

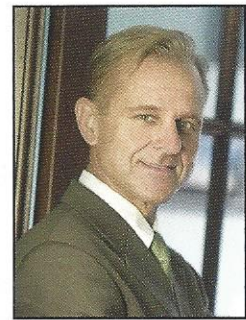
# On Balance

Enjoying Today, Preparing for Tomorrow



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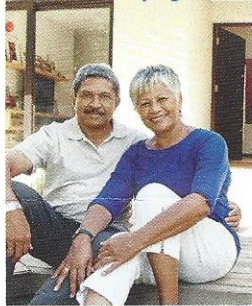


## Don't Forget Dad

Father's Day is June 19. The most popular gifts last year were "experience gifts" such as sports tickets, a round of golf, and a special dinner with the family, followed by clothing, such as a new dress shirt or a tie.

Source: National Retail Federation, 2015

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## Home-Sweet-Home Equity

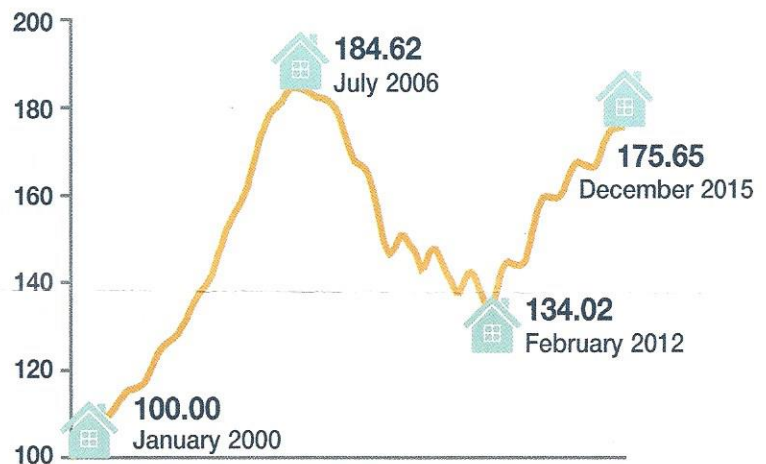
Having substantial equity in your home — or owning it outright — can help strengthen your financial position in retirement.

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## Rising Housing Values

The national average price for single-family homes had almost recovered to its pre-recession high by the end of 2015. This chart shows housing values based on the S&P/Case-Shiller National Home Price Index, which uses a point scale rather than dollar values to represent changing prices.



Source: S&P/Case-Shiller U.S. National Home Price Index for the period 1/1/2000 to 12/31/2015

PRACTICAL INSIGHTS FOR YOUR FINANCIAL GOALS

# Home-Sweet-Home Equity

Buying a home is a long-term commitment, so it's not surprising that older Americans are much more likely than younger Americans to own their homes "free and clear." On average, only about 36% of owner-occupied housing units in the United States do not have a mortgage. For units occupied by homeowners who are 65 and older, the rate is more than 65%.<sup>1</sup>

If you have paid off your mortgage or anticipate doing so by the time you retire, congratulations! Owning your home outright can help provide financial flexibility and stability during your retirement years. Even if you still have mortgage payments, the equity in your home is a valuable asset. Here are some considerations.

## Enjoy Lower Expenses

If you are happy with your home and don't need to tap the equity, living free of a monthly mortgage could make a big difference in stretching your retirement dollars. It's almost as if you had saved enough extra to provide a monthly income equal to your mortgage. You will still have to pay property taxes and homeowners insurance, but these expenses are typically smaller than the principal and interest on a mortgage.

