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Helping You Secure Your Future™

henry@YourIndependentAdviser.com

Spring 2019 Newsletter:

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Castling Defensive Portfolio Comes Back From Bruising 2018

If you feel as though you are being whip lashed by the markets recently, you are not alone. Fears related to the ongoing trade dispute with China, seemingly worldwide slower economic growth, political tensions across the globe, not just across the Potomac in Washington, D.C., coupled with a Federal Reserve that has made a rather abrupt shift from interest rate increases (take your medicine or else), to almost singing to us "I'll Be There for You".

What should we make of all of this?

The world is a ~~pretty~~ (very) complex place. If we get caught up trying to correctly decipher every message or action we see, we would be easily overwhelmed and then paralyzed by fear and inaction.

Our approach has been to focus on the basics, control what is within our means to control (such as investment cost and asset allocation), and help you organize your finances in such a way, that it enhances how you live your life. Most of all, we talk about balance. This is especially the case of balancing your three dimensions of risk tolerance, your: willingness to take risk, ability to take risk and need to take risk.

As our own benchmark for what an extremely risk averse investor could tolerate, we came up with the hypothetical **Castling Defensive Portfolio** (CDP) and then stocked it with real life, available investments. We have made very few changes to the CDP over the years; in fact, just one prior to 2019. None of these changes involve the percentage allocations, that which represents the "secret sauce" of making a truly low volatility investment portfolio.

In 2018, the CDP had a total return of -2.74%. While a loss is always harder to take than a gain, we would point out that the Vanguard 500 Index fund (ticker: VFINX) posted a 4.52% loss. Two other funds we use for comparison purposes: Wellington (VWELX) had a 3.42% loss, while Wellesley Income (VWINX) beat CDP slightly, with a 2.57% loss[1].

The original objective of the CDP was to develop one portfolio with a reasonably good chance of doubling in value over a ten year period, while maintaining very low volatility. We have emphasized the second point over the first. The former objective requires a 7.2% net, annualized return. This was feasible up until 2015. Lately however, this has not been achieved simply due to the very low level of interest rates we have seen over the past number of years.

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As a result, the 2000-2018 (19 year) annualized total return of the CDP has been 6.25%. Wellesley Income is used as a component of the CDP. But as a standalone fund, it has delivered 7.02% over the same period.

But the CDP is an example of our analysis in coming up with a low volatility portfolio. Our preferred measure for this is called the "coefficient of variation". This could also be called "risk per unit of return", where lower is better and under 1.0 can be considered outstanding. The CDP's measure is 0.80 over this 19 year period. Wellesley Income is 0.87. By contrast, Vanguard 500 Index measures a whopping 3.71.

We did suffer a correction in the fourth quarter of last year. It almost made it into bear market territory for the S&P 500® (and did make it there for some other indices). <u>We advised clients and our readers to stay the course, however</u>.

We were all rewarded with a huge comeback in the first quarter of 2019. Through April 29th of this year, the year to date total return for the CDP is 7.0%. While this is a far cry from 500 Index's 18.21% return, please keep in mind the whiplash you would have avoided with the CDP, during all of these years. Back testing since 2000, a $10,000 investment in the allocation proposed by the CDP would still be worth significantly more than one made in 500 Index. Please refer to the tables nearby, which show the components of the CDP and the comparisons made with other funds.

We once again demonstrate the value of a spot of gold in your portfolio, by showing what a small percentage allocation to the iShares Gold ETF (IAU) would look like. Because this gold ETF has not been in existence the entire CDP time period, we use 2006 as the starting year for our gold analysis. As you can see in the table nearby, setting the gold allocation anywhere from 1% to 10% lifted the annual returns of the mixed portfolio (CDP and IAU), but still kept the coefficient of variation to around 1.00.

We now have three changes to the CDP to announce. In 2018, Vanguard closed the "Investor"share class of two of our funds, to new investors. However, they opened up the lower cost "Admiral" share class funds, with a lower minimum initial investment of $3,000. The new funds we are tracking are the Vanguard Small Cap Value Index Admiral (VSIAX) and the Vanguard Real Estate Index Admiral (VGSLX).

Please keep in mind that we are changing the CDP in these two cases simply because the original Vanguard funds are now closed to new investors, while their replacements are open and are lower in cost. Our CDP allocations remain the same, however.

We do have one more change to report. In this case, we are throwing the towel in on one index fund: Vanguard Total International Stock Index Fund. The Investor class shares

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(VGTSX) were used by the CDP, from its beginning. It was replaced for new investors in 2018 by Vanguard, with the Admiral share class (VTIAX). However, we have been frustrated with its lack of performance. I realize that foreign stock markets have not done as well as the US in recent years. However, we have also been recommending another Vanguard foreign stock fund to our clients: Vanguard International Growth Investor shares (VWIGX).

While its expense ratio is much higher than VGTSX, it has managed to beat the return of that fund in ALL of the following: year to date, one year, three year, five year and ten years periods.

We still only allocate 4% of the entire CDP to international (non US) stocks. It is not because we don't believe in the rest of the world. It's because if you are an extremely risk averse US based investor, there have been and still are, better allocation choices.

Even though this third change is to an “active” fund, the overall expense ratio of the CDP now falls from 0.19% to 0.17% (not including an allocation to gold). This is due to the fact that the new Admiral share class funds have lower expenses.

The general move to more “passive” index fund investing, along with lowering the cost of “active” funds and the ability to purchase shares of certain ETFs (exchange traded funds) without paying any commissions have, taken all together, significantly lowered what it will cost you to maintain your portfolio.

A decade ago, we believed that a world class benchmark for the total cost of maintaining an investment portfolio, including investment advice, should have been no more than one half of one percent (0.50%).

We now revise this down to **0.30%**, depending upon the size of your portfolio.

Asset based (AUM) advisers may balk at this figure. Commission based product salespeople (CBPS) may sneer at it. But low cost investment vehicles of the 21st century, along with hourly based financial planning and investment advising (especially of the affordable, hourly kind), can make this a reality right here and right now.

ETFs continue this trend. For instance, many iShares ETFs are available to you, commission free, using any Fidelity brokerage account. In 2018, Vanguard made a huge number (1,800+) ETFs available without having to pay commissions. This means that you can buy just one share at a time, without paying a transaction cost. How's that for helping out the small investor?

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Do you know who was primarily responsible for making **Low Cost** happen? **Jack Bogle**, the found of The Vanguard Group, Inc. He learned of the power of index based investing, along with using lower cost and direct sell to the investor, type of financial products. He built Vanguard from an idea, into the second largest asset manager in the world.

Jack Bogle passed away on January 16, 2019[2]. Even if you do not know who he was, he probably did more for you and I, than all of the politicians of the last two decades. We have the best functioning and lowest cost financial markets of any place on the globe (though they are certainly not perfect). Sure, we still need to learn how to use them in order to meet our individual needs. But the opportunity is out there for us to seize upon. Jack helped make it happen. We will miss him greatly.

