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We hope you find these articles both interesting and informative. Thank you for your continued trust in us as your advisory team!

Best Regards --

The SFP Wealth Team

Spring RP Newsletter 2019

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The SFP Wealth Advisor

Retirement Plan Edition

Quiz: Social Security Survivor Benefits



Did you know that Social Security may pay benefits to your eligible family members when you die, helping to make their financial life easier? Take this quiz to learn more.

Questions

1. What percentage of Social Security beneficiaries receive survivor benefits?

- a. 5%
- b. 10%
- c. 15%

2. Your child may be able to receive survivor benefits based on your Social Security earnings record if he or she is:

- a. Unmarried and under age 18 (19 if still in high school)
- b. Married and in college
- c. Both a and b

3. Which person may be able to receive survivor benefits based on your Social Security earnings record?

- a. Your spouse
- b. Your former spouse
- c. Both a and b

4. Your parent may be able to receive survivor benefits based on your Social Security earnings record.

- a. True
- b. False

5. How much is the Social Security lump-sum death benefit?

- a. \$155
- b. \$255
- c. \$355

Answers

1. b. About 10% of the approximately 62 million Social Security beneficiaries in December 2017 were receiving survivor benefits.¹

2. a. A dependent child may be able to receive survivor benefits based on your earnings record if he or she is unmarried and under age 18 (19 if still in high school) or over age 18 if disabled before age 22.

3. c. Both your current and former spouse may be able to receive survivor benefits based on your earnings record if certain conditions are met. Regardless of age, both may be able to receive a benefit if they're unmarried and caring for your child who is under age 16 or disabled before age 22 and entitled to receive benefits on your record. At age 60 or older (50 or older if disabled), both may be able to receive a survivor benefit even if not caring for a child (a length of marriage requirement applies).

4. a. That's true. To be eligible, your parent must be age 62 or older and receiving at least half of his or her financial support from you at the time of your death. In addition, your parent cannot be entitled to his or her own higher Social Security benefit and must not have married after your death.

5. b. The Social Security Administration (SSA) may pay a one-time, \$255 lump-sum death benefit to an eligible surviving spouse. If there is no surviving spouse, the payment may be made to an eligible dependent child. The death benefit has never increased since it was capped at its current amount in a 1954 amendment to the Social Security Act.²

This is just an overview. For more information on survivor benefits and eligibility rules, visit the SSA website, ssa.gov.

¹ Fast Facts & Figures About Social Security, 2018

² Research Notes & Special Studies by the Historian's Office, Social Security Administration



The Fed's mission

The Federal Reserve is the central bank of the United States. Its mission is to provide the nation with a safer, more flexible, and more stable monetary and financial system. For more information on the Federal Reserve, visit federalreserve.gov.

FOMC meeting schedule

The Federal Open Market Committee meets eight times a year. Scheduled FOMC meetings in 2019: January 29-30, March 19-20, April 30-May 1, June 18-19, July 30-31, September 17-18, October 29-30, and December 10-11.

How Does the Federal Reserve Affect the Economy?

If you follow financial news, you've probably heard many references to "the Fed" along the lines of "the Fed held interest rates," or "market watchers are wondering what the Fed will do next." So what exactly is the Fed and what does it do?

What is the Federal Reserve?

The Federal Reserve — or "the Fed" as it's commonly called — is the central bank of the United States. The Fed was created in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

Today, the Federal Reserve's responsibilities fall into four general areas:

- Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices
- Supervising and regulating banks and other important financial institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers
- Maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
- Providing certain financial services to the U.S. government, U.S. financial institutions, and foreign official institutions, and playing a major role in operating and overseeing the nation's payments systems

How is the Fed organized?

The Federal Reserve is composed of three key entities — the Board of Governors (Federal Reserve Board), 12 Federal Reserve Banks, and the Federal Open Market Committee.