## Consider Downsizing

If you sell your home and purchase another one outright with cash to spare, the additional funds

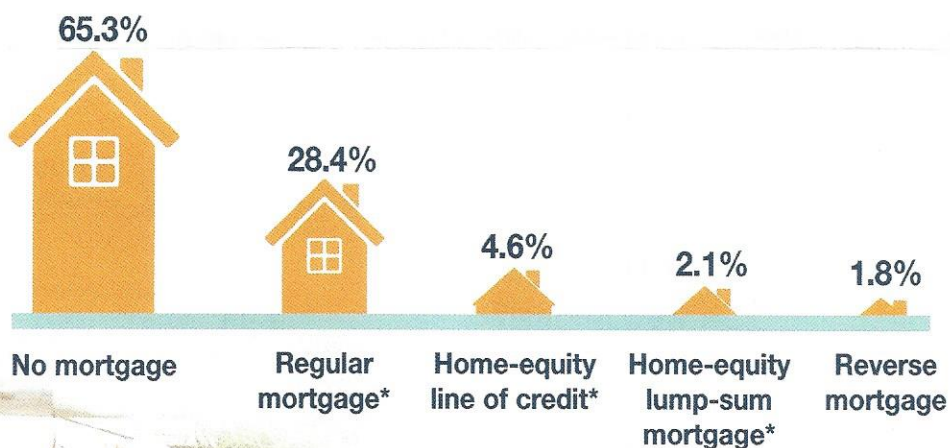
could boost your savings and provide additional income. On the other hand, if you take out a new mortgage, you may set yourself back financially. Keep in mind that condominiums, retirement communities, and other planned communities typically have monthly homeowners association dues. On the plus side, these dues generally pay for maintenance services and facilities that could make your retirement more enjoyable.

## Borrow from Home Equity

If you stay in your home and want money for a specific purpose, such as remodeling the kitchen or fixing the roof, you might take out a home-equity loan. If instead you'll need funds over several years, such as to pay for college or medical expenses, you might prefer a home-equity line of credit (HELOC). Home-equity financing may offer tax-deductible home mortgage interest and favorable interest rates because your home secures the loan. However, you are taking on another monthly payment, and

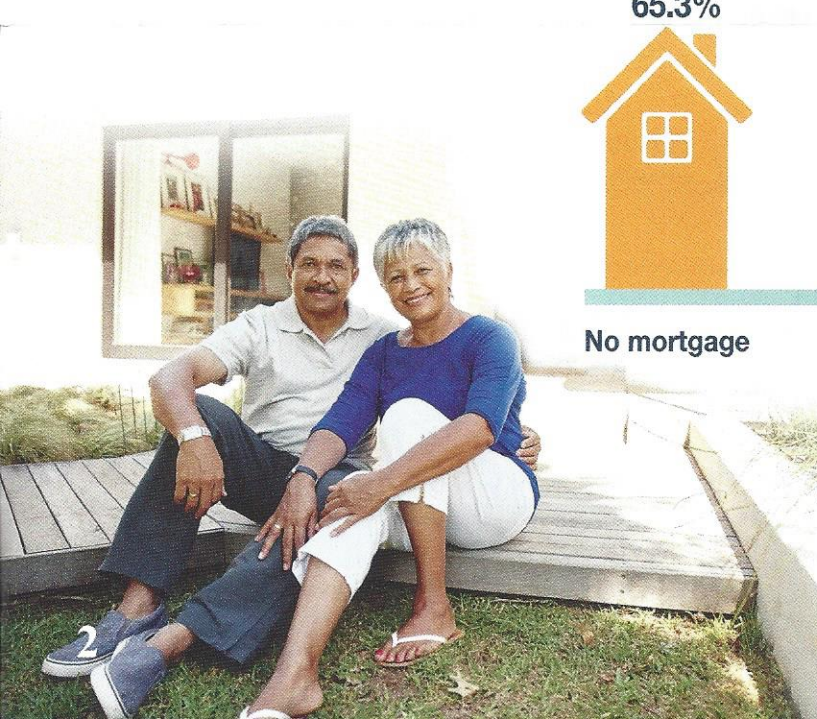
## MORTGAGED OR NOT?

Type of mortgage on owner-occupied housing units among households 65+



\*Total is higher than 100% because more than one starred category may apply to a unit.

Source: U.S. Census Bureau, 2015 (2013 data)



the lender can foreclose on your home if you fail to repay the loan. In addition, you may have to pay closing costs and other fees to obtain the loan.

