

Aging, Challenged and Changed: How Current Conditions Impact Estate Planning Advice

Spokane Estate Planning Council

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Post Great Recession

- ▶ A Scarred Population-Not Unlike Their Parents, Grand Parents or Great Grand Parents Post 1930s
- ▶ Old Issues Reborn-Secular Stagnation
- ▶ A World of Zeros- 0 Inflation, 0 Interest Rates and 0 Growth in Q1
- ▶ A Focus on Income and Distribution
- ▶ Risk Shift to Individual-401K Not Defined Benefit

Household Well Being 2008-2013

Post Great Recession

Source: Fed 2014

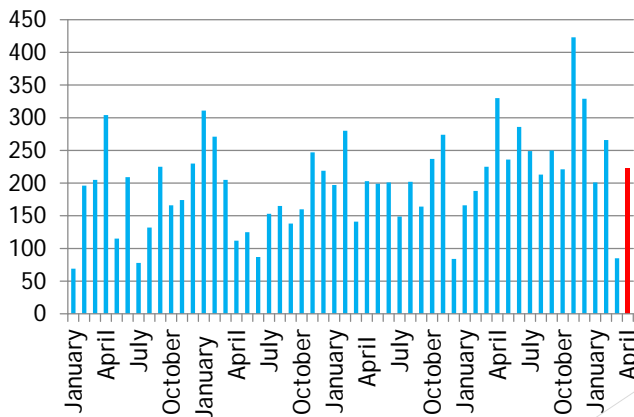
- ▶ Post Recession: 34% Worse Off Than 5 Years Ago, 34% Same and 30% Better
- ▶ *42 % Delayed a Purchase and 18% a Major Life Decision*
- ▶ 45% Believed that Home Value Lower than 2008-Owned More than 5 Years
- ▶ Renters-45% Lacked Down Payment and 28% Inability to Qualify
- ▶ *SCF 2010-2013 Real Mean Family Income up 4%-Median down 5%*

Revised Real GDP 2014-15 Commerce Department (SAAR,%)

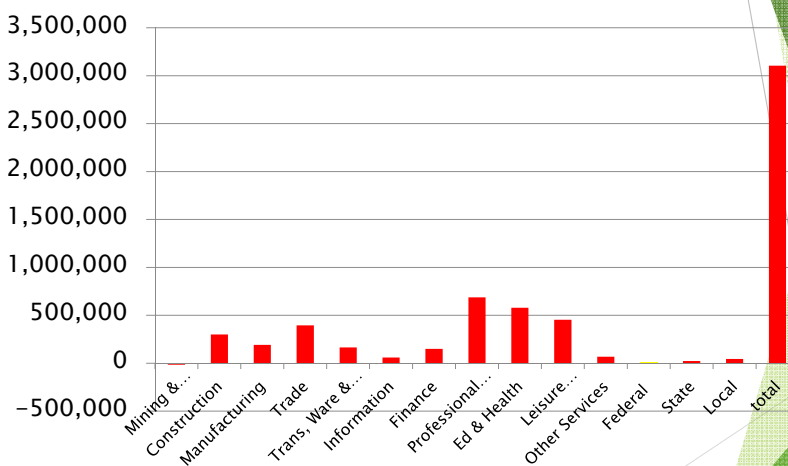
	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15
GDP	-2.1	4.6	5	2.2	.2
Consumption	1.2	2.5	3.2	4.4	1.9
Equipment	-.1	11.2	11	.6	.1
Intell Prop	4.6	5.5	8.8	10.3	7.8
Non-Res	2.9	12.6	4.8	5.9	-23.1
Residential	-5.3	8.8	3.2	3.8	1.3
Federal	-.1	-.9	9.9	-7.3	.3
State and Local	-1.3	3.4	1.1	1.6	-1.5
Exports	-9.2	11.1	4.5	4.5	-7.2
Imports	2.2	11.3	-.9	10.4	7.3