The Board of Governors consists of seven people who are nominated by the president and approved by the Senate. Each person is appointed for a 14-year term (terms are staggered, with one beginning every two years). The Board of Governors conducts official business in Washington, D.C., and is headed by the chair (currently, Jerome Powell), who is perhaps the most visible face of U.S. economic and monetary policy.

Next are 12 regional Federal Reserve Banks that are responsible for typical day-to-day bank operations. The banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Each regional bank has its own president and oversees thousands of smaller member banks in its region.

The Federal Open Market Committee (FOMC) is responsible for setting U.S. monetary policy. The FOMC is made up of the Board of Governors and the 12 regional bank presidents. The FOMC typically meets eight times per year. When people wait with bated breath to see what the Fed will do next, they're usually referring to the FOMC.

How does the Fed impact the economy?

One of the most important responsibilities of the Fed is setting the federal funds target rate, which is the interest rate banks charge each other for overnight loans. The federal funds target rate serves as a benchmark for many short-term interest rates, such as rates used for savings accounts, money market accounts, and short-term bonds. The target rate also serves as a basis for the prime rate. Through the FOMC, the Fed uses the federal funds target rate as a means to influence economic growth.

To stimulate the economy, the Fed lowers the target rate. If interest rates are low, the presumption is that consumers can borrow more and, consequently, spend more. For instance, lower interest rates on car loans, home mortgages, and credit cards make them more accessible to consumers. Lower interest rates often weaken the value of the dollar compared to other currencies. A weaker dollar means some foreign goods are costlier, so consumers will tend to buy American-made goods. An increased demand for goods and services often increases employment and wages. This is essentially the course the FOMC took following the 2008 financial crisis in an attempt to spur the economy.

On the other hand, if consumer prices are rising too quickly (inflation), the Fed raises the target rate, making money more costly to borrow. Since loans are harder to get and more expensive, consumers and businesses are less likely to borrow, which slows economic growth and reels in inflation.

People often look to the Fed for clues on which way interest rates are headed and for the Fed's economic analysis and forecasting. Members of the Federal Reserve regularly conduct economic research, give speeches, and testify about inflation and unemployment, which can provide insight about where the economy might be headed. All of this information can be useful for consumers when making borrowing and investing decisions.



At the end of October 2018, there were 7,866 U.S. mutual funds spread across the following broad categories:

Domestic equity (3,144)

World equity (1,499)

Hybrid (709)

Taxable bond (1,573)

Municipal bond (560)

Taxable money market (297)

Tax-exempt money market (84)

Source: Investment Company Institute, 2018

Know Your Mutual Funds

Almost 100 million Americans, representing about 44% of U.S. households, owned mutual funds in 2018. Saving for retirement was the primary goal for 73% of investors; other goals included saving for college or a house, building an emergency fund, or providing current income.¹

Mutual funds offer a convenient way to participate in a broad range of market activity that would be difficult for most investors to achieve by purchasing individual securities. With almost 8,000 funds available on the U.S. market, you should be able to find appropriate investments to pursue your goals.² However, it's important to periodically examine the mix of funds you hold.

If you are approaching retirement or already retired, this may be a good time to assess the risk level and growth potential of your funds, along with any other investments in your portfolio. Keep in mind that even though it is generally wise to reduce risk as you near retirement, you may also need to pursue long-term growth opportunities.

The following overview describes some basic types of funds in rough order of risk, from lowest to highest. Investments seeking to achieve higher returns also carry an increased level of risk.

Money market funds invest in short-term debt investments such as commercial paper and certificates of deposit and are typically used as a cash alternative. *Although a money market fund attempts to maintain a stable \$1 share price, you can lose money by investing in such a fund. Money market funds are neither insured nor guaranteed by the FDIC or any other government agency.*

Municipal bond funds generally offer income that is free of federal income tax and may be free of state income tax if the bonds in the fund were issued from your state. Although interest income from municipal bond funds may be tax exempt, any capital gains are subject to tax. Income for some investors may be subject to state and local taxes and the federal alternative minimum tax.

Income funds concentrate their portfolios on bonds, Treasury securities, and other income-oriented securities, and may also include stocks that have a history of paying high dividends.

