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Demographic Dilemma: Is America's Aging Population Slowing Down the Economy?

What Is Cyber Insurance and Should Your Business Have It?

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Nonprofit Board Membership: A Primer

If you're looking for creative ways to "give back" to your community or society at large, consider joining a nonprofit board of directors. But where do you begin?

Assess your passions

"Passion for mission" is the most important criterion when recruiting board members.[1] Are you an animal lover or concerned about children's health? Do you currently support youth athletics, art, education, music, religion, or eldercare? Would you prefer to work with organizations whose impacts are felt on a local, regional, national, or international level?

Identify your areas of interest and geographical scope, then investigate potential opportunities. The resources at BoardSource may help you in your search.

Evaluate your contribution potential

Board membership generally requires commitments of time, effort, and money. Be sure you fully understand these commitments and are willing to devote what's necessary to fulfill your obligations.

Time: Board members generally agree to serve for multi-year terms, usually with limitations. (The most common term structure is two consecutive three-year terms.[2]) Meetings typically occur several times throughout the year, in person and/or via conference call. In-between regular meetings, committee work can consume additional time.

Effort: What professional skills do you bring to the table? Nonprofits often need assistance in the areas of financial management, legal counsel, marketing, fundraising, strategy, and operations, and often seek board members who can contribute these and other specific skill sets.

Money: Board members are generally expected to contribute their own money and are often asked to help solicit donations during fundraising drives. In addition, most board members are not reimbursed for expenses, so if you're required to travel, you will have to cover your own (often tax-deductible) costs.

Review your legal responsibilities

All board members carry some level of "fiduciary responsibility," or legal responsibility for financial oversight. Although you don't need to be a certified public accountant or investment manager (most boards have at least one experienced professional to advise on the most complex accounting, tax, and finance issues), you need at least a fundamental ability to interpret financial statements.

State nonprofit governance laws vary, so be sure to inquire about fiduciary responsibility as it relates to your target organization(s). You might also ask about directors and officers insurance, which helps protect board members in the event of a lawsuit.

Understand the recruitment process

Generally, potential board members are invited to join. They will typically undergo a series of two-way interviews with senior organizational management and other board members. These interviews are the perfect opportunity not only to evaluate the rate of success of the organization in pursuing its mission but also to gauge the culture of the organization and its board; to assess the leadership abilities of the executive staff members, board, and committee chairs; and to carefully review the board's by-laws, which govern the responsibilities of the board members and the frameworks under which they operate and make decisions.

Test the waters

Many nonprofits allow people to serve on committees without the multi-year commitment of board membership. For this reason, committee work might be an ideal way to gain valuable insight into the inner workings of an organization and build relationships among senior staff and board members before making the commitment to join a board.

[1-2] Boardsource, Leading With Intent: 2017 National Index of Nonprofit Board Practices

Demographic Dilemma: Is America's Aging Population Slowing Down the Economy?

It's no secret that the demographic profile of the United States is growing older at a rapid pace. While the U.S. population is projected to grow just 8% between 2015 and 2025, the number of older Americans ages 70 to 84 will skyrocket 50%.[1]

With roughly 75 million members, baby boomers (born between 1946 and 1964) make up the largest generation in U.S. history. As a group, boomers have longer life expectancies and had fewer children than previous generations.[2]

Now, after dominating the workforce for nearly 40 years, boomers are retiring at a rate of around 1.2 million a year, about three times more than a decade ago.[3]

Though the economy has continued to improve since the Great Recession, gross domestic product (GDP) growth has been weak compared with past recoveries. A number of economists believe that demographic changes may be the primary reason.[4]

Spending shifts

The lower birth rates in recent decades generally mean that fewer young people are joining the workforce, so the consumer spending that fuels economic expansion and job creation could take a hit. When young people earn enough money to strike out on their own, marry, and start families, it typically spurs additional spending — on places to live, furniture and appliances, vehicles, and other products and services that are needed to set up a new household.

On the other hand, when people retire, they typically reduce their spending and focus more on preserving their savings. Moreover, retirees' spending habits are often different from when they were working. As a group, retirees tend to avoid taking on debt, have more equity built up in their homes, and may be able to downsize or move to places with lower living costs. More spending is devoted to covering health-care costs as people age.