Castling Defensive Portfolio (CDP) Changes for 2019:		
#1 Change:		
Vanguard Small Capitalization Value Index Investor Shares	VISVX	
Closed to new investors in 2018		
Replaced with Vanguard Small Cap Value Index Admiral Shares		VSIAX
#2 Change:		
Vanguard REIT Index Investor Shares	VGSIX	
Closed to new investors in 2018		
Replaced with Vanguard Real Estate Index Admiral Shares		VGSLX
#3 Change:		
Vanguard Total International Stock Index Investor Shares	VGTSX	
Closed to new investors in 2018		
Replaced with Vanguard Total International Stock Index Admiral Shares		VTIAX
However, ***CastlingFP*** chooses to instead replace into the **CDP** with:		
Vanguard International Growth Fund Investor Shares		VWIGX

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Castling Defensive Portfolio (CDP) Comparison	2016	2017	2018	2019 YTD
Castling Defensive Portfolio Yearly Returns	6.77%	5.44%	-2.74%	7.00%
Back-Tested Cumulative Return Since 2000	208.75%	225.55%	216.61%	238.79%
Hypothetical Growth of $10,000 Since 2000	$30,875	$32,555	$31,661	$33,879
Annualized Return (2000-2019 YTD)	***6.86%***	***6.78%***	***6.25%***	***6.29%***
Standard Deviation (2000-2019 YTD)	***4.73%***	***4.60%***	***4.99%***	***4.86%***
Coefficient of Variation (2000-2019 YTD)	***0.69***	***0.68***	***0.80***	***0.77***
Wellesley Income (VWINX) Yearly Returns	8.08%	10.20%	-2.57%	7.91%
Back-Tested Cumulative Return Since 2000	237.82%	272.28%	262.71%	291.40%
Hypothetical Growth of $10,000 Since 2000	$33,782	$37,228	$36,271	$39,140
Annualized Return (2000-2019 YTD)	**7.42%**	**7.58%**	**7.02%**	**7.06%**
Standard Deviation (2000-2019 YTD)	***5.91%***	***5.76%***	***6.08%***	***5.92%***
Coefficient of Variation (2000-2019 YTD)	***0.80***	***0.76***	***0.87***	***0.84***
Wellington (VWELX) Yearly Returns	11.01%	14.72%	-3.42%	11.27%
Back-Tested Cumulative Return Since 2000	243.80%	294.41%	280.92%	323.85%
Hypothetical Growth of $10,000 Since 2000	$34,380	$39,441	$38,092	$42,385
Annualized Return (2000-2019 YTD)	**7.53%**	**7.92%**	**7.29%**	**7.49%**
Standard Deviation (2000-2019 YTD)	***10.73%***	***10.53%***	***10.59%***	***10.33%***
Coefficient of Variation (2000-2019 YTD)	***1.42***	***1.33***	***1.45***	***1.38***
Vanguard 500 Index (VFINX) Yearly Returns	11.82%	21.67%	-4.52%	18.21%
Back-Tested Cumulative Return Since 2000	107.84%	152.88%	141.45%	185.42%
Hypothetical Growth of $10,000 Since 2000	$20,784	$25,288	$24,145	$28,542
Annualized Return (2000-2019 YTD)	**4.40%**	**5.29%**	**4.75%**	**5.38%**
Standard Deviation (2000-2019 YTD)	***18.08%***	***17.92%***	***17.61%***	***17.35%***
Coefficient of Variation (2000-2019 YTD)	***4.11***	***3.39***	***3.71***	***3.22***

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Castling Defensive Portfolio (CDP) Comparison	2016	2017	2018	2019 YTD
Castling Defensive Portfolio Yearly Returns	6.77%	5.44%	-2.74%	7.00%
Total Return: BlackRock iShares Gold ETF (IAU)	8.88%	11.56%	-1.76%	0.00%
Return: CDP: 100%; Gold ETF (IAU): 0% Allocation	6.77%	5.44%	-2.74%	7.00%
Annualized Return (2006-2019 YTD)	5.69%	5.67%	4.99%	5.14%
Standard Deviation (2006-2019 YTD)	5.18%	4.94%	5.29%	5.11%
Coefficient of Variation (2006-2019 YTD)	0.91	0.87	1.06	0.99
Return: CDP: 99%; Gold ETF (IAU): 1% Allocation	6.80%	5.50%	-2.73%	6.93%
Annualized Return (2006-2019 YTD)	5.72%	5.70%	5.02%	5.16%
Standard Deviation (2006-2019 YTD)	5.21%	4.97%	5.31%	5.13%
Coefficient of Variation (2006-2019 YTD)	0.91	0.87	1.06	0.99
Return: CDP: 95%; Gold ETF (IAU): 5% Allocation	6.88%	5.74%	-2.69%	6.65%
Annualized Return (2006-2019 YTD)	5.83%	5.82%	5.14%	5.25%
Standard Deviation (2006-2019 YTD)	5.36%	5.11%	5.45%	5.25%
Coefficient of Variation (2006-2019 YTD)	0.92	0.88	1.06	1.00
Return: CDP: 90%; Gold ETF (IAU): 10% Allocation	6.99%	6.05%	-2.65%	6.30%
Annualized Return (2006-2019 YTD)	5.96%	5.97%	5.28%	5.35%
Standard Deviation (2006-2019 YTD)	5.65%	5.39%	5.70%	5.48%
Coefficient of Variation (2006-2019 YTD)	0.95	0.90	1.08	1.02
Return: CDP: 85%; Gold ETF (IAU): 15% Allocation	7.09%	6.36%	-2.60%	5.95%
Annualized Return (2006-2019 YTD)	6.09%	6.11%	5.41%	5.45%
Standard Deviation (2006-2019 YTD)	6.04%	5.76%	6.03%	5.80%
Coefficient of Variation (2006-2019 YTD)	0.99	0.94	1.11	1.06
Return: CDP: 80%; Gold ETF (IAU): 20% Allocation	7.20%	6.66%	-2.55%	5.60%
Annualized Return (2006-2019 YTD)	6.21%	6.24%	5.54%	5.55%
Standard Deviation (2006-2019 YTD)	6.50%	6.20%	6.43%	6.18%
Coefficient of Variation (2006-2019 YTD)	1.05	0.99	1.16	1.11
Return: CDP: 75%; Gold ETF (IAU): 25% Allocation	7.30%	6.97%	-2.50%	5.25%
Annualized Return (2006-2019 YTD)	6.32%	6.38%	5.67%	5.64%
Standard Deviation (2006-2019 YTD)	7.02%	6.70%	6.89%	6.62%
Coefficient of Variation (2006-2019 YTD)	1.11	1.05	1.22	1.17