2011-15 Nonfarm Payroll Employment Change(,000 SA) April 223,000

Source: BLS



Annual Job Change April, 2014 to April, 2015 (2.2%)

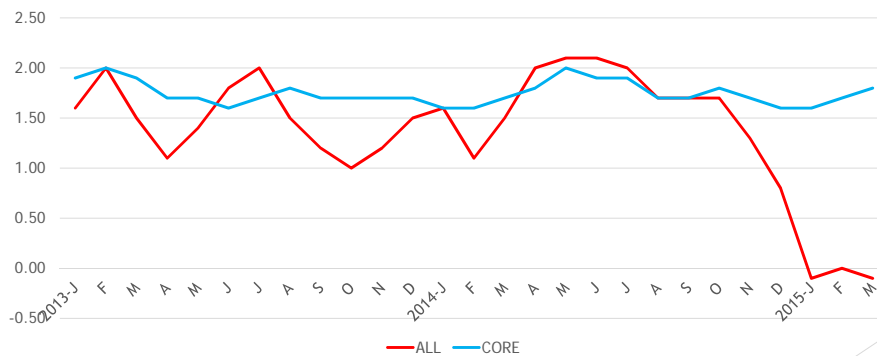


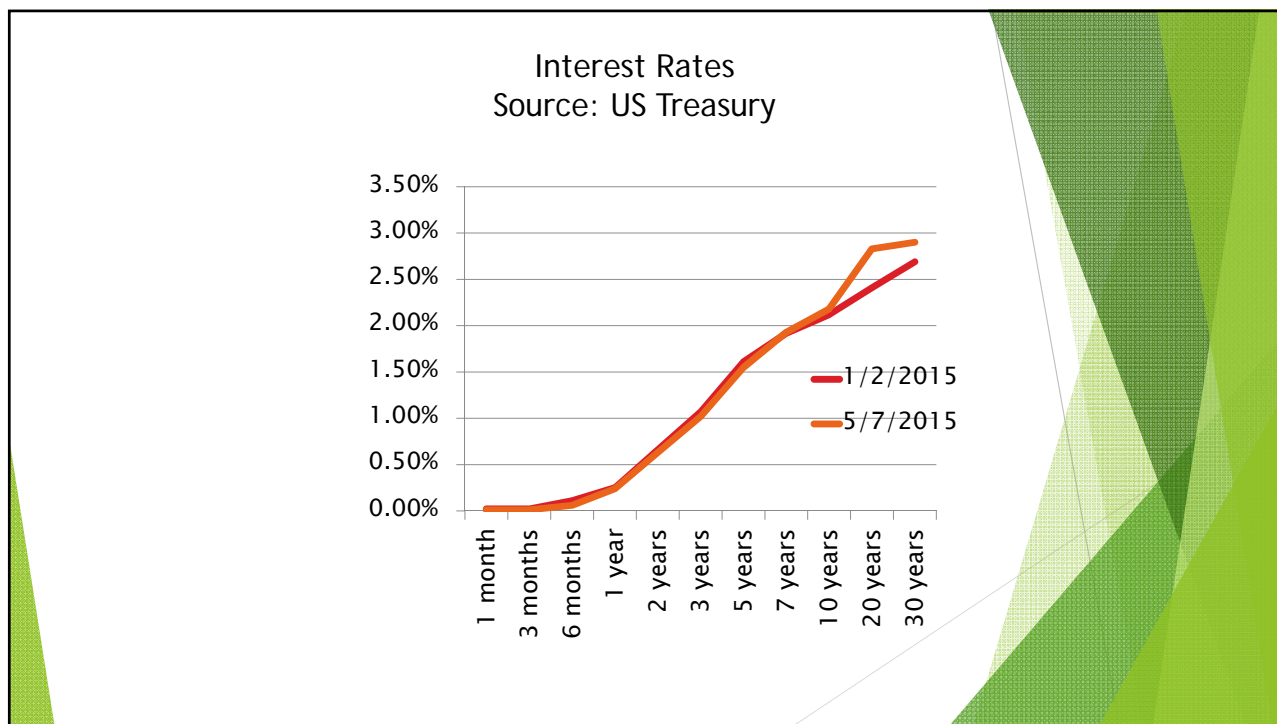
A Bit Deeper

- ▶ Participation Rate at 62.8%- 66% at Start of Recession
- ▶ Prime Age Population Participation Rate 81% Feb was 83.3% in 1/08 (Epstein)
- ▶ 6.6 Million Part Time for Economic Reasons
- ▶ 2.1 Million Marginally Attached to Labor
- ▶ 2.5 Million Long Term Unemployed 27 Weeks or over- 29% of the Unemployed- Down 888,000 over the Year
- ▶ March 51.4% of Unemployed-Job Leavers, New Entrants or Reentrants
- ▶ U-6 10.8% down from 12.3% in April of 2014
- ▶ How much slack is in the labor market?
- ▶ Where is the wage growth? -Hints of Pressure- Employment Cost Index Q1 2.6%- One Year Ago 1.8%
- ▶ Fed Maximum Employment and Stable Prices

Year Over Year Change in Consumer Price Index-Total and Core

Source: BLS





