Capital Markets Group

Points to Ponder

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The First Tee...

Retirement Pipedream…lack of retirement savings and the demise of pensions are forcing workers to extend their careers…for some, there is no end in sight *(even wearing bifocals!)*:

- As health-care costs continue rising, employers have been reducing retirement benefits:
  - From 2001 to 2015, employers reduced their contributions to employee retirement by a 25%:
    - The key variable impacting the decline of retirement benefits was the dramatic demise of defined benefit pensions:
      - The shift away from a guaranteed income stream from a defined pension plan to a defined contribution plan leaves retirement savings responsibilities on the worker…about 30% of the workforce does not have access to a retirement contribution plan *(401K abstentia)*.
      - Retirement benefits (including employer contributions to pensions, 401ks and retiree health-care benefits) declined from 9.1% of workers pay in 2001 to 6.8% in 2015…**employer spending on pensions fell by 76% to 1% of workers' pay during this period:**
        - **Over one-third of Americans have no retirement savings**…the median balance in retirement accounts of the Americans saving for retirement is $60k.
  - Retirement costs used to comprise the majority of a company's benefit costs, now it's health-care:
    - For non-retired employees, U.S. companies have doubled their spending on health-care as a percentage of worker pay, rising from 5.7% in 2001 to 11.5% in 2015…health-care costs have risen to 63% of all company benefit spending:
      - Medical benefits for retired workers fell from 1.2% of worker pay to .2% during the 2001 to 2015 time period:
        - Higher health-care costs have impacted worker retirement on two fronts, taking a larger chunk of discretionary income away from worker retirement savings while they are employed, and costing more to cover medical bills after they retire *(double indemnity reversal?)*
- Hoping to fallback on a Social Security/Medicare safety net could have some big holes:
  - If a solution is not found, the trust fund for Social Security's retirement and disability benefits will stop being fully funded in 2034 and Medicare by 2029…benefits are projected to be cut by 25%:
    - Government data shows Social Security has over 61 million beneficiaries and 171 million covered workers and families:
      - The coverage numbers have increased by 32% and 14% respectively over the past 13 years, placing added pressure on the fund:
        - A Transamerica Center survey showed 81% of millennial respondents worry Social Security will not be available when they want to retire.
  - The expanding income divergence is increasing the dependence on government retirement programs:
    - The average pre-tax income, adjusted for inflation, for the bottom half of U.S. adults (117 million people) has remained at $16,200 for the past 30 years…the real pre-tax income for the top 1 percent was $1.3 million as of 2014 (more than 3 times that in 1980):
      - The top 1% income bracket earns almost 20% of the national income, the bottom half of the income bracket earns 12%.
      - The median net worth for households headed by people 65 years or older is $15,000…on average, the poorest 20% of Americans older than 64 earned $38 in annual interest…this same group carries more credit card debt than wealthier seniors (at $2,403).
    - U.S. Census data for 2016 showed 22 million people would have fallen into poverty without Social Security benefits:
      - The average Social Security benefit is $1,360 per month (or $16,300 per year), in which a portion goes to various Medicare premiums
        - Medicare premiums can include Part A (hospital insurance), Part B (medical insurance), Part C (Medicare Advantage), Part D (prescriptions):
          - Another portion of Social Security payments could also be going to supplemental insurance that covers some of what Medicare does not.
        - It is estimated retirement healthcare costs over the next 10 years are likely to rise at an average annual rate of 5.5%.
- The Un-Retirement…a growing number of seniors are working well into their 70's and beyond:
  - Americans are living longer, creating a need (or desire) to work longer into the retirement years:
    - Rising healthcare costs combined with stagnant wages and contracting pensions have pressured retirement budgets:
      - Last year, 32% of Americans between the age of 65 to 69 were employed, 19% of those 70 to 74 were working *(boomer bondage!)*:
        - The employment to population ratio for individuals over 65 years old has not been higher since the mid-1960's, when improved healthcare and Social Security benefits were implemented…Social Security was introduced in 1935, Medicare was started in 1965.
        - It is projected by 2024, 36% of individuals aged 65 to 69 years-old will be active in the labor market…up 22% from 1994 *(senior servitude)*.
    - An Employee Benefit Research Institute survey showed 79% of workers expect to supplement retirement by working:
      - Instead of retiring, many older workers are switching out of traditional jobs into self-employed occupations *(being your own boss)*:
        - The financial impact of a senior worker moving to self-employment results in an average annual earnings decline of $18,600.
      - Health problems could force older workers to quit…recent trends in the U.S. shows American's health levels are deteriorating:
        - Ironically, retirement age seniors who are well educated, highly skilled, healthy and enjoy their jobs are the least likely to need money.
        - Surveys show, 61% of Americans say they retired earlier than planned…25% of workers 55 an older feel stuck in a job and would like to retire

At the turn...

The Back Nine…

Shelter Shift…the multi-family housing building boom may be coming to an end:

- The supply of apartments and condominiums has escalated in the past few years:
  - The multi-family sector was the driving force reviving the housing market following the recession:
    - Apartment demand surged as families were displaced due to single-family home foreclosures, millennials unable or unwilling to commit to home ownership, and the rapid re-inflation of the cost of purchasing a home:
      - Home prices have averaged an annual increase of 7.2% during the past five years according to the Case/Shiller index.
- New multi-family home construction and permits are still rising…although, at a slower pace:
  - Multi-family housing starts had recovered 96% of their losses from the economic downturn by 2016, while single-family starts had only recouped just 45% (builders were hesitant to commit to large numbers of single-home building):
    - The pipeline of apartments under construction is leveling off after hitting a 42 year high in 2017 (market saturation):
      - Builders had completed work at the end of last year on the most apartment complexes since 1988 *(the new American dream?)*.
    - Slower apartment building activity could free-up construction workers for the single-family sector (which is experiencing a labor shortage)
      - Single-family homes under construction have risen to post recession highs…combined with a need for skilled labor is boosting worker wages:
  - Apartment construction spending is forecast to decline by 8% this year, after contracting last year:
    - Prior to 2017, apartment construction spending expanded at a double-digit pace since the beginning of the recovery.
  - The adequate supply of apartments could put downward pressure on rental prices *(supply & demand economics)*:
    - Rental vacancies have increased to a two-year high as demand from the building spree has overtaken demand:
      - Availability of apartment space could ease the pressure on rental rates, which have risen 33% since 2009.

Horn of Plenty…too much green has farmers seeing red (global grain abundance has caboshed crop prices):

- Department of Agriculture projects U.S. farm income will fall to a 12-year low in 2018:
  - Farm profits are forecast to decline 6.7% to $59 billion…down 52% from the $123 billion record high set in 2013:
    - **The New Farm Norm?**...there are theories the increase in agriculture technology will keep crop stockpiles high, causing depressed grain prices as being considered a normal period (with the banner years of 2007 to 2013 being an exception):
      - Crop revenue is expected to fall .8% to $188 billion, livestock to decline .3% to $174 billion…costs to climb 1% to $359 billion.
  - The past 5 years of anemic agriculture profits have forced farmers to expand borrowing leverage:
    - Ag borrowing was up 51% during the 4th quarter versus a year ago…borrowing cost hit a 27-year high at a 4.5% average rate:
      - A majority of farmers remain in a strong financial condition…delinquency rates and non-performing loans are still low:
        - Farmers have a low debt-to-asset ratio compared to levels seen during the farm crisis of the 1980's *(green acres we are there!)*

19th Hole...

Retired: first tired of working. Then tired of not.

Richard Armour

Ross Elford, First Vice President

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