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	The Castling Defensive Portfolio:	Ticker	% Allocation	Expenses	Equity %	Weighted Exp.	Min. Invest.	Initial Min.	2019 Return	Contribution
1	FDIC Insured Certificates of Deposit (Avg. of High Yielding)	Bank CD's	9%	0.00%	0%	0.000%	Varies	$6,750	0.93%	0.08%
2	Vanguard Short-Term Treasury Investor Shares	VFISX	9%	0.20%	0%	0.018%	$3,000	$6,750	1.23%	0.11%
3	Vanguard Short-Term Investment-Grade Investor Shares	VFSTX	9%	0.20%	0%	0.018%	$3,000	$6,750	2.50%	0.23%
4	Vanguard Intermediate-Term Treasury Investor Shares	VFITX	12%	0.20%	0%	0.024%	$3,000	$9,000	2.05%	0.25%
5	Vanguard Inflation-Protected Securities Investor Shares	VIPSX	12%	0.20%	0%	0.024%	$3,000	$9,000	3.45%	0.41%
6	Vanguard GNMA Admiral Shares	VFIJX	11%	0.21%	0%	0.023%	$3,000	$8,250	1.90%	0.21%
7	Vanguard Wellesley Income Investor Shares	VWINX	11%	0.23%	4%	0.025%	$3,000	$8,250	7.91%	0.87%
8	Vanguard Small Capitalization Value Index Admiral Shares	VSIAX	15%	0.07%	15%	0.011%	$3,000	$11,250	17.80%	2.67%
9	Vanguard REIT Index Admiral Shares	VGSLX	8%	0.12%	8%	0.010%	$3,000	$6,000	17.18%	1.37%
10	Vanguard International Growth Fund Investor Shares	VWIGX	4%	0.45%	4%	0.018%	$3,000	$3,000	20.03%	0.80%
	Totals		**100%**		**31%**	**0.17%**		**$75,000**	Thru 4/29/19	**7.00%**

RETURN

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If Your Financial Wellness Depends on a Large Tax Refund, Then Frankly My Dear...I Don't Give a Debit!

Is the American public generally less financially literate now, than they were in the past? I don't think so. But I do think that the level of financial literacy is not keeping up with the increase in the level of financial complexity in the world. This essential imbalance, I believe, lies at the very heart of the financial problems we have been discussing. We can add to this the general sense of distraction that comes from the time constraints of modern life.

Then along came the Tax Cuts and Jobs Act of 2017 (TCJA), which promised to simplify the tax code and to cut tax rates for both individual filers as well as for businesses. While far from doing exactly what I would have wanted, I do think that the new tax law was necessary to help spur the economy and to make business more competitive abroad. However, there have been some glitches in its implementation.

2018 was the first year of the roll-out. Policy makers were quite sure that if the effects of the new law (mainly a decrease in tax rates) were instantly demonstrated to the public, more economic growth would be triggered through increased consumer spending. This meant that more dollars needed to be in the hands of taxpayers sooner, rather than later.

The transmission mechanism for this action was a decrease in the federal income tax withholding amounts, in the calculated withholding tables used by payroll software. Workers began seeing a few more dollars every pay period. This seemed to translate into an increase in spending and therefore, in overall GDP (although not spectacularly so).

So far, so good. But then the calendar turned to 2019 and it came time to fill out the 2018 income tax returns. Low and behold, many people were surprised and some of them were shocked, to discover that their coveted income tax refund had shrunk or had disappeared completely. Some even saw that they owed money to the IRS for the first time in years.

Since the IRS does impose a penalty tax for significant underpayment or under withholding of income taxes, the general public has built up a reluctance to ever be in the position of “owing the IRS” when filing their tax returns. This dates back to what was considered financially literate in a less complex world.

Were these surprised folks truly any worse off? Quite frankly, no. But suppose those extra dollars (from the tax cut), which were automatically deposited with every pay period, were frittered away on extra apple fritters and spiced lattes? Then what? No big tax refund would have arrived. Maybe they did not fritter away the tax cut. Maybe it got

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siphoned off in unexpected orthodontic payments, surprise auto repairs and general unplanned increases in the cost of living. "*I get it*".

For some people, a large refund is really part of their own version of financial planning and is even considered part of their own financial wellness.

Diana Farrell of the **J.P. Morgan Chase Institute** was interviewed by **CNBC**'s Steve Liesman, on their **Squawk Box** program, earlier this year[3]. Her findings are as fascinating as they are revealing, at least to someone who does financial planning, such as myself:

1. The average income tax refund is six weeks of take home pay.
2. 78% of households will receive a tax refund.
3. For 29% of people, it is the single biggest cash flow event of the year.
4. For about half, it is bigger than all their cash balances in banks.
5. For some, it represents 10% of their annual income being received in one step.
6. For the vast majority of households receiving a refund, there is an increase in their spending immediately after receiving it.
7. Most people spend their refunds differently than they spend on day to day items. For example, they pay down credit card debt or spend on consumer durables.
8. Health care spending spikes after receiving a refund.
9. Many persons who receive refunds, year after year, treat it as a forced savings account.
10. There is a risk aversion to owing extra income tax, both in the fear of an IRS penalty, as well as a fear in not having the cash available to make that final payment for the year just completed.

I would not dispute any of these findings. The risk aversion and fear of having to pay extra tax may be due to a previous bad experience or even learned behavior from parents or other older family members. But previous generations had less complex financial lives, especially while carrying a lot less debt.

The annual ritual of relying on something to arrive (that tax refund) and then using it as part of your financial planning, is something I can understand as being deeply ingrained into behavior.

But let's be clear about the following. Making an interest free loan to the government (federal and state) and then collecting it months later, so that you then can use it to pay down credit card debt (that you could have been paying in smaller amounts throughout the year), is a **TERRIBLE** idea. Spending a refund on impulse consumption without

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giving serious consideration to your long term durable goods needs, is probably a close second, in the bad idea department.

While creating a full scale budget is in the best interests of a family's financial planning goals, I realize that basic financial wellness and this refund issue may call for a streamlined approach.

The surprised taxpayer who either did not get a refund for 2018, or received a smaller one than anticipated, could easily “fix” this issue by adjusting one or both spouses' income tax withholding (upward). But my reasoning here is to advocate another approach:

Stop depending on large income tax refunds.
Instead, aim for a close to break-even result.
But more importantly, start putting your cash flows to work!

The end result will be to achieve your financial goals faster and easier. Our typical advice has always been for our clients to create a custom monthly/annual budget, either with or without our help.

The following six step method does not require that a real budget be created. Some may see this as just baby steps and others may view it as busy work. But if the following several steps are never considered and you continue to rely on getting tax refunds as part of your financial planning, then I'm sorry to be the one to tell you this: *You're losing out, my friend*.