- ▶ Japanese 10 Year .3%, Germany .29%, Swiss -.07%, Greece 11.51%, Venezuela 11.03% , US 1.95%(Economist May 2, 2015))
- ▶ Flight to Safety
- ▶ Diminished New Bond Supply
- ▶ Mortgage Rates Still under 4% at 3.68% Week Ending May 1, 2015

Prospects

- ▶ Consensus 2.9% in 2015 and 2.8% in 2016
- ▶ Inflation Remaining Less than 1% in 2015 and 2.2% in 2016
- ▶ Fed GDP Projections: 2.3-2.7% in 2015, 2.3-2.7% in 2016
- ▶ Lowered from December 2.6-3% for 2015 and 2.5-3% for 2016
- ▶ Unemployment 5-5.2% in 2015 and 4.9-5.1% in 2016
- ▶ Fed Inflation Range .6-.8% in 2015 and 1.7 to 1.9% in 2016

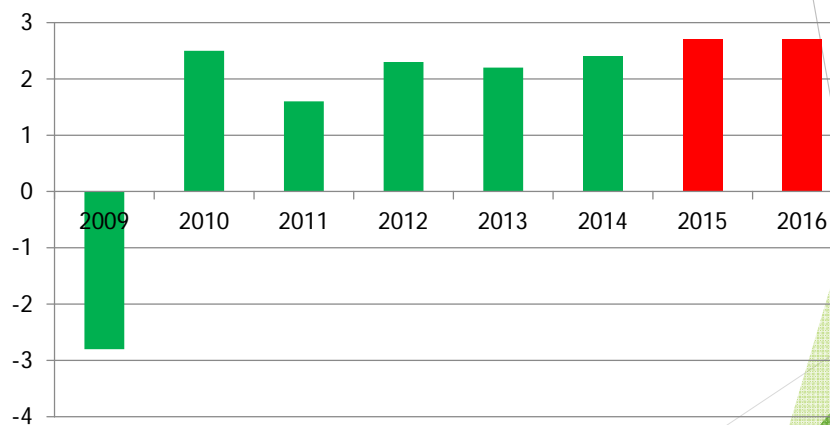
2015

Sorting Out the Cross Currents

- ▶ Sluggish Start
- ▶ Severe Winter/Port Disruptions
- ▶ Oil Price Impacts
- ▶ Stronger Balance Sheets
- ▶ Employment/Income Gains
- ▶ The Rest of the World
- ▶ The Strong Dollar
- ▶ State and Local Fiscal Health
- ▶ Fiscal Policy Uncertainty
- ▶ Housing Rebound

