



## Docsa Capital Management, Inc.

Tim Schauer, CFA, CPA  
Sophit Lee, CFP®  
1210 W. Milham Ave.  
Suite 201  
Portage, MI 49024  
269-488-2322 x2  
TeamDCMI@docsacapital.com  
www.docsacapital.com

This issue contains practical tips in financial planning, as well as some updates on trends in higher education.

We welcome your questions and discussions on topics featured in this or previous issues. Your feedback is also very welcome.

Thank you for sharing this newsletter with your family and friends.

### October 2016, Volume 31

Projecting a Happy Retirement

How to Get a Bigger Social Security Retirement Benefit

What's New in the World of Higher Education?

Should I pay off my student loans early or contribute to my workplace 401(k)?



## Projecting a Happy Retirement



A 2015 study found that 41% of households headed by someone aged 55 to 64 had no retirement savings, and only about a third of them had a traditional pension. Among households in this age group with savings, the median amount was just \$104,000.<sup>1</sup>

Your own savings may be more substantial, but in general Americans struggle to meet their savings goals. Even a healthy savings account may not provide as much income as you would like over a long retirement.

Despite the challenges, about 56% of current retirees say they are very satisfied with retirement, and 34% say they are moderately satisfied. Only 9% are dissatisfied.<sup>2</sup>

### Develop a realistic picture

How can you transition into a happy retirement even if your savings fall short of your goals? The answer may lie in developing a realistic picture of what your retirement will look like, based on your expected resources and expenses. As a starting point, create a simple retirement planning worksheet. You might add details once you get the basics down on paper.

### Estimate income and expenses

You can estimate your monthly Social Security benefit at [ssa.gov](http://ssa.gov). The longer you wait to claim your benefits, from age 62 up to age 70, the higher your monthly benefit will be. If you expect a pension, estimate that monthly amount as well. Add other sources of income, such as a part-time job, if that is in your plans. Be realistic. Part-time work often pays low wages.

It's more difficult to estimate the amount of income you can expect from your savings; this may depend on unpredictable market returns and the length of time you need your savings to last. One simple rule of thumb is to withdraw 4% of your savings each year. At that rate, the

\$104,000 median savings described earlier would generate \$4,160 per year or \$347 per month (assuming no market gains or losses). Keep in mind that some experts believe a 4% withdrawal rate may be too high to maintain funds over a long retirement. You might use 3% or 3.5% in your calculations.

Now estimate your monthly expenses. If you've paid off your mortgage and other debt, you may be in a stronger position. Don't forget to factor in a reserve for medical expenses. One study suggests that a 65-year-old couple who retired in 2015 would need \$259,000 over their lifetimes to cover Medicare premiums and out-of-pocket health-care expenses, assuming they had only median drug expenses.<sup>3</sup>

### Take strategic steps

Your projected income and expenses should provide a rough picture of your financial situation in retirement. If retirement is approaching soon, try living for six months or more on your anticipated income to determine whether it is realistic. If it's not, or your anticipated expenses exceed your income even without a trial run, you may have to reduce expenses or work longer, or both.

Even if the numbers look good, it would be wise to keep building your savings. You might take advantage of catch-up contributions to IRAs and 401(k) plans, which are available to those who reach age 50 or older by the end of the calendar year. In 2016, the IRA catch-up amount is \$1,000, for a total contribution limit of \$6,500. The 401(k) catch-up amount is \$6,000, for a total employee contribution limit of \$24,000.

Preparing for retirement is not easy, but if you enter your new life phase with eyes wide open, you're more likely to enjoy a long and happy retirement.

<sup>1</sup> U.S. Government Accountability Office, "Retirement Security," May 2015

<sup>2</sup> *The Wall Street Journal*, "Why Retirees Are Happier Than You May Think," December 1, 2015

<sup>3</sup> Employee Benefit Research Institute, Notes, October 2015

## How to Get a Bigger Social Security Retirement Benefit



Sign up for a my Social Security account at [ssa.gov](http://ssa.gov) to view your online Social Security Statement. It contains a detailed record of your earnings, as well as benefit estimates and other information about Social Security.