1. **Adjust Withholding by Reviewing Your Tax Return.** The income tax *planning* approach is not meant to file a tax return, but to do a simulation well before year end, so that opportunities can be identified. While these details are more complex than we can get into here, suffice it to say that you can look over your prior year's high level summary or ask your tax professional/financial planner for the data. Keep it simple: *Adjusted Gross Income minus Total Deductions/Standard Deduction* and get to *Taxable Income*. What was your prior tax liability and how much of it was withheld during the year? What does your current year look like in terms of income? For most people who are over withheld, it is a relatively easy process to adjust withholding, until you appear to be roughly break-even on this year's taxes. You can even use the same tax rates as the previous year (for estimating purposes) if that is all you have access to.
2. **Just track it.** Use a simple spreadsheet tool to track each cash flow into and out of your checking account (see below for examples). One sheet equals one tab and is just for the current month. It is important to note that a single cash flow may represent a single expense category, such as your electric bill. However, it could also be composed of parts of many categories, such as that Amazon Visa card that

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you used to buy: groceries at Whole Foods, some personal items at Target and a bunch of things on Amazon Prime. Having online access to your bank checking account is a must. Every cash flow item needs to be represented, so that your calculated ending balance matches your bank's balance. But don't worry. This is still far easier than creating a full budget.

3. **Then forecast/plan it.** Add another tab for the next (future) month and copy the current month worksheet details into it. But the ending balance of the current month becomes the starting balance for the next month. Now you can adjust the expected cash flows. Those items that represent fixed, monthly expenses remain as is. Everything else is adjusted based on what you think will happen, either up or down. You can then add another future month using another tab. Ending balance of one becomes starting balance of the next and so on. When that future month arrives and becomes your present, it should now be clear that your estimated amounts get replaced with the actual values when known.
4. **Fill in the blanks.** The future month may have new expense line items that did not exist previously. We just add those in rough chronological order and estimate what each one will be, unless we already know the exact amount. If the future month will not require you to pay anything on your Discover Card, for instance, but you will need to pay your property taxes, you can just set the Discover payment to $0.00 and add in the real estate tax payment as a new line item. Better yet, begin to "set aside" monthly amounts for things such as property tax payments and insurance premiums that only get paid once or twice per year.
5. **Build that emergency fund (EF).** By this point (a couple of months in), you will know how much "extra cushion" appears to exist in your account. If you do not already have an adequate emergency fund of six months (after tax expenses) tucked away in a separate account, now is the time to build one. This is where you can open an online savings account at Synchrony Bank, Capital One, Discover Bank, or somewhere else of your choosing. Pick one offering no minimum balance, no monthly service fee and an annual percentage yield (APY) well north of 1%. You then add this as a new line item to your future month(s). You subtract the amount you want transferred into your EF from your checking account balance. "What If?" is more than a game. It's a way of life for some of us. By trying different amounts in your spreadsheet model first, you can then see how each one plays out. If a future month shows a checking balance going into the red (becoming negative), you make adjustments in your model before actually withdrawing from the real account. Don't fret the impossible. Do the possible.
6. **Start/Increase funding for your retirement.** The final step is to use the spreadsheet to see what happens if you start adding more to retirement accounts. Adding to employer plans such as a 401(k), means that the direct deposit amount of salary or wages will be less. You will then be able to see what this does to your future months spending plans. You will soon see what is possible without

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sacrificing something else. Please keep in mind that your income tax liability will decrease by contributing to a traditional (not Roth) workplace plan. We highly recommend that everyone contribute to an employer plan, at least up to the level of the company matching contribution. You should now be able to see if this will be possible. But if the expected decrease in your net deposit amounts means that checking balances will start to go into the red in future months, this would be the time to try and make small adjustments to cut back on a few non-essential expense items, to bring your balances back into the black.

This approach works because it does not require huge sacrifices. You will soon see the positive impact of small changes, while keeping everything else in balance (including a positive balance in your account)!

We end with two screen shots. Here is a couple monthly examples of what checking account cash flow tracking could look like.

A–D	E	F	G	H	I
			Running Balance		
Beginning Balance in Main Checking Acct:			$2,546.35		
Monthly Expenses for First Half of Month:					
Discover Card Payment on or after 1st of Month:	$402.58				
Nicor Gas:	$62.54				
Cleaning People:	$66.00				
Payment on Kohl's Credit Card:	$30.00				
Full Payment on Target Credit Card:	$109.52				
Lawn Maintenance:	$0.00				
Car Repair:	$219.00				
Auto Insurance Payment:	$59.33			**Actual Checking**	
Misc. Payment(s) and Cash Allocated to 1st Half:	$25.00			**Balance**	**Difference**
Total for 1st Half:		$973.97	$1,572.38		
Salary Deposit for 15th of Month:		$2,049.10	$3,621.48	$3,621.48	$0.00
Monthly Expenses for Second Half of Month:					
Cleaning People:	$66.00				
ComEd:	$103.14				
Life Insurance for Him:	$36.79				
Life Insurance for Her:	$25.15				
Water and Sewer:	$110.86				
Amazon Visa (Chase):	$1,489.12				
Interest Paid to Main Checking Account:	-$0.03				
Misc. Payment(s) and Cash Allocated to 1st Half:	$116.59				
Total for 2nd Half:		$1,947.62	$1,673.86		
Salary Deposit for End of Month:		$2,049.10	$3,722.96	$3,722.96	$0.00

2019 - Jan | 2019 - Feb | 2019 - Mar | 2019 - Apr | 2019 - May | 2019 - Jun | 2019 - Jul

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A–D	E	F	G	H	I
			Running Balance		
Beginning Balance in Main Checking Acct:			$3,722.96	<<== Previous ending balance	
Monthly Expenses for First Half of Month:					
Discover Card Payment on or after 1st of Month:	$314.99				
Nicor Gas:	$71.50				
Cleaning People:	$66.00				
Payment on Kohl's Credit Card:	$30.00				
Full Payment on Target Credit Card:	$212.47				
Lawn Maintenance:	$0.00				
Citi Card Autopay Amount:	$0.00				
Auto Insurance Payment:	$59.33			**Actual Checking**	
Misc. Payment(s) and Cash Allocated to 1st Half:	$50.00			**Balance**	**Difference**
Total for 1st Half:		$804.29	$2,918.67		
Salary Deposit for 15th of Month:		$2,049.10	$4,967.77	$4,967.77	$0.00
Withdrawal to Emergency Fund (Synchrony Savings):		$250.00	$4,717.77	<<== Started Emergency Fund!	
Monthly Expenses for Second Half of Month:					
Cleaning People:	$66.00				
ComEd:	$103.14				
Life Insurance for Him:	$36.79				
Life Insurance for Her:	$25.15				
Water and Sewer:	$99.97				
Amazon Visa (Chase):	$1,489.12				
Interest Paid to Main Checking Account:	-$0.03				
Set Aside for Homeowner's Insurance:	$92.00			<<== Started to set aside for	
Set Aside for Property Taxes (every six months):	$500.00			<<== known bigger expenses	
Misc. Payment(s) and Cash Allocated to 1st Half:	$105.77				
Total for 2nd Half:		$2,517.91	$2,199.86		
Salary Deposit for End of Month:		$2,049.10	$4,248.96	$3,656.96	-$592.00
			(Will expect a discrepancy here		
			due to set asides for future expenses)		