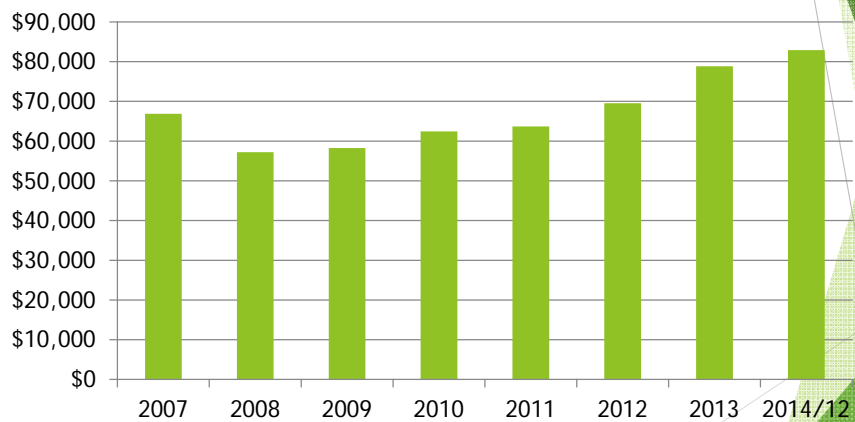
Real GDP 2009-2016 Actual and Top of Fed Central Tendency

Source: BEA, Fed



Net Worth of Households and Non-Profits (Billions)

Source: Fed



Housing Questions/Issues

- ▶ Credit Standards-Easing by GSE's, FHA
- ▶ Prices Rising-Case Shiller National Index 4.2% February-Slowing Increases
- ▶ Household Formation Increasing
- ▶ Fundamentals Improving
- ▶ Affordability-Varies Widely Far Above 2005-08, Below 2011-12, Metro Lowest Affordability is King County, Spokane in Q4 192.7 WCRER
- ▶ Will more rapid growth arrive in 2015?

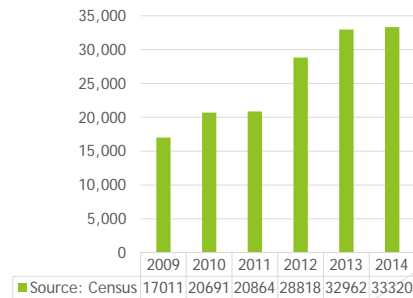
FHFA House Price Index Q4 2014

	1 Year	5 Year		1 Year	5 Year
Bellingham	4.57%	1.48%	Vancouver/ PDX	9.03	12.08
Bremerton	6.31	-4.42	Seattle	8.22	10.57
Kennewick	3.92	7.34	<i>Spokane</i>	<i>4.34</i>	<i>-5.75</i>
Longview	10.4	-2.17	Tacoma	6.05	-5.43
Mount Vernon	1.92%	-7.07	Wenatchee	6.58	-.59
Olympia	5.93	-7.87	Yakima	2.05	.58

- ▶ Case Shiller Seattle up 7.1% to Feb.
- ▶ MLS Data: Pending in King, Snohomish, Pierce and Kitsap up 21.8% in March
- ▶ Runstad Center- Median Prices up 4.1%, in Q1, Seriously Delinquent mortgages down for 10th Quarter, Affordability Rose in Q4, 3.5 Month Supply

Washington Permits 2009-14 To March up 67%

Source: Census



Fiscal 2014 CBO

Outlays	2013 (Billions)	2014 (Billions)	% Change
Defense	\$608	\$578	-4.9
Social Sec	\$803	\$840	4.6
Medicare	\$495	\$509	2.8
Medicaid	\$264	\$301	13.6
Un. Benefits	\$72	\$48	-33.2
Other	\$1,057	\$1,034	-2.2
Net Interest	\$259	\$271	4.8
TARP/GSE	-\$106	-\$78	
Total	\$3,454	\$3,504	1.4
REVENUES	\$2,774	\$3,021	8.9