If a larger, older population is spending less and the younger population is too small to drive up consumer spending, weaker overall demand for products and services could restrain GDP growth and inflation over the long term. Less borrowing by consumers and businesses could also put downward pressure on interest rates.

A new normal?

The onslaught of retiring baby boomers has long been expected to threaten the viability of Social Security and Medicare, mainly because both are funded by payroll taxes on current workers. But this may not be the only challenge.

A 2016 working paper by Federal Reserve economists concluded that declining fertility and labor force participation rates, along with increases in life expectancies, accounted for a 1.25 percentage point decline in the natural rate of real interest and real GDP growth since 1980. Furthermore, the same demographic trends are expected to remain a structural impediment to economic growth for years to come.[5]

Put simply, a nation's potential GDP is a product of the number of workers times the productivity (output) per worker, and the U.S. workforce is shrinking in relation to the total population.

The labor force participation rate — the percentage of the civilian labor force age 16 and older who are working or actively looking for work — peaked at 67.3% in early 2000, not coincidentally the last time GDP grew by more than 4%. The participation rate has dropped steadily since then; in August 2017, it was 62.9%. This reflects lower birth rates, increased college enrollment, some men in their prime working years dropping out of the labor force, and large numbers of retiring baby boomers.[6]

Many economists acknowledge that U.S. population trends are a force to be reckoned with, but the potential impact is still up for debate. Some argue that labor shortages could drive up wages and spending relatively soon, followed by higher growth, inflation, and interest rates — until automated technologies start replacing larger numbers of costly human workers.[7]

Even if demographic forces continue to restrain growth, it might not spell doom for workforce productivity and the economy. Another baby boom would likely be a catalyst for consumer spending. Family-friendly policies such as paid maternity leave and day-care assistance could provide incentives for women with children to remain in the workforce. It's also possible that a larger percentage of healthy older workers may delay retirement — a trend that is already developing — and continue to add their experience and expertise to the economy.[8]

1, 3) The Conference Board, February 24, 2017

2) *The Wall Street Journal,* January 16, 2017

4-5) Federal Reserve, 2016

6, 8) *The Financial Times,* October 25, 2016

7) U.S. Bureau of Labor Statistics, 2016-2017, Bureau of Economic Analysis 2017

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What Is Cyber Insurance and Should Your Business Have It?

Forty-eight states and the District of Columbia have laws requiring private or governmental entities to notify individuals of security breaches of personally identifiable information. In addition, the Health Insurance Portability and Accountability Act (HIPPA) requires HIPAA-covered entities and their business associates to provide notification following a breach of unsecured protected health information.

Does your company use electronic data? Does it store or communicate potentially sensitive information about customers, employees, or competitors? If so, then a breach of that data could cost your company plenty. Some well-known organizations have experienced data breaches, including WalMart, JP Morgan Chase, Yahoo, eBay, Target, the IRS, and, more recently, Equifax. Unfortunately, just about any size company or organization that retains personal information can be hit with a cyber attack. One way to transfer some of the risk and costs associated with a data breach or network security failure is through cyber insurance.

What is cyber insurance?

Cyber insurance provides protection against potential costs and financial losses resulting from data breaches caused by cyber attacks, viruses, and other threats. It also helps cover third-party lawsuits filed against your company resulting from data breaches or your failure to adequately protect sensitive or confidential information.

What does cyber insurance cover?

While individual policies may differ, cyber insurance can help cover:

- Loss of data: Cyber insurance may help cover the cost of restoring or reconstructing data that was lost, stolen, or damaged.
- Losses from data breach or security failure: Cyber insurance assists in covering some of the costs of investigating how and where the breach occurred; expenses associated with regulatory fines; legal costs of defending against lawsuits and settlement of claims brought by victims whose information was inappropriately accessed, shared, or lost; expenses related to notifying victims of the data breach, such as customers and employees.
- Costs associated with extortion or ransom demands: That's right, often a cyber criminal will demand a ransom or try to extort money from your company in exchange for your data. Cyber insurance covers some of the costs of paying the ransom for the data or for the restitution to victims whose information was captured.
- Losses from business interruption: If your company must close while the data breach is investigated and resolved, cyber insurance can help offset the ordinary costs and expenses of your business during its down time.

Who needs cyber insurance?