<sup>1</sup> Social Security Administration, Annual Statistical Supplement, 2015

Many people decide to begin receiving early Social Security retirement benefits. In fact, according to the Social Security Administration, about 72% of retired workers receive benefits prior to their full retirement age.<sup>1</sup> But waiting longer could significantly increase your monthly retirement income, so weigh your options carefully before making a decision.

### Timing counts

Your monthly Social Security retirement benefit is based on your lifetime earnings. Your base benefit--the amount you'll receive at full retirement age--is calculated using a formula that takes into account your 35 highest earnings years.

If you file for retirement benefits before reaching full retirement age (66 to 67, depending on your birth year), your benefit will be permanently reduced. For example, at age 62, each benefit check will be 25% to 30% less than it would have been had you waited and claimed your benefit at full retirement age (see table).

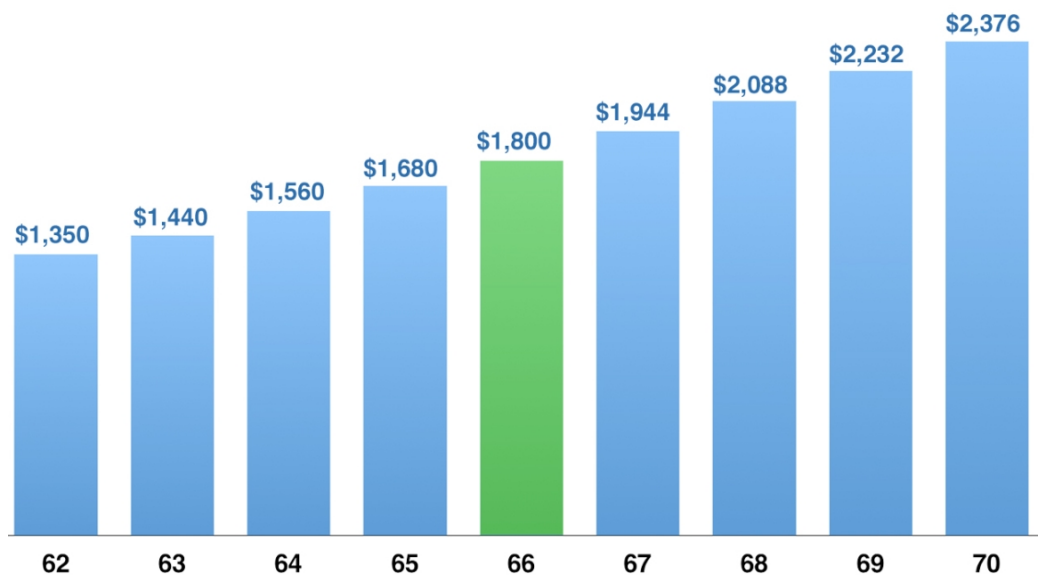
Alternatively, if you postpone filing for benefits past your full retirement age, you'll earn delayed retirement credits for each month you wait, up until age 70. Delayed retirement credits will increase the amount you receive by about 8% per year if you were born in 1943 or later.

The chart below shows how a monthly benefit of \$1,800 at full retirement age (66) would be affected if claimed as early as age 62 or as late as age 70. This is a hypothetical example used for illustrative purposes only; your benefits and results will vary.

Birth year	Full retirement age	Percentage reduction at age 62
1943-1954	66	25%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 or later	67	30%

### Early or late?

Should you begin receiving Social Security benefits early, or wait until full retirement age or even longer? If you absolutely need the money right away, your decision is clear-cut; otherwise, there's no "right" answer. But take time to make an informed, well-reasoned decision. Consider factors such as how much retirement income you'll need, your life expectancy, how your spouse or survivors might be affected, whether you plan to work after you start receiving benefits, and how your income taxes might be affected.



## What's New in the World of Higher Education?



### Tools for students

The Department of Education and the Consumer Financial Protection Bureau have launched the "Know Before You Owe" campaign, which includes a standard financial aid award letter for colleges to use so that students can better understand the type and amount of aid they qualify for and more easily compare aid packages from different colleges. In addition, to help students search for and select suitable colleges, the Department has launched its College Scorecard online tool at [collegescorecard.ed.gov](http://collegescorecard.ed.gov).

