# Reinventing RETIREMENT

Your Retirement Planning Newsletter

Third Quarter 2018

## In the Driver's Seat

**When it comes to investing for retirement, it's up to you to decide how to manage your plan**

Your company offers a major benefit through its retirement plan — a powerful vehicle that helps you save. It's up to you to decide how to make the most of its many features, including deciding on your investments. But you don't have to go it alone... whether you want to "do it yourself," have a professional "do it for you" or "get some help doing it," most plans offer a wealth of resources to get you started and keep you on track.

### Drive the "car" yourself

If you're interested in learning about the investment markets and comfortable making the choices that are right for you, you may want to be more involved in managing your plan. When you choose to "do it yourself," you:

- Mix and match individual funds from your plan's investment menu.
- Select an asset allocation fund that invests in accordance with your tolerance for risk, and then decide when you want to change to another fund when your risk tolerance or new financial circumstances warrant.
- If you are interested in an "all-in-one" type of investment that automatically invests according to your time horizon to retirement and beyond, you may want to consider a target-date fund.

### Uber your future!

Would you rather focus your time on interests outside of investing, taking more of a hands-off approach to managing money? Maybe you're a "do it for me" investor. This option may be appealing to you if your finances are complex. Say your financial goals include buying a first home, having children or caring for parents. As a "do it for you" investor, you can have an investment professional select and manage the funds in your account for an annual cost and provide financial planning to help you pursue your goals.

### Maybe ridesharing is more your speed

Maybe you'd like to keep control over the funds you select in your account but would like someone to talk to about your decision. This describes the "get some help doing it" investor. Most retirement plans offer access to online advice tools, or a toll-free Call Center that you can call for guidance about the investments offered under your plan, how to allocate them, and when it may make sense for you to rebalance.

### Enjoy the journey — and the destination

No matter how you choose to manage your retirement plan, it's important to stay active and on top of your retirement plan. Remember, it's very important to:

- Periodically review your portfolio and rebalance to your preferred target allocation if necessary;
- Think about combining accounts to take advantage of potentially lower fees and built-in fund monitoring that's available in your current company's plan;
- Update beneficiary designations after major life events (e.g., having a child, entering into marriage or going through divorce); and
- Choose income options that fit your needs (e.g., systematic, partial, lump-sum withdrawals — or keep investing if you don't need income right away).

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# Managing the Emotions of Volatile Markets – a Survey

The financial markets in 2018 experienced lots of ups and downs we haven't seen in a long time. How do you stay focused on your goals when the markets get volatile? Take this short quiz to uncover your feelings about investing.

1. **When do you plan to stop working?**
   a. 40 years or more
   b. 20 years
   c. 10 years or less
2. **When the stock market drops 10% or more, how do you feel?**
   a. I pay no attention.
   b. I become a little concerned, but generally stick to my investment game plan.
   c. I freak out.
3. **How often do you check your retirement account balance?**
   a. Once a year
   b. Three or four times a year
   c. Every day
4. **Which of the following statements captures your feelings about losing money in the short run?**
   a. Markets go up and down every day. Over longer timeframes, their historic tendency has been to rise.
   b. I check to see if my asset allocation is significantly out of balance, but generally don't do anything about it. Markets eventually recover.
   c. I feel sick, and want to sell everything.
5. **What's the most important factor when thinking about risk and reward in your retirement plan?**
   a. It's time in the market, and not timing the market, that counts.
   b. I accept risk as a normal part of investing. Without some level of acceptable risk, I cannot expect to get a reasonable return.
   c. The risk of losing money in the markets is intolerable to me.

## Score your answers

Give yourself 20 points for each answer "a"; 15 points for every "b" and 5 points for each answer "c". Total your score.

**80 to 100 points (Green light):** You are comfortable with maintaining your long-term investment strategy through volatile markets.

**40 to 79 points (Yellow light):** The risk of loss is somewhat concerning to you, whether that's because you are getting closer to retirement age or feel anxious when markets go down. Think about resetting your asset allocation to be more conservative.

**20 to 39 points (Red light):** The risk of losing money is weighing heavily on you. Spend some time to understand how stocks, bonds and cash investments have performed historically, and consider working with a financial advisor who is sensitive to your feelings and who may be able to suggest investment products that seek to limit losses.

The scores are based on generally accepted investment principles and are not intended as investment advice or recommendations.

There is no guarantee that a particular investment strategy or asset allocation will meet your objective.

Additional factors should be considered as part of a comprehensive review of your individual financial situation.