CBO January 2015

- ▶ Debt Held by Public 74% of GDP in 2014-in 2007 was 37% of GDP
- ▶ To 79% by 2025-Highest Since 1950
- ▶ Implications: Net Interest When Rates Rise
- ▶ Less Investment (Crowding Out of Private Investment)
- ▶ Less Flexibility when Dealing Crises
- ▶ Risk of Fiscal Crisis-Loss of Confidence
- ▶ Drivers to 2025: *Boomer Retirement, Health Insurance Subsidies, Increasing Health Care Costs Per Beneficiary* and Interest on Debt

Monetary Policy

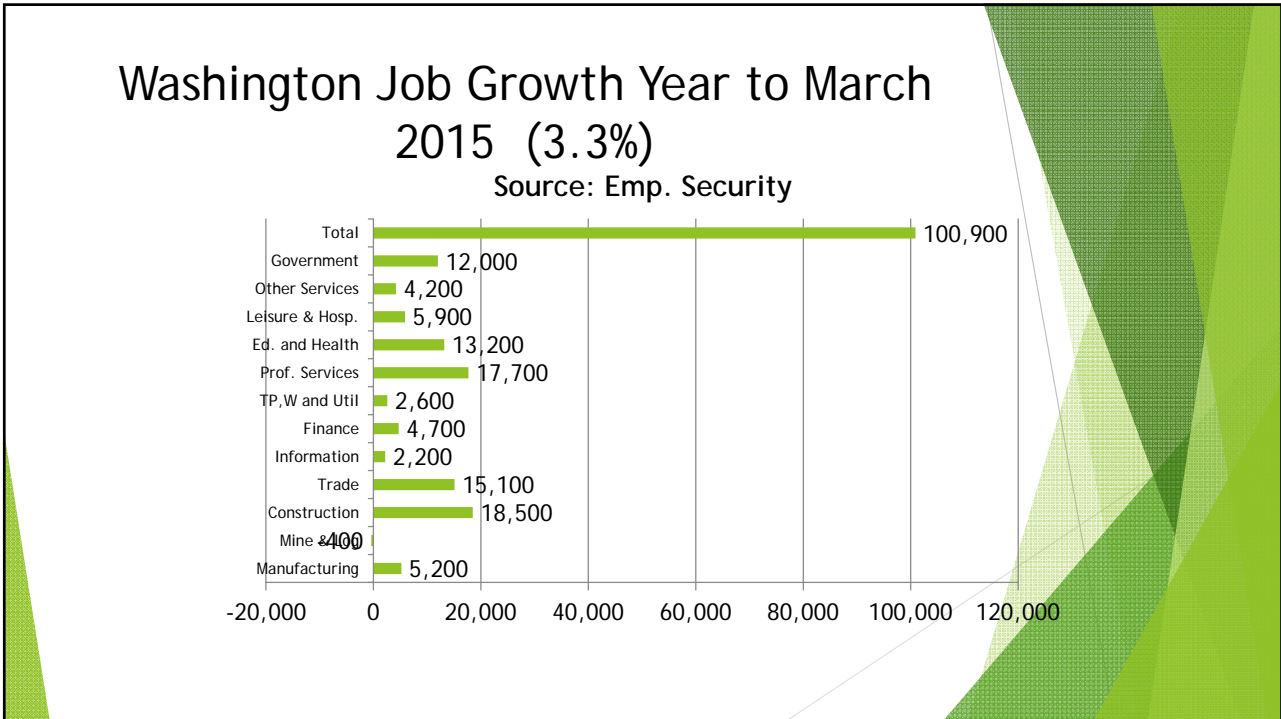
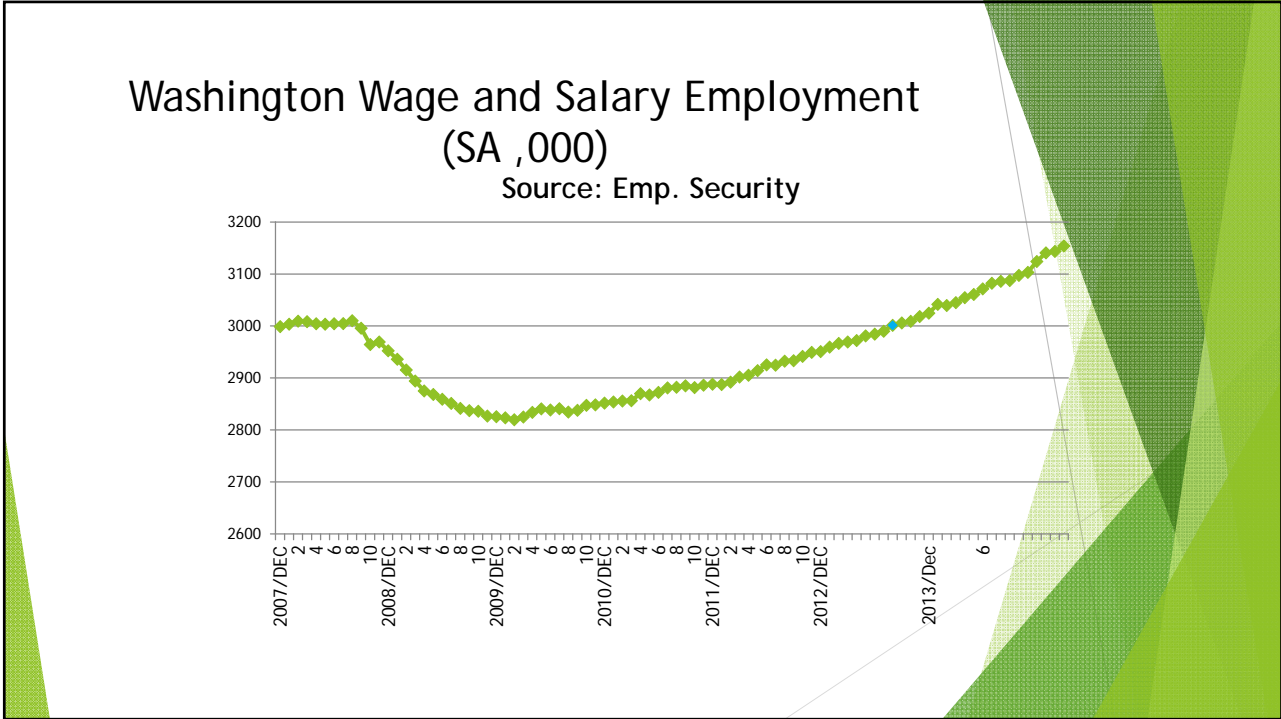
- ▶ 4/29/15 *"Growth slowed", "job gains moderated", " underutilization of labor resources little changed", " balanced risks ", " inflation near recent low near term", "rise gradually toward 2 percent over the medium term"*
- ▶ *Reaffirmed 0-1/4 percent target is appropriate*
- ▶ *Assessment: Labor Market, inflation pressures and expectations, readings on financial and international developments*
- ▶ The word patient was taken out in March.
- ▶ 4/29/15 "raise target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 % objective over the medium term.
- ▶ Nothing Predetermined (3/27/15)
- ▶ New Tools
- ▶ Children Born when the Fed last raised rates are in 3rd Grade!