### Sources

<sup>1</sup> College Board, *Trends in College Pricing 2015*

<sup>2</sup> The Institute for College Access and Success, *Student Debt and the Class of 2014*, October 2015

<sup>3</sup> Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*, November 2015

If you're a parent or grandparent of a college student or soon-to-be college student, you might be interested to learn what's new in the world of higher education.

### Higher college costs

Total average costs for the 2015/2016 school year increased about 3% from the previous year: \$24,061 for public colleges (in-state), \$38,855 for public colleges (out-of-state), and \$47,831 for private colleges.<sup>1</sup>

Total average costs include direct billed costs for tuition, fees, room, and board; and indirect costs for books, transportation, and personal expenses. Together, these items are officially referred to as the "total cost of attendance." Note that the cost figure for private colleges cited by the College Board is an average; many private colleges cost substantially more--over \$60,000 per year.

### Higher student debt

Seven in 10 college seniors who graduated in 2014 (the most recent year for which figures are available) had student loan debt, and the average amount was \$28,950 per borrower.<sup>2</sup> It's likely this amount will be higher for the classes of 2015 and 2016.

Student loan debt is the only type of consumer debt that has grown since the peak of consumer debt in 2008; balances have eclipsed both auto loans and credit cards, making student loan debt the largest category of consumer debt after mortgages. As of September 2015, total outstanding student loan debt was over \$1.2 trillion.<sup>3</sup>

### Reduced asset protection allowance

Behind the scenes, a stealth change in the federal government's formula for determining financial aid eligibility has been quietly (and negatively) impacting families everywhere. You may not have heard of the asset protection allowance before. But this figure, which allows parents to shield a certain amount of their nonretirement assets from the federal aid formula, has been steadily declining for years, resulting in higher expected family contributions for families. For the 2012/2013 year, the asset protection allowance for a 47-year-old married parent was \$43,400. Today, for the 2016/2017 year, that same asset protection allowance is \$18,300--a drop of \$25,100. The result is a \$1,415 decrease in a student's aid eligibility (\$25,100 x 5.64%, the federal contribution percentage required from parent assets).

### New FAFSA timeline

Beginning with the 2017/2018 school year, families will be able to file the government's

financial aid application, the FAFSA, as early as October 1, 2016, rather than having to wait until after January 1, 2017. The intent behind the change is to better align the financial aid and college admission timelines and to provide families with information about aid eligibility earlier in the process.

One result of the earlier timeline is that your 2015 federal income tax return will do double duty as a reference point for your child's federal aid eligibility--it will be the basis for the FAFSA for *both* the 2016/2017 and 2017/2018 years.

School Year	Tax Return Required	FAFSA Earliest Submission
2016/2017	2015	January 1, 2016
2017/2018	2015	October 1, 2016
2018/2019	2016	October 1, 2017

### American Opportunity Tax Credit now permanent

The American Opportunity Tax Credit was made permanent by the Protecting Americans from Tax Hikes Act of 2015. It is a partially refundable tax credit (meaning you may be able to get some of the credit even if you don't owe any tax) worth up to \$2,500 per year for qualified tuition and related expenses paid during your child's first four years of college. To qualify for the full credit, single filers must have a modified adjusted gross income (MAGI) of \$80,000 or less, and joint filers must have a MAGI of \$160,000 or less. A partial credit is available for single filers with a MAGI over \$80,000 but less than \$90,000, and for joint filers with a MAGI over \$160,000 but less than \$180,000.

### New REPAYE plan for federal loans

The pool of borrowers eligible for the government's Pay As You Earn (PAYE) plan for student loans has been expanded as of December 2015. The new plan, called REPAYE (Revised Pay As You Earn), is available to *all* borrowers with federal Direct Loans, regardless of when the loans were obtained (the original PAYE plan is available only to borrowers who took out loans after 2007).