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The Year of Not Living Dangerously...How Your First Year of Retirement Could Jump Start Your Longevity Portfolio

The ability to delay gratification has been linked to financial success later in life. If your mother told you to eat everything on your dinner plate in order to "earn" your dessert, was everything on that plate equally bland, kind of awful, or just plain unappetizing? Or was there something you just hated versus something else that you actually liked quite a lot? For example, asparagus (bad) vs. cranberry sauce (quite good), or broccoli (bad) vs. sweet corn cake (really good). You get the picture. Did you then take nibbles of each of the bad and good, or just gobble down the good and procrastinate in finishing the bad? Or did you just "take your medicine" and finish the least pleasant first, because it then made you feel good about slowly savoring the better item, on your way to that glorious dessert? If so, then it was all about deferring gratification.

This is still true today in your financial life.

One of the most significant examples of taking your medicine first and delaying the gratification of a better tomorrow, is with a **Roth IRA conversion**. Follow the rules and ALL future withdrawals will be income tax free at both the federal and (usually) state levels. But income taxes must be paid for the year in which the amount in question is converted from a traditional to a Roth. Here we are assuming it is an all prior deductible IRA, or a rollover from a traditional qualified plan such as a 401(k).

The amount to be paid in income taxes depends upon the total taxable income that the person or couple faces for that year. So this means that the Roth conversion amount lies on top of their earned income, taxable investment income and retirement account distributions that are or will be taken, during that same tax year.

The US Federal income tax brackets are "progressive". This means that as income goes up, not only the amount of tax due increases, but the rate at which that last dollar of income is taxed, goes up. The result is that a middle class couple who would normally be dealing with 12% or 22% tax brackets (under the new tax law), could wind up facing 24% or 32% brackets, if they added in a significant Roth conversion.

It would not just seem like taking your medicine, but almost like drinking from a bottle of rat poison!

This circumstance is the reason why most older people with significantly sized retirement accounts, never do major Roth conversions. What could we possibly do about this?

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If we apply our ***Castling*** principle, we can think of an approach that not only accomplishes the Roth conversion at a much lower cost in terms of taxes, but also helps in setting up a **Longevity Portfolio**. In our Fall, 2018 Newsletter, we describe the concepts behind a longevity portfolio[4], while our Spring, 2018 Newsletter compares and contrasts the longevity portfolio with a longevity annuity[5].

Without getting into all the details again here, suffice it to say that a longevity portfolio is an investment account holding an asset allocation that not only balances the client's various risk tolerances, but specifically is held for very old age. So for instance, a 65 year old couple worrying about outliving their assets, sets up a longevity portfolio with a twenty year time horizon. They will not withdraw from this separate account until one of them turns 85. Otherwise, only under the gravest of emergencies. As a result, their time horizon is essentially no different than that of a forty year old who wants to simply "cash out" his account at age sixty.

The concept at play in both scenarios is something called **time horizon diversification** (THD). Funds which are truly not needed for a longer period of time may be invested in higher growth assets, which naturally carry higher risk. The portfolio would still be very diversified, so the financial failure of one or multiple companies being invested in, would have little impact on the overall investment return. However, year to year returns may swing rather wildly. The investor's focus is on that time horizon, so she would not be paying attention to the daily, monthly or even yearly ebbs and flows in the longevity portfolio.

Instead, attention would be paid to the other accounts and resources which have been properly organized to make retirement work efficiently and effectively.

As always, this is best demonstrated using a realistic example. Here we introduce Dolores and Sam. They are each 65 years of age. Here is a little background on how they have decided to organize their finances, with the help of their retirement adviser. The main feature to note here is that not only are their accounts and portfolios organized by underlying objective, but their retirement time frame has been split into three stages. At each stage, optimal use of the resources available to them, is being made. The table below summarizes the most important decisions that have already been made.

Their current annual income need in retirement is $100,000. Since the financial crisis, both Dolores and Sam have been more cautious than they previously were. Savings was increased. Year by year, they put away more than what was needed for a six month emergency fund. Their adviser mentioned that it would be useful to have two years worth of after tax expenses available in savings, heading into full retirement. They have now amassed about $205,000.

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One thing that they did not have, is a longevity portfolio. All of their investments resided in traditional IRAs and employer sponsored 401(k) plans.

Stage #1:	Ages: 60 – 70
	Major decisions already made or analyzed:
	1. Phased into retirement by working fewer hours, starting at age 60.
	2. Left the full time workforce at age 62.
	3. Began semi-retirement in new dream “mini careers”.
	4. Decided to leave all paid employment at age 65.
	5. Began drawing on small pensions at age 65 ($10K in total, annually).
	6. Decided to hold off taking Social Security until 70, to maximize benefits.
	7. Over the last 10 years, built up $205K cash savings (> 2 years of spending).
	8. Realized that a Longevity Portfolio would be useful, but did not have it ready.
	9. Longevity Setup: Did a Roth IRA conversion at age 65 (both sets of IRAs).
	10. The Longevity Portfolio contains low cost, high quality, growth investments.
	11. No withdrawals from the Longevity Portfolio, even during a bear market.
	12. Lived from savings during the year of conversion (not living dangerously).
	13. Otherwise, live from a core investment portfolio.
Stage #2:	Ages: 70 – 85
	Major decisions already analyzed to prepare for this age band:
	1. Social Security being drawn starting at age 70, in order to maximize benefits.
	2. Continue drawing on small pensions ($10K in total, annually).
	3. Begin drawing on several fixed annuities with a 15 year certain payment period.
	4. Use core investment portfolio to make up for any shortfalls and inflation adjust.
	5. All RMDs (required minimum distributions) are taken, as needed.
	6. Longevity Portfolio in a Roth IRA does not require RMDs.
	7. Simple once per annum re-balancing in Longevity Portfolio.
	8. No withdrawals from the Longevity Portfolio, even during a bear market.
Stage #3:	Ages: 85 – The End
	Major decisions already analyzed to prepare for this age band:
	1. Social Security continues with both spouses happy with the maximized benefits.
	2. Surviving spouse thankful for the maximized benefits.
	3. Continue drawing on small pensions ($10K in total, annually).
	4. All RMDs (required minimum distributions) are taken, as needed.
	5. Longevity Portfolio reallocated to shorter term focus and allocation.
	6. Longevity Portfolio is drawn down to fund a significant part of retirement.
	7. Core investment portfolio could already be somewhat depleted at this stage.
	8. After death of surviving spouse, Longevity Portfolio is the main estate legacy.

We begin by first showing what they would pay in taxes to create this longevity portfolio now at age 65, by doing a Roth IRA conversion on top of their standard retirement income distributions.