### Shift into Reverse

If you are 62 or older and want to borrow money from the value of your home equity without making monthly payments, you might consider a Home Equity Conversion Mortgage (HECM), commonly called a reverse mortgage. For this type of FHA loan, you must own the property outright or have a small mortgage balance. The loan can be structured as a fixed-rate lump-sum payment, similar to a home-equity loan, or as an adjustable-rate line of credit, similar to a HELOC. A reverse mortgage also may be used to finance approximately half the purchase price of a new home, but you must pay the rest of the cost using other funds, such as savings.

A home-equity loan and a HELOC must be paid off after a set period, but you don't have to pay back a reverse mortgage as long as you continue living in the home and pay property taxes and insurance premiums in a timely manner. However, interest accumulates and the loan must be repaid after you stop living in the home for one year or more, so you or your heirs could eventually be forced to sell the home, risking exposure to the uncertainties of the housing market. Reverse mortgages typically involve higher fees than home-equity loans or HELOCs.

1) U.S. Census Bureau, 2015

# Happy Birthday Benefits

Remember when you turned 16 and rushed to get your driver's license? Or earned the right to vote at 18 and enjoyed the privileges and responsibilities of adulthood at 21? There aren't many legal changes associated with birthdays after that until you turn 50, and then there are plenty. Here's a brief overview.

**50** — Additional "catch-up" contributions can be made to most retirement plans. In 2016, the IRA catch-up is \$1,000, for an annual total of \$6,500 to all IRAs combined. A \$6,000 catch-up contribution can be made to a 401(k), 403(b), or 457 plan, for an annual total of \$24,000.

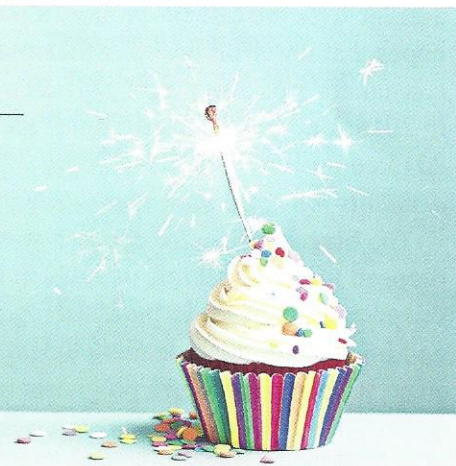
**55** — You (and your spouse if he or she is 55 or older) can make additional contributions to a health savings account (HSA) as long as you are not enrolled in Medicare. In 2016, the additional amount is \$1,000, for a total of \$4,350 for an individual plan or \$7,750 for a family plan (\$8,750 with spouse).

**59½** — Penalty-free withdrawals can be taken from IRAs, annuities, and employer-sponsored retirement plans as long as certain conditions are met. Distributions from tax-deferred plans are generally taxed as ordinary income. *Warning: Just because you can dip into the account doesn't mean you should. The longer the funds remain untouched, the more time they have to pursue potential growth.*

## Eligibility for Social Security

| Birth year     | Full retirement age |
|----------------|---------------------|
| 1943–54        | 66                  |
| 1955           | 66 and 2 months     |
| 1956           | 66 and 4 months     |
| 1957           | 66 and 6 months     |
| 1958           | 66 and 8 months     |
| 1959           | 66 and 10 months    |
| 1960 and later | 67                  |

Source: Social Security Administration, 2016



**62** — You become eligible to collect early Social Security benefits (if you have contributed enough to qualify). However, your benefit will be permanently reduced by 25% to 30%, depending on your year of birth.

**65** — Eligibility for Medicare begins if you or your spouse worked at least 10 years in Medicare-covered employment. *Warning: If you miss your initial enrollment period for Medicare Part B, you may incur a penalty if you sign up at a later date. Visit [medicare.gov](http://medicare.gov) to determine your enrollment date.*

**66 to 67** — When you reach your full retirement age, you can receive your full Social Security benefit (see table). For each month you wait to file after full retirement age, up to age 70, you will receive a higher benefit amount.

