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REINVENTING
Retirement

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YOUR RETIREMENT PLANNING NEWSLETTER

How to Save $3,000 This Year

Making thrifty decisions can become a regular habit that adds up

We all know how difficult it is to put aside money for the future when there are so many competing claims on your income. Small wonder that half of American households currently have no savings for when they stop working.[1]

But trimming a few dollars here, a few there in the daily way you shop, drive, cook or use utilities can add up to serious savings and can be a good way to pad your nest egg. Try these 10 savvy tips, adapted from AARP[2], and you could add upwards of $3,109 to your wallet this year.

Shopping

- **Store brands.** A recent survey of the cost of 16 common grocery items showed that name-brand items cost $56.24 while store brands totaled $41.51.[3] Annual savings: **$766.**
- **The soap slope.** A branded liquid soap pump costs about $1.50, but a gallon sets you back only $14, good for 17 refills (or $0.68 a pop). Annual savings: **$20.**[4]
- **Robotic rebates.** Use your computer to automatically search for savings at joinhoney.com. A toaster priced at $45 recently was priced at $9.99 after mail-in rebate — with free shipping! Savings: **$35.**

Driving

- **Tire-lessly.** If the best price for four tires at your local tire shop is $448, try an online store. With free delivery and $80 installation fee, you might save a bundle.[5] Savings: **$68.**
- **Blow 'em up.** Underinflating tires by just 5 percent can cost you $2.50 in monthly gas, plus wear and tear.[6] Keep them properly inflated. Annual savings: **$30.**
- **Air it out.** Changing your car's air filter — a big contributor to improving the air quality inside your vehicle — takes just five minutes and will save you $19 in labor.[7] Savings: **$19.**

Cooking

- **Dress for success.** A simple vinaigrette of Dijon mustard, red wine vinegar, olive oil and salt and pepper can save you $1.50 a week over store-bought dressings. Annual savings: **$78.**
- **Veg out.** Foregoing meat one day a week save you an estimated $10 per week — and may possibly deliver ecological and health benefits.[8] Annual savings: **$520.**

Heating and Cooling

- **Turn off the AC.** On average, air conditioning in your home costs 36 cents an hour, but ceiling fans only about 1 cent an hour.[9] Assuming you only need cooling for half the year, that could mean **$1,533** in annual savings.
- **Pipe up.** Insulating your hot water lines with preformed foam insulation jackets could lower your power bill by **$40** a year.

Have a great savings idea that you'd like to share in a future issue of this newsletter? Drop us a line at info@kmotion.com.

1 "The Real Reason People Don't Save for Retirement," Forbes.com, February 24, 2016. https://www.forbes.com/sites/lawrencelight/2016/02/24/the-real-reason-people-dont-save-for-retirement/#2750189837c5.

2 AARP, Great Money Saving Tips. http://www.aarp.org/money/budgeting-saving/info-2017/great-money-saving-tips.html.

3 http://www.threethriftyguys.com/2016/06/brand-name-vs-no-name-brand-a-price-comparison. Assumes consumers purchase identical items each week.

4 http://www.aarp.org/money/budgeting-saving/info-2017/how-to-save-20-dollars.html.

5 tirebuyer.com.

6 AARP, op cit.

7 Ibid.

8 https://www.aol.com/article/finance/2016/04/29/meatless-monday-can-save-you-money-savings-experiment/21346907/.

9 AARP, op cit.

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Mixing It Up: Income Planning

Here's a primer on how to tap various sources of income in retirement

To enjoy a long and comfortable retirement, you may need to balance multiple types of income streams in your retirement portfolio. This could help you achieve the most advantageous mix of investment growth, income and tax control that's appropriate to your risk tolerance, income horizon and goals. These streams can come from the following types of investments:

Retirement accounts
Your 401(k) or IRA can be used as a source of income once you reach age 59 ½ and begin to take withdrawals.[10]

Dividend-paying stocks
Some mature companies return a portion of their profits each year to holders of their stock in the form of dividend payments.[11] The stocks in the S&P 500 historically have generated an average yield of 4.3%, although it's currently closer to 2.0% today.[12]

Bonds
These are "IOUs" issued by a government agency or a corporation, and generally pay you back your principal and a fixed rate of interest over a specific time period.

Social Security benefits
Social Security benefits generally replace about 40% of an average wage earner's income after retirement.[13]

Annuities[14]
Issued by an insurance company, an annuity converts a single lump sum of money into a regular stream of income payments, either with a fixed or variable rate of interest, for a predetermined amount of time.

As with any investment strategy, it's important to plan, and learn about your options. Working with a financial planner or advisor can also be a useful way to plan for income once you stop receiving a regular paycheck.

[10] Withdrawals from a qualified plan are subject to ordinary income taxes and a 10% federal tax penalty if taken prior to age 59½.

[11] Dividends are not guaranteed.

[12] Sources: Standard & Poor's, as of August 1, 2017, and Robert J. Shiller, Irrational Exuberance (New York: Broadway Business Books, 2009).

[13] Understanding the Benefits 2017, www.ssa.gov. https://www.ssa.gov/pubs/EN-05-10024.pdf.

[14] Annuities are long-term, tax-deferred vehicles designed for retirement. There are costs and limitations associated with this product and guarantees are based on the claims paying ability of the underlying insurance company.