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Next, we'll try it using the ***Castling*** approach, by simultaneously drawing on something fundamentally different (i.e. living from their savings portfolio for a year), in order to use the tax code to their advantage. Then we add a third scenario, where the Roth IRA conversion is split over two years. However, we would never recommend that they completely deplete their savings in those two years. The reason for splitting a conversion over more than one year is to make better use of the tax code and the progressive tax brackets.

Our last scenario is a little sneaky. We split the conversion over two years, but spend the first year "*totally not living dangerously*" (aka living completely from savings). This fourth scenario yielded total income tax savings over the first approach, of close to $12K.

While we are not discussing asset allocation for a longevity portfolio here, the emphasis is on growth investments using extremely low cost vehicles, such as index mutual funds or ETFs. Mid-cap stocks, small cap and small cap value stocks, are very much represented in these funds, simply for their long term growth potential. Real Estate Investment Trust stocks (publicly traded REITs) are added for further diversification, since their returns tend to move differently than the other funds. The exact allocations depend upon the risk tolerances of Dolores and Sam. But once arranged, this portfolio requires only annual, end of year re-balancing. Total expenses, including what they pay their adviser, are under our benchmark of 0.30%.

While past history is used to gauge future returns, the future may not be as kind as the past. But all we can use is past history, since we do not predict events and cast a dim view on the forecasting power of Event Level Predictors (ELPers). Using rolling period analysis, we see a high occurrence that our selected longevity portfolio achieved at least a 9% annualized return over a twenty year period. Actually, our data suggests that most of the time, the return has been above 9%. But in the interests of staying conservative with any estimates, we settle for 9% as our target.

Plugging these data into our calculator or spreadsheet, we see that the future value of the longevity portfolio, after 20 years with a compound annual growth rate of 9% and a starting value of $200K would be just shy of:

$1,121,000

Keep in mind that this is reserved for age 85 and beyond. Whatever remains upon the death of the surviving spouse, can be their legacy for another generation.

Yes, patience is a virtue. Not bad, Dolores and Sam. Your future selves deserve this! And it all started with your *year of not living dangerously*.

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Assumptions:

1. Both spouses are now age 65 and have fully retired.
2. Their gross annual income need is $100,000 in retirement
3. $10,000 is received from two very small pensions.
4. This leaves a gap of $90,000 of income needed.
5. Neither spouse is currently claiming Social Security benefits.
6. Their total retirement investment portfolio is $1 million.
7. They also currently have $205,000 in savings accounts and bank CDs.
8. Their adviser has suggested a longevity portfolio (LP) of $200,000.
9. His and hers Roth IRAs will be the account vehicle used for the LP.
10. Roth conversions from existing traditional IRAs will be done.
11. The new LPs will be Mid Cap/Small Cap/REIT stock focused.
12. Extremely low cost investment vehicles will be used for the LPs.
13. The time horizon of the LPs will be 20 years.
14. Annual year end rebalancing back to original allocation done.

First Scenario: **Income Tax Calculation for 2019**

Item	Amount
1. Pension Income Received	$10,000
2. Retirement Account Distributions	$90,000
3. Roth IRA Conversion Amounts	$200,000
4. Adjusted Gross Income (AGI)	$300,000
5. Standard Deduction	-$24,400
6. Age 65 Additional Deduction	-$1,300
7. Taxable Income	$274,300
8. Income Tax on Lower Bracket Amount	$28,765
9. Marginal Income Tax Bracket	24%
10. Marginal Rate Applies to Amounts Over	$168,400
11. Total Income Tax Liability	$54,181
12. Effective Tax Rate based on AGI	18%
13. Effective Income Tax on Converted Amount	$36,121

Second Scenario: **Income Tax Calculation for 2019**

Item	Amount
1. Pension Income Received	$10,000
2. Retirement Account Distributions (savings used!)	$0
3. Roth IRA Conversion Amounts	$200,000
4. Adjusted Gross Income (AGI)	$210,000
5. Standard Deduction	-$24,400
6. Age 65 Additional Deduction	-$1,300
7. Taxable Income	$184,300
8. Income Tax on Lower Bracket Amount	$28,765
9. Marginal Income Tax Bracket	24%
10. Marginal Rate Applies to Amounts Over	$168,400
11. Total Income Tax Liability	$32,581
12. Effective Tax Rate based on AGI	16%
13. Effective Income Tax on Converted Amount	**$31,030**

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Third Scenario: Income Tax Calculation for 2019

Item	Amount
1. Pension Income Received	$10,000
2. Retirement Account Distributions (½ savings used!)	$45,000
3. Roth IRA Conversion Amounts	$100,000
4. Adjusted Gross Income (AGI)	$155,000
5. Standard Deduction	-$24,400
6. Age 65 Additional Deduction	-$1,300
7. Taxable Income	$129,300
8. Income Tax on Lower Bracket Amount	$9,086
9. Marginal Income Tax Bracket	22%
10. Marginal Rate Applies to Amounts Over	$78,950
11. Total Income Tax Liability	$20,163
12. Effective Tax Rate based on AGI	13%
13. Effective Income Tax on Converted Amount	$13,008

Income Tax Calculation for 2020 (Assumed 2019 data)

Item	Amount
1. Pension Income Received	$10,000
2. Retirement Account Distributions (½ savings used!)	$45,000
3. Roth IRA Conversion Amounts	$100,000
4. Adjusted Gross Income (AGI)	$155,000
5. Standard Deduction	-$24,400
6. Age 65 Additional Deduction	-$1,300
7. Taxable Income	$129,300
8. Income Tax on Lower Bracket Amount	$9,086
9. Marginal Income Tax Bracket	22%
10. Marginal Rate Applies to Amounts Over	$78,950
11. Total Income Tax Liability	$20,163
12. Effective Tax Rate based on AGI	13%
13. Effective Income Tax on Converted Amount	$13,008
14. Total Effective Tax (2019/2020) on Conversion	**$26,017**
15. Tax Savings over Scenario 1	**$10,104**

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Fourth Scenario: Income Tax Calculation for 2019

Item	Amount
1. Pension Income Received	$10,000
2. Retirement Account Distributions (savings used!)	$0
3. Roth IRA Conversion Amounts	$100,000
3. Adjusted Gross Income (AGI)	$110,000
4. Standard Deduction	-$24,400
5. Age 65 Additional Deduction	-$1,300
6. Taxable Income	$84,300
7. Income Tax on Lower Bracket Amount	$9,086
8. Marginal Income Tax Bracket	22%
9. Marginal Rate Applies to Amounts Over	$78,950
10. Total Income Tax Liability	$10,263
11. Effective Tax Rate based on AGI	9%
12. Effective Income Tax on Converted Amount	$9,330

Income Tax Calculation for 2020 (Assumed 2019 data)