Job Growth Update March, 2015 Data Year over Year Change - 49 States Up

- ▶ Utah 1
- ▶ Florida 2
- ▶ Oregon 3
- ▶ Washington 4
- ▶ California 5
- ▶ North Dakota 6
- ▶ Georgia 7
- ▶ Nevada 8
- ▶ North Carolina 9
- ▶ Idaho 10
- ▶ Colorado 11
- ▶ Texas 12
- ▶ South Carolina 13
- ▶ Arizona 14
- ▶ Delaware 15
- ▶ Kentucky 16
- ▶ Michigan 17
- ▶ Arkansas 18
- ▶ Minnesota 19
- ▶ Iowa 20
- ▶ Indiana 22
- ▶ New York 23
- ▶ Connecticut 24
- ▶ Massachusetts 25
- ▶ New Mexico 26
- ▶ Maryland 28
- ▶ Alabama 29
- ▶ Ohio 31
- ▶ New Hampshire 33
- ▶ South Dakota 34
- ▶ Nebraska 35
- ▶ Rhode Island 36
- ▶ Wyoming 38
- ▶ Kansas 39
- ▶ New Jersey 40
- ▶ Oklahoma 41
- ▶ Virginia 43
- ▶ Hawaii 45
- ▶ Alaska 46
- ▶ Montana 47
- ▶ Mississippi 48
- ▶ Maine 49
- ▶ West Virginia 50