# Bond Funds May Help Diversify Your Portfolio

Most investment experts talk about the benefits of diversification — essentially, mixing some stocks, bonds and cash in your portfolio. Having too many eggs in one basket, so the reasoning goes, means that you could wind up with broken eggs if the basket falls.

Bonds and bond funds are common in retirement portfolios because they typically perform differently than stocks. When you own a stock, you own a share of ownership in a company. But when you buy a bond, you are simply making a loan to a government body or to a corporation. The borrower promises to pay back the bond holder the amount of the loan, plus interest. Bonds issued by government agencies (the U.S. Treasury, for example) are generally considered among the safest investments you can buy, since they are backed by the "full faith and credit" of the United States, one of the world's largest and most stable economies.

## So, what do bonds do for you?

There are a number of potential benefits to owning bonds:

- **Current income:** Most bonds pay a fixed rate of interest for a certain period of time, say, 3% a year for 10 years. At the end of that period, you get your principal investment back.
- **Diversification:** Bond prices often move in opposite direction to stock prices, meaning that when bonds are rising in price, stocks can be moving down. This can provide a stabilizing effect on your portfolio. (In another twist, when bond prices move up, their yields go down.)
- **Priority payment:** Another benefit to bonds is that if the company issuing them goes bankrupt, bond holders get paid before stock holders. Bonds generally have low default rates, meaning that companies tend to make it a priority to pay the interest due on any loans outstanding.

To be fair, bonds have certain drawbacks. For one, they do not offer growth potential. You know what to expect with a bond — your money back plus interest.

Second, some bonds are callable, meaning that the issuer can redeem (take back) the bond prior to maturity. Companies tend to do this when interest rates are low, and they can reduce their borrowing costs. You get your money back, but no interest for the remaining term of the bond.

Third, the value of your bond will fluctuate depending on current interest rates. When rates rise, the value of the bond falls. In a rising interest rate environment, choosing a bond or bond fund with shorter than average duration (that is, its sensitivity to current interest rates) will make it less likely that its value will fluctuate.

There are some key differences between owning individual bonds and bond funds. Return of principal is not guaranteed in bond funds and the interest can fluctuate with changes to the underlying bond portfolio. Interest rate payment frequency varies between individual bonds and bond funds and there are additional fees and expenses associated with bond funds that do not apply to individual bond ownership.

Diversification, asset allocation, and rebalancing do not assure profits or protect against losses.

# Retirement in Motion

Tips and resources that everyone can use

## New tax law changes treatment of mortgage interest

For 2018, taxpayers may only deduct interest on $750,000 for qualified residence loans taken out after Dec. 15, 2017. This new limit applies to the combined amount of mortgage and home-equity debt. In addition, the new limit applies only to loans used to buy, build or improve the taxpayer's main home and second home, according to the IRS. Taxpayers no longer can deduct a home-equity line of credit for any purpose. Source: irs.gov.

## Q&A

### Should I contribute to my company's Roth 401(k)?

The basic difference between a traditional 401(k) and a Roth 401(k) is when you pay the taxes. In a traditional 401(k), you make contributions with pre-tax dollars, so you get a tax break up front that lowers your current income tax bill. With a Roth 401(k), it's the reverse: you make contributions with after-tax dollars, but withdrawals of contributions and earnings are 100% tax-free at age 59½, so long as you've held the account for five years. Although everyone's situation will be different, many advisors suggest splitting your contributions between your traditional 401(k) and Roth 401(k) to enjoy their dual tax benefits.

## Quarterly Reminder

### Open Enrollment season

Take advantage of Open Enrollment at your company, which usually happens in November. This is a good time to make sure you are maxxing out your retirement account contributions, adjusting tax withholdings for the upcoming years, and checking your overall benefits such as life insurance, health savings accounts (HSAs) or flexible spending accounts (FSAs).

## Tools & Techniques

### Looking for free financial advice?

Smart Money Week, launched by the Federal Reserve Bank in 2002 for people of all income levels, is one of the most comprehensive financial literacy programs in the country. And it's free! Get informed about saving for college, buying a house and using credit wisely. Source: moneysmartweek.org.

## Corner on the Market

### Basic financial terms to know

**Managed Account** – a fee-based investment product for individuals that offers a high degree of customization of investment managers, along with certain tax efficiencies. A managed account often charges fees that are higher than mutual funds or exchange-traded funds (ETFs) to compensate the investment advisor for the higher degree of customization it offers, or access to highly skilled investment managers.

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