**70** — This is the age when you would receive your maximum Social Security benefit (about 132% of the full retirement benefit).

**70½** — Required minimum distributions (RMDs) must begin from traditional IRAs and most employer-sponsored retirement plans. The required beginning date (the latest date to take your first distribution) is April 1 of the year after the year in which you turn 70½; subsequent RMDs must be taken annually by December 31. *Warning: Neglecting to take your RMD could result in a 50% penalty on the amount that should have been withdrawn.*

# Is Slow Growth the New Normal?

The U.S. economy grew 2.4% in 2015, matching the 2014 rate and exceeding the annual 2.1% average from 2010 to 2015 — the full six-year period following the Great Recession.<sup>1</sup> Yet many observers were disappointed. What's wrong with 2.4% growth? Here is some perspective behind the numbers.

## Measuring the Economy

The fundamental measure of the nation's economy is gross domestic product (GDP), the value of the total output of goods and services. When economists refer to economic growth or contraction, they are generally referring to the change in "real" GDP, which is measured in constant, inflation-adjusted dollars — currently pegged to the value of the dollar in 2009.

For the 30-year period leading up to the Great Recession (1977–2006), real GDP grew at a 3.2% average annual rate. This average includes three recessions when GDP decreased and 11 years of growth of 4% or higher.<sup>2</sup>

Considering this long-term performance, the 2.1% average over the last six years is tepid at best. There were hopes that lower oil prices, which put more money in consumers' pockets, might provide a lift to the economy in 2015. But growth in consumer spending slowed in 2015 compared with 2014.<sup>3</sup> (*Consumer spending typically accounts for more than two-thirds of GDP.*)

The biggest cause for concern was that GDP growth dropped to an annual rate of 1.4% in the fourth quarter, driven by a decrease in business investment and exports and lower consumer spending during the holiday season.<sup>4</sup> Even so, the longer-term prognosis remains moderate.

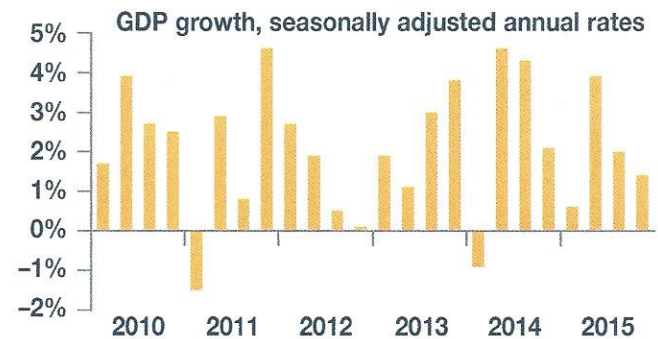
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*Are you concerned about how current economic trends could affect your retirement strategy?  
Call for an appointment.*

*Charles Blozinski, CFP® offers his clients over 25 years of financial services experience.  
He provides independent, unbiased financial advice in a fee-only environment  
and does NOT accept commissions.*

## BUMPY RECOVERY

**Inconsistent quarterly GDP performance has slowed the economic recovery.**



Source: U.S. Bureau of Economic Analysis, 2016

In March 2016, the Federal Reserve projected 2.2% growth in 2016 and a long-term trend of 2.0%.<sup>5</sup>

## Stronger Employment

Despite slow GDP growth, the number of jobs grew faster in both 2014 and 2015 than the pre-recession average, and in January 2016 the unemployment rate dropped to 4.9%, the lowest since February 2008.<sup>6-7</sup> Wages have begun to increase after a long period of stagnation, job openings have surged, and more workers are quitting their jobs — presumably to look for new ones.<sup>8</sup> The next few years may reveal whether slow but steady growth is indeed the "new normal" and how Americans may fare in a slower economy with solid employment.

1-4) U.S. Bureau of Economic Analysis, 2016

5-6) Federal Reserve, 2016

7) U.S. Bureau of Labor Statistics, 2016

8) Reuters, February 9, 2016