Regional

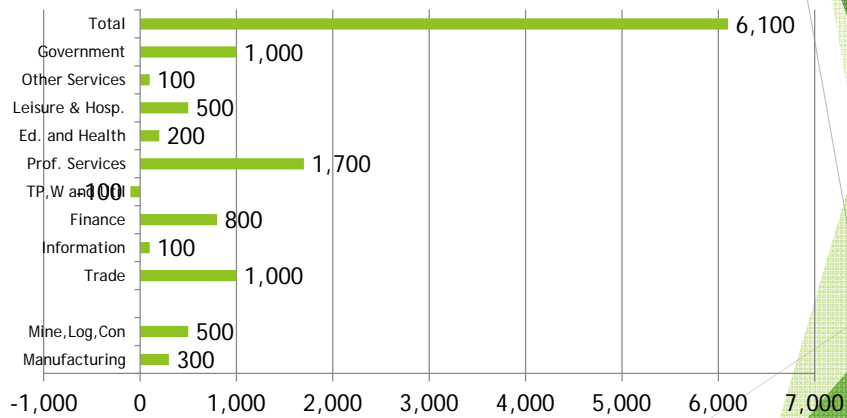
	Population Change 13-14	2014 Pers. Income	Un Rate. March BLS	Permits 2014	FHFA House Price Index Q4 PO	Underwater Q4 CoreLogic
Idaho	1.3%	5.3%	3.8%	12.6%	5.05%	9.6%
Oregon	1.1%	5.7%	5.4%	11.3%	6.74%	5.8%
Washington	1.3%	5.3%	5.9%	1.1%	7.28%	6.1%



Job Growth Year to March 2015
 Metro Areas
 Source: Employment Security

	Number	%		Number	%
Bellingham	4,100	4.8	Spokane	6,100	2.7
Bremerton	2,100	2.5	Tacoma	8,100	2.8
Kennewick	3,600	3.5	Wenatchee	2,100	5.4
Longview	2,000	5.4	Yakima	2,700	3.5
Mount Vernon	-300	- .6			
Olympia	4,000	3.8			
Seattle	54,200	3.6			

Spokane-Spokane Valley Job Growth Year
 to March 2015 (2.7%)
 Source: Emp. Security



Spokane Metro Annual Employment(,000s)



- ▶ Personal Income 2013 \$20.4 Billion
- ▶ DIR, & Transfers 44.3% of Income
- ▶ Residence Adjustment -\$547 Million Net
- ▶ 12,460 2.4% Pop Gain 2010-2014
- ▶ Congestion Westside Implications

Regional Issues

- ▶ Dock Disruptions as Alternatives Emerge
- ▶ Washington McCleary Decision Compliance-Capital Gains Tax?
- ▶ Search for Revenues
- ▶ Trade Positions
- ▶ Estate Tax Differentials

	2009	10	11	12	13
Pers. Inc.	4%	-8.7%	11.1%	6.9%	8.4%
Cor. Inc	-30.9%	1.6%	17.3%	-1.5%	6.1%
Pew	OR	16 th	Most	Volatile	
Sales	-11.5%	-4.6%	10%	.3%	4.8%
Property	2.5%	2.1%	2%	2.1%	1.9%
Pew	WA	37 th	Most	Volatile	