Choosing Investments in Your 401(k)

Five guidelines to use when selecting funds for your plan

When you participate in a 401(k) plan at work, or a 457 or 403(b) plan if you work at a non-profit or government agency, you are responsible for choosing investments in your plan from a range of stocks, bonds and mutual funds selected by your employer. Here are five helpful tips to do that:

1. Pay attention to investment returns.

Most plans only offer funds that have a five-year track record. This can allow you to easily compare each fund's performance to its stated investment benchmark over a reasonably long time-period. A fund that consistently lags its index — usually the S&P 500® Index for U.S. stock funds, or the Bloomberg Barclays U.S. Aggregate Bond Index for U.S. fixed income funds — may not have enough giddy up to help get you to your long-term retirement goals.

2. Diversify.

Consider spreading your investment funds across various types of assets (such as stocks, bonds and cash), geographic regions (such as the U.S., European and Asian developed and emerging markets)[15], and risk levels (spanning riskier small cap stocks to more conservative Treasury bonds). Diversification may help reduce the risk of having all your eggs in one basket. When one type of investment in your portfolio is doing poorly, odds are that another investment is doing better, thereby potentially offsetting those losses.[16]

3. Limit employer stock.

Owning company stock can be a good thing, if the company does well. But if you have too much of your savings concentrated in your company stock, you run the risk that if the company hits a road bump or goes bankrupt, it could wreck your savings (remember Enron). As with any investment, you should consider your risk tolerance for devastating losses, your time horizon, and your goals to determine whether your company stock position is appropriate.

4. Consider a target date or life cycle fund based on your estimated retirement date.[17]

These "set-it-and-mostly-forget-it" options take much of the decision making out of which asset classes to own, and automatically adjusts those allocations to reduce your market risk as you approach retirement. That said, you should look at performance at least once a year to make sure it's meeting your expectations.

5. Consider low-cost index funds.

A portfolio with an initial value of $100,000 that delivers a 4% annual return over 20 years and that has an ongoing fee of 1% will be valued nearly $30,000 less compared to a portfolio with a 0.25% annual fee.[18] Low-cost index funds, which are designed to simply track — but not beat — the performance of a basket of stocks or bonds, may be an appropriate option to look at depending on your goals and circumstances.

Some retirement plans offer access to a financial advisor, a trained professional who can offer you advice, for a fee, on your investments. If you don't have the time or interest, having someone do your investing for you could be a practical alternative to doing it on your own.

[15] Global market investing, including developed and emerging markets, carries additional risks and/or costs including but not limited to: political, economic, financial market, currency, liquidity and trading capability risks.

[16] Diversification does not assure a profit or protect against losses in a declining market. All investing involves risk, including loss of principal.

[17] Please note the principal value invested in these funds is not guaranteed at any time, including at the specified target date.

[18] "How Fees and Expenses Affect Your Investment Portfolio," www.sec.gov. https://www.sec.gov/investor/alerts/ib_fees_expenses.pdf. The hypothetical return presented is not intended to predict the returns of any investment option but rather to illustrate the effect of differing fee levels on growth.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

How do 70-year-olds compare, financially?

Despite all the dire predictions about Americans' poor savings habits, there is one bit of positive news for older retirees. According to AARP, about one in five 70- to 80-year-olds has more than $500,000 saved for retirement, while those in the top 10% have over $1 million. Half of Americans in their early 70s have paid off their mortgages and have $168,000 saved, on average.[19]

Q&A

What's the difference between a traditional 401(k) and a Roth 401(k) plan?

Both a traditional and Roth 401(k) allow you to contribute regularly for retirement. With a traditional 401(k), you don't pay taxes in the year you put it into the account. But you'll have to pay income tax on your contributions and earnings when you take the money out. With the Roth option, you pay taxes on the money before it goes into your account, but you generally won't be taxed on your contributions or gains if you take a withdrawal after five years.

Quarterly Reminder

With most of the new year still ahead, you have an opportunity to review your financial goals and refine your investment allocation. Don't just tuck your quarterly 401(k) statements in a drawer. If your returns have not kept pace with your expectations, it may be time to change funds. Have you been taking too much risk in your plan, for example, or too little? If you are within 10 years of retiring, you may want to cut back on your allocation to stocks or stock funds. Stocks, although known to deliver better long-term returns than other asset classes, historically have been the most volatile investments to make over shorter time periods. A target-date fund[20], which combines a mix of stocks, bonds and cash, and is managed to become more conservative as you approach your retirement date, may be a sensible way to manage risk in your retirement account.

Tools & Techniques

People often underestimate how long they will live, and therefore overestimate how much they can spend in retirement. One company has studied the lifestyles of the world's healthiest countries and has developed a free tool that you can use to forecast your life expectancy and expected health care costs, given your self-reported diet, exercise routine and stress levels. Visit www.bluezones.com and click on The Blue Zones® Test.

Corner on the Market

Basic financial terms to know

Passive investing

Passive investing, also called "buy-and-hold" investing, is an investment strategy that seeks to generate long-term returns by keeping buying and selling to a minimum. Passive investors typically use index funds to sidestep higher fees that can be associated with researching securities and making frequent portfolio trades.

[19] Sari Harrar, "Wealth: What to Expect in Your 70s and Beyond," AARP The Magazine, June/July 2017.

[20] Please note the principal value invested in these funds is not guaranteed at any time, including at the specified target date.

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