Balanced funds, hybrid funds, and growth and income funds seek the middle ground between growth funds and income funds. They

include a mix of stocks and bonds and seek to combine moderate growth potential with modest income.

Growth funds invest in the stock of companies with a high potential for appreciation but low emphasis on income. They are more volatile than many types of funds.

Global funds invest in a combination of domestic and foreign securities. **International funds** invest primarily in foreign stock and bond markets, sometimes in specific regions or countries. There are increased risks associated with international investing, including differences in financial reporting, currency exchange risk, economic and political risk unique to a specific country, and greater share price volatility.

Sector funds invest almost exclusively in a particular industry or sector of the economy. Although they offer greater appreciation potential, the volatility and risk level are also higher because they are less diversified.

Aggressive growth funds aim for maximum growth. They typically distribute little income, have very high growth potential, tend to be more volatile, and are considered to be very high risk.

Bond funds (including funds that contain both stocks and bonds) are subject to the interest rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Dividends are not guaranteed.

Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Mutual fund shares, when sold, may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1-2) Investment Company Institute, 2018

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Do I need to get a REAL ID when I renew my license?

If you need to renew your driver's license, you may want to get a REAL ID. The REAL ID Act, passed by Congress in 2005, enacts the 9/11

Commission's recommendation that the federal government set minimum security standards for state-issued driver's licenses and identification cards.

Beginning October 1, 2020, residents of every state and territory will need to present a REAL ID-compliant license/identification card, or another acceptable form of identification (such as a passport), to access federal facilities, enter nuclear power plants, and board commercial aircraft. Although implementation has been slow, states have made progress in meeting the REAL ID Act's recommendations. A majority of states and territories, along with the District of Columbia, have complied with all REAL ID requirements. The remaining noncompliant jurisdictions have been granted a temporary extension from the Department of Homeland Security.¹

To obtain a REAL ID, you must apply in person at your state's department of motor vehicles (or other approved service center). Your picture will

be taken and signature captured electronically. You must provide more documentation than you would normally need for a standard driver's license or identification card. A REAL ID requires that you show (in original or certified form) proof of identity and lawful presence (e.g., U.S. passport, birth certificate), state residency (e.g., mortgage statement, utility bill), and Social Security number (e.g., Social Security card, paystub). In addition, if your current name doesn't match the one on your proof of identity document, you must prove your legal name change (e.g., marriage certificate).

When states first implemented REAL ID recommendations, applicants were faced with delays and long wait times. However, many states have since streamlined the process by allowing applicants to start the application process online. For more information on applying for a REAL ID, you can visit your state's department of motor vehicles website or dhs.gov/real-id.

¹ Department of Homeland Security, REAL ID Compliance Extension Updates, October 2018



How much money should a family borrow for college?

There is no magic formula to determine how much you or your child should borrow for college. But there is such a thing as borrowing too much.

How much is too much? One guideline is for students to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and/or job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned in the housing crisis by taking out larger mortgages than they could afford, families can get burned by borrowing amounts for college that seemed reasonable at the time but now, in hindsight, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years (possibly longer). A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car expenses come into play? What if a borrower steps out of the workforce for an extended period of time to care for children and isn't earning an income? There are

many variables, and every student's situation is different. A loan deferment is available in certain situations, but postponing loan payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently \$27,000 for four years of college. Over a 10-year term with a 5.05% interest rate (the current 2018-2019 rate on federal Direct Loans), this equals a monthly payment of \$287. If a student borrows more by adding in co-signed private loans, the monthly payment will jump, for example, to \$425 for \$40,000 in loans (at the same interest rate) and to \$638 for \$60,000 in loans. Before borrowing any amount, students should know *exactly* what their monthly payment will be. And remember: Only federal student loans offer income-based repayment (IBR) options.

As for parents, there is no one-size-fits-all rule on how much to borrow. Many factors come into play, including the number of children in the family, total household income and assets, and current and projected retirement savings. The overall goal, though, is to borrow as little as possible.