2015 Themes

- ▶ Broad Based Expansion Across The Nation
- ▶ Implications of Falling Energy Prices
- ▶ Tech Hubs
- ▶ Federal Spending Restraint Outside of Entitlements
- ▶ Monetary Policy Transitioning and Experimenting-Legacy Unknown-Volatility Likely
- ▶ Palpable Creative Destruction
- ▶ Tightening Labor Markets
- ▶ International Environment Unsettled
- ▶ Regulatory Change
- ▶ Washington Should Continue to Grow 2.5-3% Range

"the perennial gale of creative destruction"

- ▶ Joseph Schumpeter-*Capitalism, Socialism and Democracy* (1942)
- ▶ Amazon, Uber, Cell Phone, "Ubiquitous Connectivity", Fracking, FitBit, Mpirica, Consumer Driven Healthcare
- ▶ Change-Winners and Losers
- ▶ How do you facilitate transitions?

SecStag

- ▶ 1938 Alvin Hansen -Secular Stagnation-SecStag-Back in the News
- ▶ Five Years of 2%
- ▶ Population Aging, Slower Productivity
- ▶ Life in a Low Inflation-Low Rate World
- ▶ Inflation 4% 10 Year 2% Real -2%
- ▶ Inflation 1% 10 Year 2% Real 1%
- ▶ Low Inflation-Low Rate World Can Monetary Policy get real rates low enough?
- ▶ Is this the new reality for your clients?

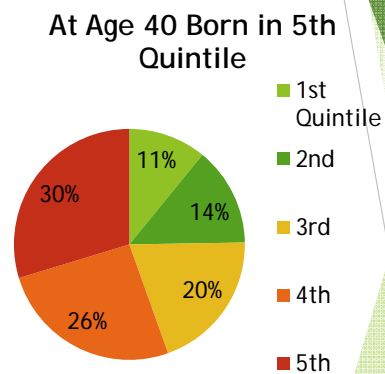
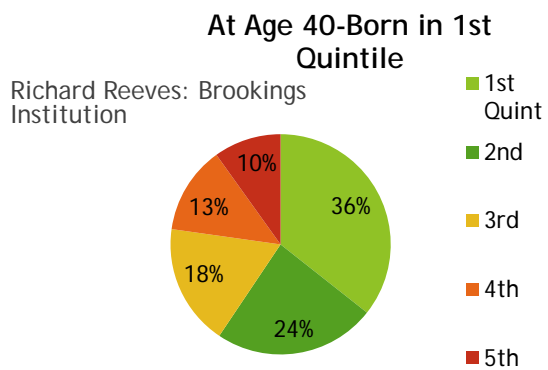
Net Worth Rebound

- ▶ Financial Assets in a World Flooded with Liquidity- Net Worth Figures \$52.9 Trillion to \$68 Trillion Financial Assets, Real Estate \$18.4 Trillion to \$23.5 Trillion 2010-2014 (Fed)
- ▶ Housing Prices Later
- ▶ Older Households Back (Fed of Saint Louis)
- ▶ What risks have been taken in a search for yield?
- ▶ Decisions Long Ago and Far Away for Those Who Do Not Pick Parents Well-Savings, Education, Skill Acquisition, Time Perspective, Financial Literacy
- ▶ One Half of Private Sector Employees Participate in Retirement Plans

Survey of Consumer Finances 2010-2013 Federal Reserve (\$,000 2013) Family Net Worth

Age	Median 2010	2013	Mean 2010	2013
Less than 35	\$10	\$10.4	\$70	\$75.5
35-44	40.2	46.7	233	347
45-54	126.3	105.3	614.1	530.1
55-64	192.3	165.9	943.6	798.4
65-74	221.5	232.1	909.2	1,057
75 and Above	232.3	194.8	726.5	645.7

Mobility Issues-Opportunity



2015 Things to Ponder

- ▶ What are the leftovers of the Great Recession?
- ▶ Groundhog Day?
- ▶ Mobility/ Opportunity?
- ▶ The 2014 Surprises-Falling Long Rates and Crashing Energy Prices- in 2015?