Under REPAYE, monthly student loan payments are capped at 10% of a borrower's discretionary income, with any remaining debt forgiven after 20 years of on-time payments for undergraduate loans and 25 years of on-time payments for graduate loans. To learn more about REPAYE or income-driven repayment options in general, visit the federal student aid website at [studentaid.gov](http://studentaid.gov).



## Docsa Capital Management, Inc.

Tim Schauer, CFA, CPA  
Sophit Lee, CFP®  
1210 W. Milham Ave.  
Suite 201  
Portage, MI 49024  
269-488-2322 x2  
TeamDCMI@docsacapital.com  
www.docsacapital.com

**DISCLAIMER:** The views expressed in this publication do NOT represent our recommendations to buy or sell a particular investment or product for you, or a solicitation for your business. The information and material presented are for general purposes only and do not specifically address your individual investment objectives or financial situation. Always evaluate your own situation and consult your advisor(s) before you take any action.



## Should I pay off my student loans early or contribute to my workplace 401(k)?

For young adults with college debt, deciding whether to pay off student loans early or contribute to a 401(k) can be tough. It's a financial tug-of-war between digging out from debt today and saving for the future, both of which are very important goals. Unfortunately, this dilemma affects many people in the workplace today. According to a student debt [report](#) by The Institute for College Access and Success, nearly 70% of college grads in the class of 2014 had student debt, and their average debt was nearly \$29,000. This equates to a monthly payment of \$294, assuming a 4% interest rate and a standard 10-year repayment term.

Let's assume you have a \$300 monthly student loan payment. You have to pay it each month--that's non-negotiable. But should you pay more toward your loans each month to pay them off faster? Or should you contribute any extra funds to your 401(k)? The answer boils down to how your money can best be put to work for you.

The first question you should ask is whether your employer offers a 401(k) match. If yes, you

shouldn't leave this free money on the table. For example, let's assume your employer matches \$1 for every dollar you save in your 401(k), up to 6% of your pay. If you make \$50,000 a year, 6% of your pay is \$3,000. So at a minimum, you should consider contributing \$3,000 per year to your 401(k)--or \$250 per month--to get the full \$3,000 match. That's potentially a 100% return on your investment.

Even if your employer doesn't offer a 401(k) match, it can still be a good idea to contribute to your 401(k). When you make extra payments on a specific debt, you are essentially earning a return equal to the interest rate on that debt. If the interest rate on your student loans is relatively low, the potential long-term returns earned on your 401(k) may outweigh the benefits of shaving a year or two off your student loans. In addition, young adults have time on their side when saving for retirement, so the long-term growth potential of even small investment amounts can make contributing to your 401(k) a smart financial move.

*All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.*



## I'm thinking about asking my parents to move in with me and my family. Is there anything I need to consider?

Many members of the "sandwich generation"--a group loosely defined as people in their 40s to 60s who are "sandwiched" between caring for their own children and aging parents--find themselves in the position of raising a family and looking after the needs of aging parents. If the time has come when you and your parents think that it may be in their best interest to live with you, you should discuss the implications and how it will impact your entire family.

Your first topic should be to have all your family members share their expectations for living together. No doubt your parents will want to feel part of your household. However, you'll want to know how much they want to participate in day-to-day activities in your home. For example, if able, would they be willing to take on some responsibilities, such as babysitting and transporting kids to school or other activities? Will they participate in other family activities, such as meals and social events?

Next, consider whether your home can properly accommodate your parents. Do you have adequate privacy/space for your parents, or will

you need to remodel or renovate an existing area of your home? Will your parents be able to move around your home easily, or do you need to install appropriate safety devices? Common modifications and repairs for aging family members may include grab bars in bathrooms, an automatic chair lift for stairs, and a ramp for wheelchair access.

You will also need to explore the financial impact. Will your parents contribute to household expenses, or will you cover their portion? Do they have enough money to help support themselves during their retirement? If not, will you be able to support them financially?

While having multiple generations living together in the same home can be a rewarding experience, it can also be challenging at times. As a result, it's important to keep the lines of communication open between you, your spouse, your children, and your parents. Doing so can help ensure a happy and healthy home environment for your entire multigenerational family.