Your company or organization may be a candidate for cyber insurance if it does any of the following:

- Sends or receives documents electronically
- Communicates with customers or third parties via email, text messages, or social media
- Stores third-party information on a computer network that may be considered sensitive or private, such as an individual's identity, tax information, income, address, Social Security and/or credit card numbers
- Stores confidential company information or data (e.g., tax documents, sales or marketing figures or projections, trade secrets) on a computer network
- Advertises company services or products via a website or social media

Aren't these risks covered by business insurance?

Unfortunately, most of the risks and losses resulting from data breaches or losses are not covered by standard commercial general liability insurance. In fact, many policies contain a specific electronic data exclusion. In addition, loss or damage to electronic data isn't considered property damage under a business policy, so coverage wouldn't apply.

Questions to think about

Cyber insurance has policy exclusions, terms, and conditions. When thinking about the purchase of cyber insurance, here are some questions to consider:

- What specific risks are covered, and what risks are not covered?
- What deductibles or coverage limits apply?
- Will the insurer require your company to undergo a security risk review?
- Are there security controls your company can adopt that will decrease the premium?
- Will the insurer identify security risks and offer alternatives to minimize or eliminate those risks?

Plan ahead

Cyber attacks and loss of data can be devastating to a business. Plan ahead before a cyber attack occurs. Evaluate your business and determine areas of particular vulnerability. Then create cybersecurity policies and procedures for company employees to follow. Finally, consider the purchase of cyber insurance to help cover at least some of the risks associated with a cyber attack.

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How can my employer help pay for my education?

Are you planning to go back to school but not sure how you'll pay for it? If you're currently employed, a good starting point is to find out whether any employer-provided education benefits are available to you.

Tuition reimbursement benefits vary depending on the company. Some employers might cover the full cost of tuition, whereas others may cap reimbursement at a dollar amount. Generally, you'll be able to exclude up to $5,250 of educational assistance benefits from your taxes.

In addition, it's likely that you'll have to satisfy other requirements set by your employer to be eligible for reimbursement benefits. These may include, and are not limited to:

- Discussing course of study with a manager or supervisor prior to enrolling (and receiving approval)
- Pursuing a degree or training that is job related
- Maintaining a minimum grade-point average
- Working a certain length of time for the company before taking advantage of the benefit
- Meeting eligibility requirements for regular benefits

You can learn more about tuition reimbursement qualifications by speaking with your human resources department.

Scholarships for employees and their families might also be part of the employee compensation package at some companies. Often this is a payment made to an employee upon proof of enrollment. Employee training programs may also be available to advance skills needed for certain jobs. Some larger companies may have partnerships with local colleges or universities, which can provide company-specific education at a lower cost.

And if you're still seeking additional funds, don't forget to fill out the Free Application for Federal Student Aid (FAFSA) form. Be sure to report your tuition assistance amount from your employer on the form, because this may affect the amount of federal financial aid you receive.

I still have money left in my FSA that I have to use by December 31st. How should I spend it?

Health flexible spending accounts (FSAs) are a great way for individuals to pay qualified medical and dental expenses using pre-tax dollars. While IRS rules do allow employers to offer either a carryover or grace period option for money left over in flexible spending accounts, many employer FSA plans still have provisions that don't allow for funds contributed to an FSA to carry over from one plan year to the next. In other words, if you don't use it, you lose it. If you find that you still have money left over in your FSA as the end of the year approaches, there are a number of ways to spend down your account balance.

FSA funds can be used to pay for a variety of out-of-pocket health-care expenses, such as deductibles and copayments. You can also use your FSA funds to pay for uncovered dental and vision care expenses. So now might be a good time to schedule any medical and dental appointments that you may have been putting off, stock up on contact lenses, or even replace an old pair of eyeglasses.

FSA funds can also be used to pay for both prescription drugs and many over-the-counter products, including:

- Athletic braces and supports
- Bandages
- First-aid kits
- Blood-pressure monitors
- Shoe insoles and inserts

Keep in mind that certain over-the-counter medicines (e.g., pain relievers and allergy medication) require a doctor's prescription in order for you to obtain reimbursement from your FSA.

If you continue to participate in your employer's FSA, remember to choose your contribution amount carefully so that you don't risk losing any contributions going forward. Many FSA plan administrators offer user-friendly websites that allow you to inquire about eligible expenses and keep track of your FSA purchases and account balances throughout the plan year.

