FINANCIAL*ink*®

Your Money Management Newsletter

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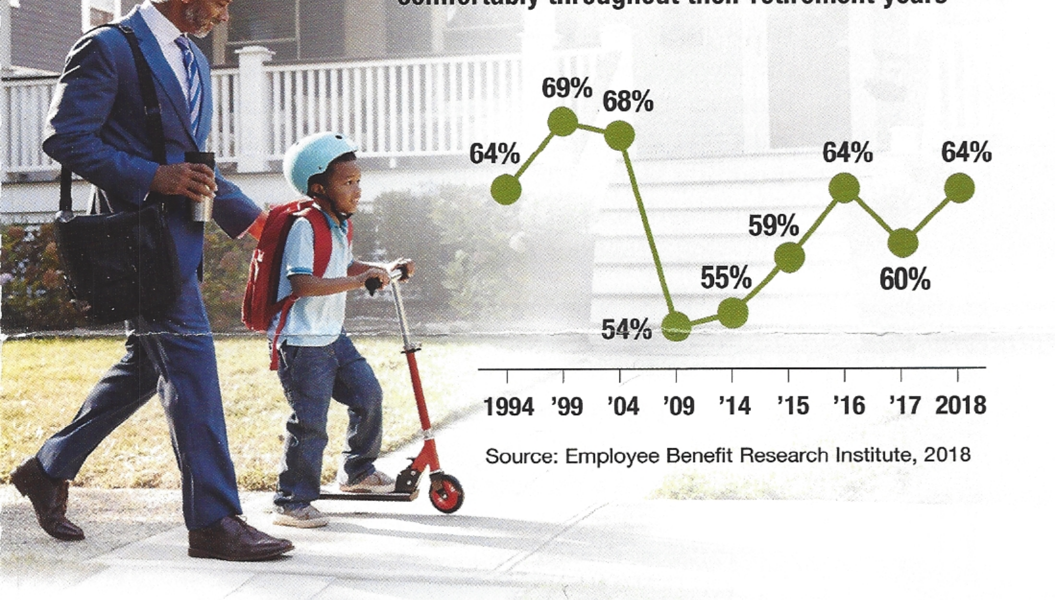
Workers Are More Confident

Worker confidence in having enough money for retirement increased in 2018 but still lags pre-recession highs.

Percentage of workers who are very or somewhat confident that they will have enough money to live comfortably throughout their retirement years



Source: Employee Benefit Research Institute, 2018

71%

Percentage of parents with school-age children who are satisfied with the quality of their oldest child's education. Only 48% are satisfied with the overall quality of K-12 education in the United States.

Source: Gallup, 2018

Practical insights for your **FINANCIAL GOALS**

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Need to Tap Your 401(k)? Proceed with Care

Everyone faces challenges, and some challenges require more cash than you have readily available. If you find yourself in that position, you might eye your 401(k) balance and consider using those funds to meet your present needs. That's a natural response, but it's usually not a good idea.

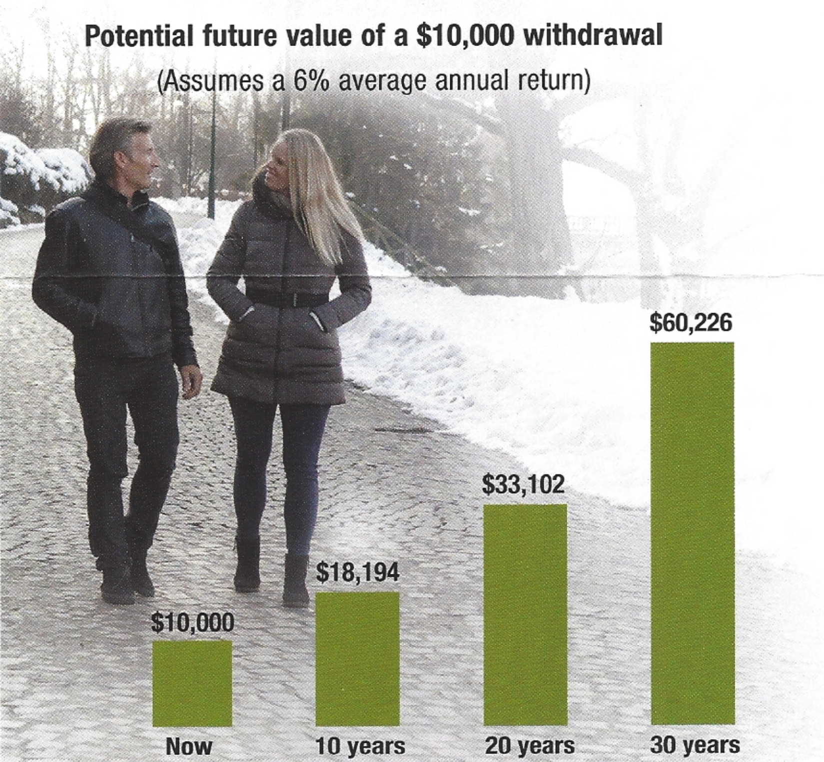
Taxes and Lost Growth

If you are younger than age 59½, you generally cannot withdraw funds from your employer's retirement plan while you are still employed, unless you qualify for a hardship distribution (explained later). If you are older than 59½, some plans may allow an in-service distribution. Even if you are eligible, all distributions from a traditional 401(k) are subject to ordinary income tax, and a 10% federal income tax penalty generally applies to withdrawals before age 59½. If you are in the 22% federal income tax bracket, a $10,000 withdrawal might put less than $6,800 in your pocket ($10,000 minus $1,000 penalty, $2,200 federal income tax, and any state income tax).

