YOUR FINANCIAL FUTURE

Your Guide to Life Planning

September 2017

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In This Issue

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Inflation -- The Subtle Thief of Your Purchasing Power

American workers are laboring as diligently as ever, but they have little extra to show for their effort. Combine meager pay increases with the slow but steady effects of inflation, and it is easy to see how families are barely breaking even.

Workers have been receiving, on average, 2% pay increases for the past three years.[1] But when you adjust that increase for inflation, what's left is negligible. In April of this year, for instance, inflation-adjusted earnings rose just 0.3% from the previous year. In April 2016, wages rose 1.2% annually after inflation, and in 2015 that figure was double -- at 2.4% -- thanks to near-zero increases in the cost of consumer goods and services at that time.[1]

Ramping Up?

While inflation rose 2.2% for the 12 months ending in April, policymakers at the Federal Reserve -- the nation's central bank and overseer of our monetary system -- expect price increases to level off at the Fed's annual inflation target of about 2%. Still, with wages following a similar trajectory, workers are left feeling the squeeze in their wallets, despite bigger pay days.

Follow the CPI

The most common measure of inflation is the Consumer Price Index, or CPI. The CPI is based on a monthly survey by the U.S. Bureau of Labor Statistics. It compares current and past prices on a "basket" of common expense categories, including housing, transportation, and clothing.

While inflation has been a constant fact of life in the U.S. economy, it can be particularly damaging to retirees, many of whom are living on fixed incomes. For many, Social Security is the only retirement income that increases through cost-of-living adjustments (COLAs) to reflect any increase in the cost of living as measured by the CPI.

It may be easy to overlook inflation when preparing for your financial future. After all, an inflation rate of just 2% to 3% -- which we have been experiencing for the past several decades -- may not seem worth noting, until you consider the impact it can have on your purchasing power over the long term.

Consider that at just a 3% inflation rate, a $100,000 nest egg today would be worth only $74,409 in today's dollars 10 years from now, $55,368 in 20 years, and $41,199 in 30 years.

As you can see from this example, the further away you are from retirement, the more potential inflation has to erode your future purchasing power, and the more important it is for you to choose investments that can potentially help you stay ahead of inflation.

Talk with your financial advisor to learn more about managing the impact of inflation on your investments.

[1]*The Wall Street Journal, "Don't Feel That Pay Raise? Blame Inflation," May 12, 2017.*

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IRAs account for nearly half of all assets in private sector retirement plans, far exceeding monies held in either defined benefit or defined contribution plans.

IRAs: Who's Contributing Today?

When traditional IRAs were introduced more than four decades ago, the federal government sought to give individuals without access to an employer-sponsored retirement plan a way to save for retirement in a tax-advantaged manner. Fast-forward to today, and IRAs account for nearly half of all assets in private sector retirement plans, far exceeding monies held in defined benefit and defined contribution plans.[1]

Retirement Assets by Plan Type -- Q3 2016

Defined Benefit Plans	Defined Contribution Plans	IRAs
$3.3 trillion	$5.7 trillion	$7.8 trillion

Sources: The Center for Retirement Research at Boston College and the U.S. Board of Governors of the Federal Reserve Systems, *Flow of Funds Accounts* (2016).

Yet even though more than one-third of American households -- some 43 million -- now own IRAs, just 14% of all U.S. households contributed to an IRA in 2015. Instead, the vast majority of assets held in IRAs come by way of rollovers from employer-sponsored retirement plans.

Who's Using IRAs?

With rollover assets dominating the IRA landscape, the real question becomes: Who is contributing to an IRA today? To help answer this question we turn to recent research published by The Center for Retirement Research at Boston College (CRR). The CRR compiled key demographic and financial data about IRA owners who contribute to their accounts versus those who do not.

Among other discoveries, the report revealed that IRA contributors are more likely to be white, college educated, married individuals in two-earner households. IRA contributors are also more likely to contribute to a 401(k) account (in addition to an IRA) and have higher household earnings that non-contributors.

Characteristics of IRA Owners by Contribution Status, 2011 (Ages 25-70)

Characteristic	Not Contributing	Contributing
Demographic		
White	68%	86%
College or more	33%	61%
Average age	45	47
Marital status		
Single	30%	26%
Married, one earner	39%	35%
Married, two earners	31%	39%
Employment and financial		
Currently participates in a 401(k)	30%	53%
Average household earnings	$70,197	$110,523
Self-employed	9%	14%

Sources: The Center for Retirement Research at Boston College. Authors' calculations from U.S. Census Bureau *Survey of Income and Program Participation*, 2008 panel.

Find Your Match

The researchers further broke down the data, creating three prominent subgroups within the IRA contributing population.

1. Dual-income super savers -- Married couples in two-income households that frequently also contribute to an employer-sponsored retirement plan. This group is motivated to save beyond their 401(k)s and is attracted by the tax benefits of IRAs.

2. Frugal breadwinners -- Either single individuals or one-earner married couples in the middle-income range that also tend to participate in an employer's retirement plan. This group could be described as thrifty and knowledgeable about the income requirements of retirement.

3. Successful entrepreneurs -- Higher-income, self-employed individuals who are not currently contributing to a 401(k). This group uses IRAs as an alternative vehicle to an employer plan to save for retirement.

Keep in mind that with just 14% of American households contributing to IRAs, these groups represent a very small minority of the population. As for IRAs, they continue to serve primarily as repositories for assets accumulated in employer-based plans -- not as the tax-advantaged retirement savings vehicles intended for those individuals without access to a workplace plan.

[1]*The Center for Retirement Research at Boston College, "Who Contributes to Individual Retirement Accounts?" April 2017, Number 17-8.*

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