Item	Amount
1. Pension Income Received	$10,000
2. Retirement Account Distributions	$90,000
3. Roth IRA Conversion Amounts	$100,000
4. Adjusted Gross Income (AGI)	$200,000
5. Standard Deduction	-$24,400
6. Age 65 Additional Deduction	-$1,300
7. Taxable Income	$174,300
8. Income Tax on Lower Bracket Amount	$28,765
9. Marginal Income Tax Bracket	24%
10. Marginal Rate Applies to Amounts Over	$168,400
11. Total Income Tax Liability	$30,181
12. Effective Tax Rate based on AGI	15%
13. Effective Income Tax on Converted Amount	$15,091
14. Total Effective Tax (2019/2020) on Conversion	**$24,421**
15. Tax Savings over Scenario 1	**$11,700**

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Don't Blame Capitalism for the Cost of Your Health Care...Why We Should be Focusing on Price Transparency, Instead

I was told by the pharmacist that the blame lies with capitalism. The person standing in the next line told me to "*shut up and pay, then call my congressman*". All I could think of muttering was "I still have a right to ask my question", as I wandered away from the counter. My question never did get adequately answered during that fateful encounter (let's call that one the "second encounter"). I learned something valuable and that lesson is the basis for this discussion. But let's back up for a moment and set the stage first.

I am one of those who holds a worldview whose underlying principle can be summed up succinctly as:

Value for Value

Using this principle, the world always "remains in balance". We as well, remain in balance in our dealings with one another, by following this principle. This idea can also be restated as:

Something for Something

Which can be differentiated from the other two possibilities:

Something for Nothing

This is what we assure our clients and readers does not exist, or else if it did exist, does not remain for any meaningful length of time. Better to not be obsessed with chasing after it, in the first place.

And Nothing for Something

This last one is truly interesting, because it incorporates the concept of "rent seeking" from economics. This idea is simple: create wealth for oneself, but add nothing of value to the transaction (or hardly of any value). This can be done by governments which add regulation that stifles competition, but that largely benefits the existing large firms in an industry. So called "middlemen" can do the same, if they do not provide some useful attribute (i.e. time or place or liquidity) to a market and simply act to mark up a product that is going for sale at the retail level. Another aspect of this involves intentional obfuscation. When something basic such as prices, are intentionally withheld from us until such time that we can barely react to them, then we never truly have an adequate

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opportunity to make an informed choice. This is, unfortunately, the sorry state of health care in the US.

Let me explain the situation from the beginning. Then imagine how you would react. I was told by my doctor that I needed two new prescriptions. His assistant asked me where my local pharmacy was located. I blurted out the name of a major national chain (which will remain anonymous) who also has a location conveniently close to my home. This was my first mistake. The two Rx's were then made available to me for pick up, a little while later. Oh, how convenient for me, but deadly to my poor wallet!

Some additional background is need here. This all happened in the Fall of 2018. This was the very first time I had used these medications and I knew nothing about them. My health care insurance coverage consists of a high deductible health plan (HDHP) along with a health savings account (HSA). Prescription drug coverage was included, with a Pharmacy Benefits Manager (PBM) who will also remain nameless (although this health insurer has since changed to a different PBM for 2019). Our family deductible had been satisfied for 2018. In fact, we had reached our max out of pocket limit on covered expenses.

So when strolling up to the counter to pick up my two prescriptions (let's call this one the “first encounter”), my mind drifted elsewhere. Much to my surprise and shock, the first Rx cost me $298.96 and the second one was $114.69. In looking at the customer receipt, it mentioned on the first that “Your insurance saved you $318.83” and on the second it stated “Your insurance saved you $125.20”.

The first thought I had was that this just happened to be an expensive pair of medications and my insurance made it somewhat less painful. I simply paid and took them home, without any questions or complaints. That was my second mistake.

We know that health care affects financial planning and financial planning affects health care. I knew that I would need refills at least one more time for each drug. So then I went back to one of my favorite tools: **Pure Analysis**. Could there be a lower cost way of purchasing these medications?

In performing this analysis, I reached a conclusion that not only helped me to purchase the two medications again for only a small fraction of the original price I paid, but it also transformed the way I will forever look at health care. In addition, I will never send another prescription over to the pharmacy chain I previously used. Furthermore, I will never go back there again, not even to buy a bottle of aspirin. But to be fair to all parties, I feel it appropriate to withhold their name in this discussion.

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There is a warning here for everyone. The same thing can happen to you, perhaps at another pharmacy chain, or hospital, doctor's office, clinic, lab, etc. So please read on to see a different approach: **Patients Must Demand Price Transparency**.

A few years ago, I had heard of and even used, the pharmacy coupon service called **GoodRx**. According to their own Website, they are considered a "marketer of prescription discount cards"[6]. This just sounded to me more like a Web shopping promo code service, which may only save you another 5%, on something you probably didn't need to waste money on in the first place.

But in this recent analysis, I found that **GoodRx** has a very simple way of looking up the prices for a whole host of prescription drugs and what their coupon savings would be at: many pharmacies, department stores like **Target** and even wholesalers, such as **Costco**. Curiously, that major pharmacy that charged me over $433 for two Rx's (AFTER insurance), does NOT even post drug list prices on its own Website. But **GoodRx** shows their estimated prices with coupon savings! Is this obfuscation or what?

The same two Rx's purchased at the exact same major pharmacy chain, but with **GoodRx** coupons and without the "help" from the PBM of my insurance company, would have cost only about $100!

But this gets even better. In searching for these prices, I easily found that a major grocery chain has its own "club", the **Kroger Rx Savings Club**[7]. Membership currently costs $36 per year for an individual and $72 for a family of up to six people (and even pets). The Kroger club maintains a list of over 100 popular medications which are specially priced. If I simply prorate the cost of the club membership along with their discounted prices for the two prescriptions I started with, then the next refill cost a total of only $27, instead of $433! It is important to point out that either with this club price or the coupon price, no insurance is used. We cannot simply say that this is a large discount and leave it at that. No, that will not do. Instead, this is the rough equivalent of getting these two Rx's for next to nothing!

When I began this discussion by describing what I called the "second encounter", I was at that major pharmacy chain, picking up something totally unrelated. I thought I would ask the pharmacist on duty (not the same one who filled the original two Rx's) to please explain what was going on with these prices. All I wanted was a truthful explanation. But that was when the wheels went off the rails.

This pharmacist first started explaining something about costs. I don't know or care how much these medications cost them. They would never tell me, anyway. The question was always about how the pricing for the customer is arrived at. This lack of transparency,

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since another person with no insurance coverage, but with a coupon, could pay ¼ as much as I originally did, was also the issue. She dismissed the Web coupons by saying "they sell your information". But I never signed up on their Website. The only thing **GoodRx** knows for sure about me, is my IP address on the Internet and my interest in specific medications. Hardly enough to sell to someone else, don't you think?