"Bearing" in Mind

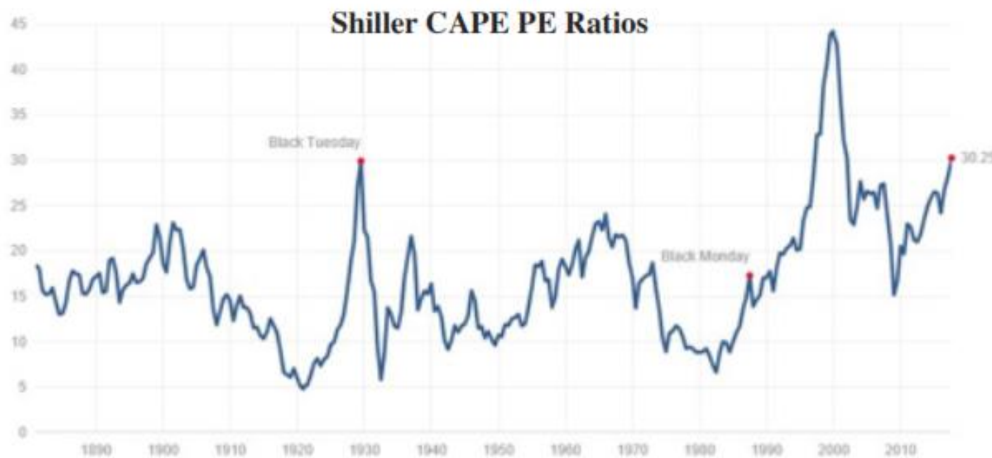
One of the oddities of a significant bull market—and this one we're in today qualifies, as the second-longest in modern American history—is that they tend to go on longer than you might expect from the pure market fundamentals. The last leg of a bull market tends to be driven by psychology; people have recently experienced an up market, and so they tend to expect more of the same. They buy at prices they would never consider buying at when the markets have experienced a downturn, driving prices ever higher without regard to the price. As a result, the long tail of the bull market will also see some of the greatest, fastest increases.

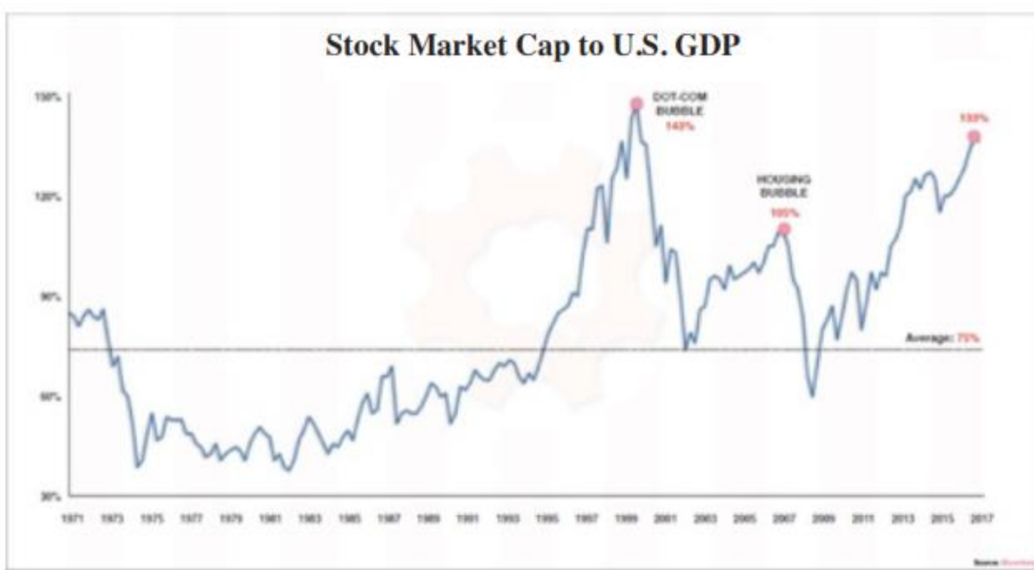
Whenever stocks become more expensive than their long-term averages, we enter a time of when a market downturn should not be a surprise. Today, as you can see from the accompanying charts, The S&P 500 index is moving into rare valuation territory. The first chart shows the evolution of the total market capitalization of the S&P 500 compared with U.S. gross domestic product. The second shows the Shiller CAPE price/earnings ratio—a popular measure of stock market valuations. In both cases, you can see that buying company earnings has actually become more expensive than it was before the Great Recession, and may be approaching the rarified territory of the dot-com bubble.

