the latest estimates provided on the Social Security Administration's website, the Social Security trust fund will be able to pay out 100 percent of the benefits that people are entitled to until at least 2033. After that, the trust fund will still be able to pay out approximately 75 percent of the benefits to which people are entitled even if no changes are made to improve its financial longevity. We believe that for people who are close to their Social Security full retirement age, no major cuts will be made. For people more than 10 years away from their Social Security full retirement age, more significant reductions in benefits are possible.

KCA: How should people choose when to take their Social Security?

MP: Look at several factors including the benefits you are entitled to at various ages, your marital status and if you have dependent children, your family and your personal health history, and whether you will want to take your Social Security earlier depending on when you retire. For a married couple, there are at least several hundred different Social Security benefit claiming options; we use sophisticated software to help us evaluate all the possible choices.

KCA: I've heard people talk about how long it takes to catch up if you opt for a smaller amount sooner. Is there a formula for this?

MP: Assuming you are in good health and expect to live to be at least 82, it usually makes sense to delay taking Social Security retirement benefits on your own work record until age 70. By taking your Social Security benefits earlier, you will be getting payments for a longer period of time which can seem attractive, but it usually is more financially advantageous to delay taking benefits assuming you think the likelihood of your living to age 82 or over is good.

> ***"An investment process is important because it is clear, repeatable and allows our clients to understand why investment decisions are made."***
>
> ***- Andrew Altfest***

KCA: Are there benefits to waiting until you are older?

MP: Waiting until you are older to take your Social Security payments provides you with definite benefits. First, delaying usually provides you with the largest financial benefit assuming you live at least up to a certain age. Second, by delaying your Social Security until later, your monthly benefit amount when you do start could be significantly bigger, e.g. your monthly benefit will be 32 percent bigger if you take it at age 70 versus taking it at age 66 (assuming age 66 is your full retirement age). That means more money to enjoy in your retirement, to help your children or grandchildren, your favorite charities or to leave to your heirs. Delaying the Social Security benefit on your own work record may enable your spouse, if he / she survives you, to receive a larger survivor benefit, which could help ensure they continue to have the financial peace of mind

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Financial Topics to Live By

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in retirement you wish for them.

KCA: I know people who are worried about their investments, but not as concerned about Social Security. Is Social Security part of their investments?

MP: Social Security can be seen as part of one's investment portfolio. The reason is that, when you look at it closely, it acts very similarly to a government, inflation indexed bond (the main difference being that, unlike a bond, you will not get a return of principal at a final maturity date). Because it is so bond-like in nature, one can count it as part of one's investment portfolio and make the rest of the investment portfolio, if one is comfortable with doing so, somewhat more aggressive.

KCA: How much of Social Security is a personal decision, and how much works the same for everybody?

MP: The rules are the rules so when we crunch the numbers, we will come up with the same purely financial recommendation for people with the same financial and demographic situations. One always needs to take into account the psychological and emotional perspectives of each client. We provide the best financial counsel, but the ultimate decision lies with clients as it has to be a decision that the client feels comfortable with.

KCA: Andrew, what does the Portfolio Action Group at Altfest do?

Andrew Altfest: The Portfolio Action Group is the body that sets strategy and makes recommendations to the investment committee to vote on. Members of the Action Group, including myself, work closely with the analysts of the firm to research existing and new investments. A lot of our time is spent on researching new investments.

KCA: Do you have special areas of the market that you follow?

AA: Unlike the firm's analysts, members of our Portfolio Action Group are free to take on any assignment. We are value investors so we frequently look at parts of the markets that have sold off that we feel could represent "value."

KCA: How do you make choices for client portfolios?

AA: We start with a broad view of the economy. Where are we in the economic cycle? How does Fed and Fiscal policy factor in? Then we look at the areas of the market. We combine the broader economic outlook with valuations of various parts of the market, which is expressed quantitatively. We want to invest where we feel investors are paid to take risk. If expectations are high for an investment, disappointment can cause an investment to sell off very quickly as sentiment changes. If sentiment is low, bad news is already priced in and positive change can lift the investment.

We often find ourselves looking at areas of the market that have lagged. We are not afraid to stand out from the crowd and wait for sentiment to change. That does not mean we buy indiscriminately. We ask ourselves, "What are the risks?"

KCA: With recent changes in Europe, how do you and the firm feel about investing today?

AA: It may be difficult to fathom in terms of very recent events, but we feel overall the shorter term European financial story is improving. Europe is at a different point in its cycle than the U.S., which is more mature. The U.S. is preparing to raise rates and has begun to withdraw its stimulus. The European central bank has its foot on the accelerator. The depreciation of the euro has made its exports more competitive. Lower oil prices are a boon to consumers. Valuations in certain parts of the European markets are relatively attractive after years of underperformance. Today markets are global in nature; why

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Altfest professionals are often asked to speak on wealth management topics. If you know of an organization or group of friends who might benefit from our educational sessions, please contact Reza Rezvi at rrezvi@altfest.com or (212) 406-0850.

Recent topics include:

- Strategies for Achieving a Secure Retirement
- Economic Outlook
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