The last straw was when the pharmacist blamed "capitalism". So that was why I paid so much? But wait just a minute. If we are going to blame capitalism for why those two prescriptions cost me $433 the first time, shouldn't we also praise that same capitalism for why I was able to find the exact same pair of Rx's for just $27?

We have previously written about the **fiduciary standard**, under which a true adviser is held to the benchmark of utmost good faith and trust. Such a standard is not going to naturally apply to a product salesperson, by comparison. Is there some middle ground where some product and service providers can be seen to provide something close to, if not an exact fiduciary standard? This is a fundamental problem and I don't have a quick answer. This major pharmacy chain prides itself on the level of trust it has built with its customers. This trust may have been misplaced.

The market place has the mirror opposite of a fiduciary standard and it is called "caveat emptor" (let the buyer beware). So if we know, upon entering a situation, that we cannot expect the product seller or service provider to act in our best interests as a fiduciary, then we may necessarily descend from an expectation of utmost good faith and trust, to one of utmost suspicion.

Or, at the very least: trust but verify. This means to shop every single prescription before you fill it at some pharmacy. I would not automatically assume that a savings club or coupon will be the best deal for me, next time. Who knows? I will need to check first to make sure. There is nothing wrong with this approach. You can tell your doctor to give you a written Rx instead of having them phone it in to "your pharmacy".

I never did get an adequate answer from that major pharmacy chain. But in reading about our health care mess in the US, I learned that non-disclosure agreements between the pharmacies and the PBMs can exist. If that pharmacist would have said something like, "I know your frustration, sir, but we have a non-disclosure agreement with your insurance company's PBM and that is why the price is so high and we can't say anything more about it", it would have been more to the point.

This was a matter of obfuscation, not a problem with capitalism. There is no real capitalism unless there are free markets. And there are no free markets without price transparency.

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We can apply this same idea to the hospital side of the health care conundrum, as well. Many people are surprised and shocked to see out of network charges applied to their simple procedure. They start out by selecting both a doctor and a hospital that were in network. After the procedure was done and the billing started, then the real pain began. The anesthesiologist and some strange surgical assistant could then appear to be billed as out of network.

In these cases, the patient needs more clear information and less obfuscation. The leverage exists before the medical procedure is done and when it is considered elective, so that timing is not that critical. But I am not advocating that someone postpone lifesaving medical care while planning their future dispute on a bill that has not yet arrived.

But when the procedure is purely elective, but necessary and there is time to plan it out, the patient needs to be more proactive and to ask questions about all of the billing that will happen. In the best case scenario, you would know the discounted price the hospital has worked out with your insurance company. This is rarely possible in today's environment.

However, you should know about things such as your own deductible, coverage, and max out of pocket limits. You should also know how much is in your health savings account.

The next thing to do would be to find out who will provide supplementary services, in addition to your doctor and the hospital. If the exact name of the service provider is not yet know, his or her company name should have been identified. At that point, you have the right to verify whether that provider is considered in network. If not, it would not be out of place to ask for an alternative, or to reach out to them directly and ask if they will accept the out of network arrangement your insurance company will give them. The main thing is to prevent the shock of the outrageous bill, by being proactive.

Lastly, mistakes in billing for procedures appears to be more prevalent, including double billing. Scrutinizing every statement from both your insurance company (called the EOB or explanation of benefits) and the invoices from providers, can reveal both honest mistakes and also outright fraud. Many patients are simply not paying attention. There is an old saying that "sunlight is the best disinfectant". In health care, price transparency is key. Without it, there is no such thing as a free market. We have merely tried to increase awareness related to the price transparency problem in health care, since this issue does affect financial planning. If you would like to understand this problem in detail, we can recommend no better resource than ***"Overcharged: Why Americans Pay Too Much for Health Care"***, by Charles Silver and David Hyman[8].

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References

1. All **Vanguard** mutual fund data used here was sourced from their Adviser's Website. However, these data can also be found on their Personal Investors Website, by using the following link and entering search terms with the fund ticker symbols provided:
https://personal.vanguard.com/us/
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2. "John C. Bogle: A look back at the life of Vanguard's founder", **Vanguard**. An extremely well done tribute, this Website presentation offers insights into his life that even those of us who thought we knew his story, would find informative. It can be accessed via the following link:
https://about.vanguard.com/who-we-are/a-remarkable-history/founder-Jack-Bogle-tribute/
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3. Interview with Diana Farrell of the J.P. Morgan Chase Institute, **CNBC Squawk Box**, March 9, 2019. This morning pre-market open program has been considered a must see in the financial world for the last two decades. The show's Website can be found via the following link:
https://www.cnbc.com/squawk-box-us/
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4. " 'Organization is what you do before you do something, so that when you do it, it's not all mixed up'...Like With My Finances, Perhaps?", **Castling Financial Planning, Ltd.**, **Fall, 2018 Newsletter**. The longevity portfolio is described in the context of overall retirement financial planning. Please contact us for a PDF copy emailed back to you, free of any cost or obligation.
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5. "The Longevity Portfolio Versus the Longevity Annuity... If You Can't Take it With You, Can You Still Leave it Behind?", **Castling Financial Planning, Ltd.**, **Spring, 2018 Newsletter**. The longevity portfolio is compared and contrasted with a longevity annuity. Please contact us for a PDF copy emailed back to you, free of any cost or obligation.
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6. GoodRx Website. Even if you never use a single **GoodRx** coupon, their Website is a tremendous resource with which to compare prices on medications. It may be accessed using the following link:
https://www.goodrx.com/
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7. Kroger Rx Savings Club Website. While there is a membership fee, the club offers special savings on over one hundred common prescriptions. This is one example of a pharmacy savings plan and others also exist. The main point we raise is that shopping before purchasing is critical, just as it would be with any non health care related purchase. This Website may be accessed using the following link:
https://www.krogersc.com/
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8. Charles Silver and David Hyman, **Overcharged: Why Americans Pay Too Much for Health Care**, Cato Institute, Washington, D.C., 2018. This book covers the health care pricing and transparency problems in detail and is very well written. It can be reviewed and purchased on Amazon, via the following link:
https://www.amazon.com/Overcharged-Americans-Much-Health-Care/dp/1944424768/ref=sr_1_1?keywords=Overcharged%3A+Why+Americans+Pay+Too+Much+for+Health+Care&qid=1559010126&s=gateway&sr=8-1
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Registered Investment Adviser Principal:
Henry F. Glodny,
CRPS®, MBA, MS
Candidate for CFP® Certification as of November, 2016
Principal
Chartered Retirement Plans Specialist(SM)

Mailing Address and Office Location (Hours by Appointment Only):
Castling Financial Planning, Ltd.
1337 Hunters Ridge East
Hoffman Estates, IL 60192

Telephone:
224.353.8567 (Office)
847.284.6647 (Mobile)
Email:
henry@YourIndependentAdviser.com
Facebook:
http://www.facebook.com/CastlingFP
Twitter:
@CastlingFP

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