Of course, we have no way of knowing whether the next year will bring us more good news or the long-awaited downturn of 20% or more (the definition of a bear market). Other than market valuations, the signs are positive. American corporations continue to report strong earnings, economic expansion continues steadily albeit more slowly than historical norms, and a greater number of countries are experiencing sunny economic weather. Persistently low interest rates mean that investment dollars virtually have to turn to the stock market for the potential to earn reasonable returns. And, as mentioned before, the end of a bull market tends to be very generous to patient investors.

The key point to remember is that investment markets are, by their nature, volatile and unpredictable. Historically, the market has experienced a 5% correction every 7.2 months and a 10% correction every 26.1 months. We know that a more precipitous bear market (defined as a drop of 20% or more) is in our future, but we have no idea when or how. We do not practice market timing because we believe that long-term investment success comes from patience. When you jump out of the market to avoid a downturn, there is no way to make up for the returns you lost while you were on the sidelines. All we know for sure is that the next correction will represent an opportunity to rebalance and buy positions more cheaply than today's prices—and, if the past is any indication, to sell higher down the road.

Here's a prediction we can all be confident in: over the next few months or years, you will read financial headlines that say the bull market has a long way to run, and others that will say a devastating bear run is imminent. Please remember that nobody has a magic crystal ball. The more important thing to remember is that markets in the past have experienced terrible losses, only to experience new highs a few years later.





Source:

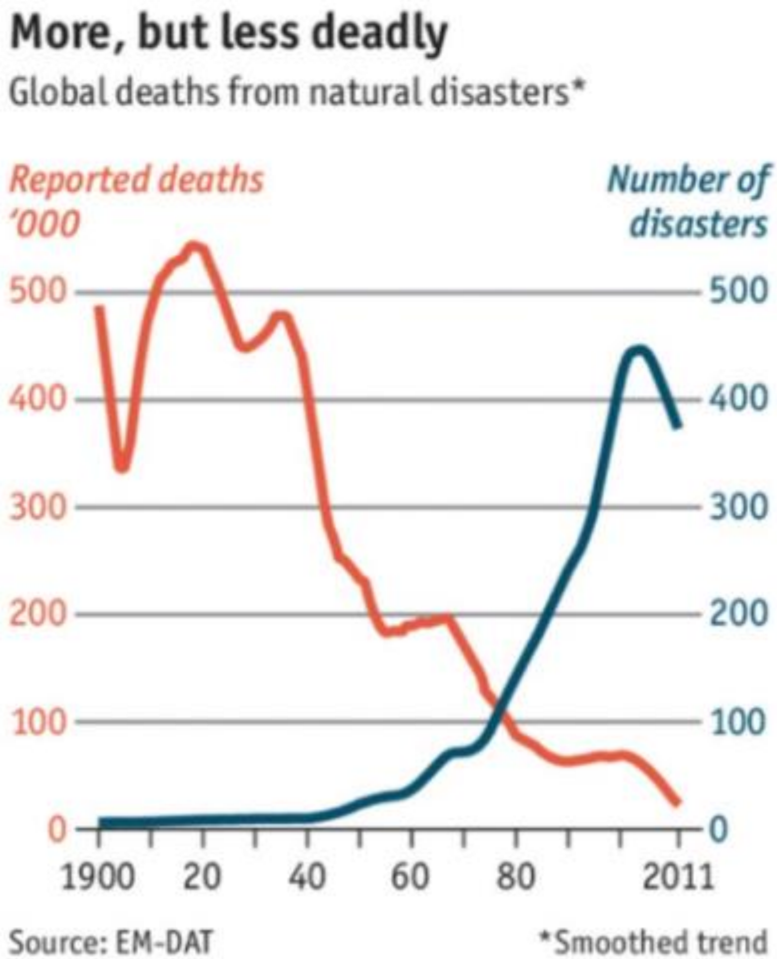
- http://www.marketwatch.com/story/how-couples-can-make-smart-retirement-decisions-together-2016-03-28

Multiplying Disasters?