That's a significant deterrent in itself, but the greater penalty could be the loss of future savings growth needed for retirement (see chart).

Lost Opportunity

An early retirement plan withdrawal could end up costing more than you might imagine.



This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Consider a Loan

If you really need to tap your 401(k) funds, a loan might be a better option, as long as loans are allowed by your plan and you anticipate staying with your employer long enough to pay the loan back. Under IRS rules, loans are limited to the lesser of $50,000 or 50% of the vested account balance. Loans must be repaid within five years (longer terms may be allowed for a home purchase). However, each plan is allowed to set its own interest rates and repayment policies. The good news is that even though the plan is required to charge interest, the interest is paid back to your own account.

Of course, borrowed money isn't pursuing investment returns, so your retirement savings goals may be interrupted as long as the loan is outstanding. If you leave your employer, you have until October of the following year (the federal income tax extension deadline) to put the borrowed money back into the old plan, a new employer plan, or an IRA. Failing to repay on time means the outstanding balance may be treated as a distribution and subject to ordinary income tax and the 10% early-withdrawal penalty.

Hardship Distributions

Although not required to do so, a plan may allow participants to take hardship distributions limited to the amount necessary to meet an "immediate and heavy financial need." Before taking a hardship distribution, you must take advantage of all other available distributions, including loans. The employer can make its own determination as to hardship, but the IRS considers the following situations to meet the definition:

- Medical expenses for the employee, the employee's spouse, dependents, or beneficiary
- Costs directly related to the purchase of an employee's principal residence (excluding mortgage payments)
- Tuition, related educational fees, and room and board expenses for the next 12 months of post-secondary education for the employee or the employee's spouse, children, dependents, or beneficiary
- Payments necessary to prevent the eviction of the employee from the employee's principal residence or foreclosure on the mortgage on that residence
- Funeral expenses for the employee, the employee's spouse, children, dependents, or beneficiary
- Certain expenses to repair damage to the employee's principal residence

Keep in mind that, as with other withdrawals, a hardship distribution is subject to ordinary income tax and a potential early-withdrawal penalty.

Looking Back, Looking Ahead

January is named after the Roman god Janus, who was portrayed as having two faces: one looking backward, the other looking forward. In a similar manner, economists like to look in both directions to better understand economic trends. But instead of two faces, they use economic measures called "indicators."

Some economists consider unusual trends. For example, former Federal Reserve Chairman Alan Greenspan thought that sales of men's underwear could be an indicator, because when times are tough, underwear is among the first purchases that men postpone. It's also been suggested that an increase in coupon redemptions could be a sign of an economic downturn, while higher champagne consumption can signal good times.[1–2]

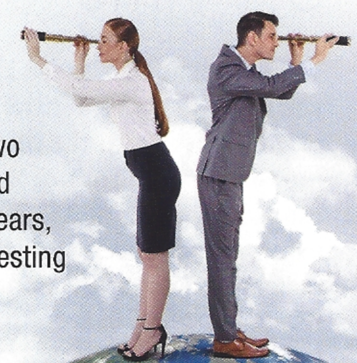
These may be fun to consider, but serious economic indicators focus on hard data. The most commonly studied indicators are tracked and published by The Conference Board, an independent research organization. Composite indexes of each type of indicator are designed to more clearly summarize and reveal economic patterns and turning points by smoothing out the volatility of individual components.[3]

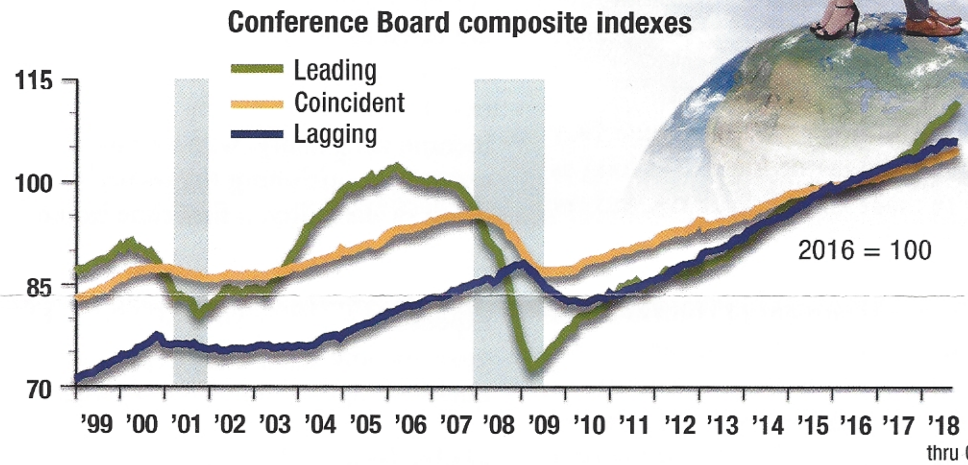
Leading indicators garner the most attention because they may forecast the future direction of the economy. The Conference Board Leading Economic Index® includes 10 components:[4]

