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RETIREMENT INSIGHTS

FALL 2018

Easing into Retirement

"About 59% of the Social Security benefits of a 66-year-old couple retiring in 2016 will be required to cover retirement health-care costs."
Source: *Wealthmanagement.com*, November 2017

THE SUN IS shining and a warm breeze blows in off the water. You gaze out over the ocean…or lake…or pond…and settle back into your hammock without a care in the world.

That's the retirement dream, right? And for some of us, it may come true — but not in the instantaneous, snap-of-the-fingers way you may be envisioning. You just might spend a little less time in the hammock and more time exploring new interests, or even…get ready for it…working.

There are many reasons why someone would choose to ease into retirement. For some, it is a question of financial insecurity. For others, they may not feel ready to leave their job yet. Many retirees feel they are missing out on the social part of their former working life or want to continue to feel the thrill of problem-solving and using their expertise in a productive way. Whatever reason makes the cautious retiree decide to only dip their toes into retirement, continuing to work is generally beneficial for their bank account and well-being.

When you are retired but not ready for an exclusively hammock-dwelling lifestyle, there are a few factors to consider before working again:

- ✔ **Is it financially worthwhile to resume working?** Consider your potential income after taxes and any additional expenses that returning to work could incur (gas, lunches, work-appropriate dress, equipment, unpaid training fees, etc.) and determine if the new income will boost you into a higher tax bracket or even eliminate any currently advantageous deductions.
- ✔ **How will any additional income affect your Social Security benefits?** If you are full

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Expenses Cutting into Savings?

FOR THOSE WHO are getting close to their retirement years, there are ongoing expenses that put a major dent in retirement savings. There are ways to increase retirement sources without increasing income, and they have to do with monthly ongoing expenses that can be reduced.

Refinance

Your mortgage is most likely your largest debt, so if you can refinance at a lower interest rate, you could save a significant amount of money that can go toward your retirement savings. Experts say if you can reduce your rate by a least 1%, refinancing probably makes sense. You should also look into refinancing other loans you have such as your automobile.

Credit Cards

Credit cards are another source of debt that eat into your retirement savings. The average household pays over $2,600 in credit card interest every year that could go toward retirement savings (Source: Investopedia.com, September 15, 2017). Ask your

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Expenses Cutting into Savings?

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credit card company for a rate reduction or transfer balances to a lower-rate card. You can also look for a card that offers a 0% interest rate for 12 to 18 months.

Energy Costs

Most people don't think they can save significant money by becoming more energy efficient, but you'd be surprised. If you make home modifications, such as weather-stripping, caulking, using a programmable thermostat, switching to energy-efficient light bulbs, insulating your hot water heater, and reducing your water heater setting to 130 degrees, you could save up to 20% on your utility bills.

Food

According to experts, there are things you can do to cut your annual grocery bill in half. Strategies include making a grocery list and sticking to it, buying advertised specials, using both paper and electronic coupons, buying items in bulk, and stockpiling during sales. Also, if you take your lunch to work and stop buying that morning coffee, you could save approximately $1,900 per year.

Transportation

First, shop around for less-expensive car insurance and look at raising your deductible, if that makes sense for your family. Also, if you are in an area with good public transit, the American Public Transportation Association says you could save up to $9,600 per year (Source: Investopedia.com, September 15, 2017).

Entertainment

The Bureau of Labor Statistics reports that the average American spends $2,800 per year on entertainment (Source: Investopedia.com, September 15, 2017). Take a serious look at what entertainment expenses you can cut or reduce. Think about things you may not be using, such as subscriptions to newspapers or magazines, club memberships, a different cable package, or cell phone plans.

By employing some of these strategies, you could be putting thousands more toward your retirement savings. It's certainly worth doing the math to see how much more you could be saving. Please call if you'd like to discuss this topic in more detail. ✔✔✔

Should You Defer Income Taxes?

Should you pay income taxes now so you can withdraw funds after retirement tax free? Or are you better off delaying income taxes until after retirement? This is a basic decision when choosing between a traditional deductible individual retirement account (IRA) and a Roth IRA, or between a 401(k) plan and a Roth 401(k). With the Roth options, you are paying taxes now so you can take qualified distributions income-tax free. With the traditional IRA and 401(k) plan, you are delaying taxes until distributions are taken.

The standard advice is to consider whether your tax bracket will be higher or lower in retirement. If you are likely to be in a higher tax bracket, you'll usually benefit from the Roth options because you will be paying taxes at a lower rate now. If you're likely to be in a lower tax bracket, you may benefit more from a traditional IRA or 401(k) plan, because you'll pay taxes at a lower rate after retirement.

Most people naturally assume their tax rate will be lower in retirement since their income will typically be lower. That assumes income tax rates will stay constant over that time period, even though they are at historically low levels. No one knows how those rates will be adjusted by Congress over the years. However, many believe income tax rates have nowhere to go but up.

Thus, it may be prudent to use tax diversification for your portfolio. This strategy attempts to protect your portfolio against tax rate fluctuations. It is a concept similar to asset allocation, in which you protect your portfolio against price fluctuations. With tax diversification, you invest in a number of investment vehicles with different tax ramifications. For instance, you might invest in a Roth IRA, where qualified distributions can be taken with no tax consequences; a 401(k) plan, where you save taxes now and pay ordinary income taxes on qualified distributions; and taxable accounts, where the capital gains taxes must be paid on sales of appreciated investments. During retirement, you can then monitor your tax situation and withdraw money from assets that make the most sense in any particular year.