Does it seem to you that America is experiencing more than its share of natural disasters, and that there are more extreme weather events happening today than ever before? Turns out you're right. Since 1970, the number of major storms, floods, earthquakes and heatwaves that cause at least ten deaths or prompt the declaration of a national emergency has quadrupled worldwide, to around 400 a year. China, India and America suffer the greatest number of natural disasters—not always in that order.

The accompanying chart only goes up to the unusually mild year of 2011, and therefore misses the increases over the last few years, but you can see the trend, and it's an ominous one. But if you look away from the blue line, listing the number of disasters, to the orange one, listing the number of deaths, the situation becomes more hopeful. Due to better preparedness, better home and building construction and more prompt relief efforts, disasters that would have caused many deaths in the early 1900s cause proportionately fewer today.

An article in The Economist warns against complacency, however. Urban planners, it says, have to operate on the assumption of even more extreme events. Today, it appears, the storms and other disasters are delivering a high social cost even before they strike.



Source:
https://www.economist.com/blogs/graphicdetail/2017/08/daily-chart-19

The Antisocial Side of Social Media

Have you ever wondered whether social media was having a positive or negative impact on our mental well-being? The American Academy of Pediatrics has issued a warning about the negative effects of social media on young kids and teens, and of course it mentions cyber-bullying. But it notes that the same risks may be true for adults. The key issues include:

Addiction. It's not clear that there is such a thing as internet or social media addiction, but a review study conducted by researchers at Nottingham Trent University concludes that high participation in social media is associated with such symptoms as neglect of personal life, mental preoccupation, escapism, mood-modification and a willingness to conceal addictive behavior.

Perhaps more tellingly, when people are asked to stop participating in social media, they seem to undergo a kind of withdrawal. A study by researchers at Swansea University found measurable psychological and physiological changes in people who are separated from an intense social media habit.

Sadness and a lower sense of well-being. Facebook use has been linked to less moment-to-moment happiness and less life satisfaction, and the more use, the more these symptoms appear to be present. Researchers believe that frequent Facebook visitors experience social isolation, and that conclusion has now been extended to 11 of the most popular social media sites.

Negative comparisons of our lives with the lives of others. Facebook users seem drawn to compare their lives with the idealized lives that people project with their profiles and picture, and this can lead to depressive symptoms.

Jealousy. Studies have shown that social media use triggers feelings of jealousy and envy. You can see why as people make their lives look better than they actually are when they post happy updates or vacation pictures on Facebook and other media sites. Users who see these posts will be motivated to make jealousy-inducing posts of their own. As they try to compete, they are triggering another round of social jealousy across the network.

The research also found, unsurprisingly, that having more friends on social media doesn't make you more social; it takes actual social interaction to keep up real friendships. A virtual friend doesn't provide the psychological benefits of real friends who are there with you in person. But you probably knew that already.

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'Tis the Season

The period between Thanksgiving and the end-of-year holiday season would seen like a sleepy time for financial planners, but in fact it is anything but. You might be surprised at how much activity takes place on behalf of you and your investments in the final month of the year.

For instance? Even though this has been a good year in the markets, not all investments will have gained value. This is the last opportunity to harvest any losses we find in taxable accounts, by selling investments that have gone down and "booking" the loss. Then we can look for investments that have gained value, sell some of those to offset the losses, and thereby save capital gains taxes in the future. Up to $3,000 of ordinary income can be offset by investment losses as well.

This is also the time of year when mutual fund companies post, in advance, the amount of ordinary income and capital gain distributions they will make to their shareholders. Since the value of the shares drops by the amount that is distributed, this would seem like a non-event performance-wise. But in fact some mutual funds are poised to make 20% or even 30% distributions, and this cash is immediately taxable, unlike gains in the share values, which are only realized when you decide to sell. By selling funds before the distributions, and buying them back later, we can reduce your tax bill this year.

For people over age 70 1/2, this is the time to make sure that the required minimum distributions have been made out of IRA accounts, since failing to take that money out of the tax-deferred bucket would result in an IRS penalty. And of course we keep an eye on the various tax reform proposals, and tentatively plan around them. One possibility this year is to make charitable contributions before year-end, in case the deductibility of your donations goes away. If we believe tax rates are going down, and especially if itemized deductions are about to be limited, we might consider accelerating expenses into this year and deferring income, where we can, into next year's lower brackets.

Meanwhile, we hope you enjoy the holiday season, and that you gain a little extra comfort knowing that a lot of issues are being tended on your behalf.

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