- Weekly hours for manufacturing workers
- Initial unemployment insurance claims
- Building permits
- Stock prices
- Credit activity
- Interest rate spread between 10-year Treasury bonds and the federal funds rate
- Consumer expectations for business conditions
- Three separate measures of manufacturers' new orders

Three Views of the Economy

The leading index turned downward well before the last two recessions (shaded areas), while the lagging index dropped when the recessions were under way. Over the past two years, the leading index has outpaced the coincident index, suggesting the potential for continued economic growth.





Sources: Haver Analytics, 2018; National Bureau of Economic Research, 2018

These all tend to signal potential shifts in the broader economy. For example, when unemployment claims drop or building permits increase, the economy may be improving. Conversely, a rise in unemployment claims or a drop in building permits could signal a downturn.

Coincident indicators generally move in step with the broader economy and may offer confirmation that the economy is moving in a particular direction. The Conference Board Coincident Economic Index® tracks four indicators:[5]

- Employees on nonagricultural payrolls
- Personal income
- Industrial production
- Manufacturing and trade sales

These factors help to define the current state of the economy.

Lagging indicators can help confirm that an economic trend has occurred in the past or is already in progress. The Conference Board Lagging Economic Index® includes seven components:[6]

- Ratio of inventories to sales
- Average length of employment
- Consumer installment credit
- Commercial and industrial loans
- Prime interest rate
- Labor costs in relation to manufacturing output
- Consumer price index for services

These measures tend to move more slowly than the broader economy. For example, the recession officially ended in 2009, but wage growth (i.e., labor costs) has only recently begun to pick up speed.[7]

Although economic trends are important, it might not be wise to place too much emphasis on these indicators when making investment decisions. A sound investment strategy should be based on your time frame, goals, and risk tolerance.

All investing involves risk, including the possible loss of principal.

1–2) *Forbes*, February 28, 2018; October 24, 2016

3–6) The Conference Board, 2018

7) U.S. Bureau of Labor Statistics, 2018

Still Time to Save Taxes with an IRA Contribution

The calendar may read 2019, but you can still make a 2018 contribution to your IRA up to the filing deadline for your tax return, not including extensions — April 15, 2019, for most taxpayers. You must indicate to the plan sponsor that the contribution is for 2018. The 2018 contribution limit is $5,500 ($6,500 if age 50 or older).

A Retirement Discount

Contributions to a traditional IRA are generally tax deductible as long as they're made by the deadline. Income limits apply for workers who are covered by a retirement plan at work.*

The tax treatment of contributions to a traditional IRA is the same regardless of when you contribute during the year. But it may be easier to see the immediate benefits at tax time, when you have a clearer picture of your income tax liability. Whether you owe taxes for 2018 or expect a refund, the reduction in your tax liability could help fund your contribution (see chart). There may also be a reduction in state income taxes. And don't forget the potential for tax-deferred growth over the coming years.

Along with the tax deduction for contributions, any earnings in a traditional IRA are not subject to current income taxes. IRA withdrawals are taxed as ordinary income, and distributions taken prior to age 59½ may be subject to a 10% federal income tax penalty, with certain exceptions, including the owner's death or disability; a first-time home purchase ($10,000 lifetime maximum); qualified, unreimbursed medical expenses exceeding 10% of adjusted gross income (7.5% in 2019); and qualified higher-education expenses.

Although contributions to Roth IRAs are not tax deductible, contributing for 2018 could help build your account to take advantage of tax-free withdrawals after age 59½. To qualify for a tax-free and penalty-free withdrawal of earnings from a Roth IRA, the distribution must meet the five-year holding requirement and take place after age 59½, with the same exceptions as those for traditional IRAs.

Making regular contributions to your retirement account throughout the year may be the wisest approach. But if you have not yet maximized contributions for 2018, consider taking advantage of the opportunity before your tax filing deadline.

**For active participants in employer-sponsored retirement plans, deductions phase out in 2018 for those with a modified adjusted gross income of $63,000 to $73,000 (single filers) or $101,000 to $121,000 (joint filers).*

Help from Uncle Sam

Potential reduction in federal income tax liability for 2018 contributions to a traditional IRA

Contribution	Tax bracket					
	12%	22%	24%	32%	35%	37%
$5,500	$660	$1,210	$1,320	$1,760	$1,925	$2,035
$6,500	$780	$1,430	$1,560	$2,080	$2,275	$2,405

This hypothetical example is used for illustrative purposes only. The actual net reduction in federal income taxes owed will vary.

Have you taken advantage of tax-deferred savings opportunities for 2018? Do you want to start preparing for 2019? Call us for an appointment today.