Please call if you'd like to discuss this in more detail. ✔✔✔

Assessing Your Risk Tolerance

While investors want the highest returns possible, returns compensate you for the risks you take — higher risks are generally rewarded with higher returns. Thus, you need to assess how much risk you are willing to take to obtain potentially higher returns. However, this can be a difficult task. It is one thing to theoretically answer questions about how you would react in different circumstances and quite another to actually watch your investments decrease significantly in value. What you are trying to assess is your emotional tolerance for risk or how much price volatility you are comfortable with. Some questions that can help you gauge your risk tolerance include:

✔ **What long-term annual rate of return do you expect to earn on your investments?** Your answer will help determine the types of investments you need to choose to meet that target. Review historical rates of return as well as variations in those returns over a long time period to see if your estimates are reasonable. Expecting a high rate of return may mean you'll have to invest in asset classes you aren't comfortable with or that you may be tempted to sell frequently. A better alternative may be to lower your expectations and invest in assets you are comfortable owning.

✔ **What length of time are you investing for?** Some investments such as stocks should only be purchased for long time horizons. Using them for short-term purposes may increase the risk in your portfolio, since you may be forced to sell during a market downturn.

✔ **How long are you willing to sustain a loss before selling?** The market volatility of the past several years will give you some indication of how comfortable you are holding investments with losses.

✔ **What types of investments do you own now and how comfortable are you with those investments?** Make sure you understand the basics of any investments you own, including the historical rate of return, the largest one-year loss, and the risks the investment is subject to. If you don't understand an investment or are not comfortable owning it, you may be tempted to sell at an inopportune time. Over time, your comfort level with risk should increase as your understanding of how risk impacts different investments increases.

✔ **Have you reassessed your financial goals recently?** Due to the significant market volatility of the past few years, your financial plan may need to be revamped. Otherwise, you may find you won't have sufficient resources in the future to meet your goals. Based on your current investment values, determine what needs to be done to meet your financial goals. You may need to save more, change or eliminate some goals, or delay your retirement date.

✔ **Do you understand ways to reduce the risk in your portfolio?** While all investments are subject to risk, there are some risk-reduction strategies you should consider for your portfolio. These strategies include diversifying your portfolio, staying in the market through different cycles, and using dollar cost averaging. Please call if you'd like help assessing your risk tolerance. ✔✔✔

Easing into Retirement

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retirement age* or older, you do not have to worry about this, because any earnings will not affect your benefits. However, those between the ages of 62 and full retirement lose $1 of benefits for every $2 of earnings over $17,040 in 2018.

*Note: Remember that the full retirement age is gradually increasing depending on your year of birth.

While those factors could certainly be detrimental to the part-time retiree, there are others that are uniquely beneficial:

✔ If you are close to age 70½ and going back to work, you may not have to take minimum distributions from your 401(k) or employer plan. This means your fund can continue to grow tax deferred.

✔ If you want to start a business as a retiree, you have the benefit of time and experience, as well as the motivation in doing what you are passionate about. Be careful to not use your retirement savings to fund the business. Your expertise in the field should attract other sources to fund your venture.

If you decide to ease into retirement by reducing your workload to part-time hours, you may miss out on some hammock time, but there are many benefits that could more than make up for it when it comes to peace of mind. Just make sure you know why you are going back to work before you make the leap.

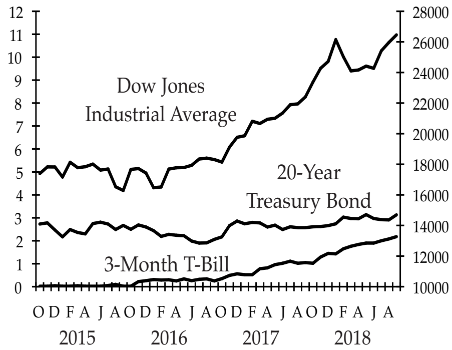
Please call if you'd like to discuss this in more detail. ✔✔✔

Market Data

	Month End			% Change	
	Sep 18	Aug 18	Jul 18	YTD	12 Mon.
Dow Jones Ind.	26458.31	25964.82	25415.19	7.0%	18.1%
S&P 500	2913.98	2901.52	2816.29	9.0	15.7
Nasdaq Comp.	8046.35	8109.54	7671.79	16.6	23.9
Wilshire 5000	30189.60	30184.10	29230.11	9.1	15.5
Gold	1187.25	1202.45	1220.95	-8.4	-7.5
Silver	14.69	14.54	15.59	-13.6	-12.4
				Dec 17	Sep 17
Prime rate	5.25	5.00	5.00	4.50	4.25
Money market rate	0.47	0.45	0.49	0.33	0.27
3-month T-bill rate	2.18	2.08	2.00	1.45	1.05
20-yr. T-bond rate	3.13	2.91	2.92	2.66	2.57
Dow Jones Corp.	4.14	3.84	3.93	3.13	2.97
Bond Buyer Muni	4.14	4.02	4.01	3.88	4.04

Sources: *Barron's, Wall Street Journal* *Past performance is not a guarantee of future results.*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield October 2014 to September 2018



Sources: *Barron's, Wall Street Journal*

4 Steps to Build Financial Confidence

When it comes to being in control of your money, confidence is one of the most important attributes you can have. Below are four simple suggestions that can help you increase your financial confidence.

1. Get organized. Not too long ago, it didn't take much work for the average person to organize their finances — you might have had checking and savings accounts, an insurance policy, maybe some stock investments and bonds, and a mortgage.

Today, things are more complicated. Credit cards, home-equity lines of credit, student loans, 401(k)s and IRAs, 529 plans for college expenses — the list of things to keep track of seems endless. It's easy for things to get lost or overlooked. Getting organized will give back a feeling of control.

There are numerous strategies for getting organized. Some people stick with that old-fashioned accordion file. Others go completely digital, taking advantage of apps and online document storage to keep everything straight. Whatever solution you choose, you'll need to know all the details of your finances.

2. Get educated. When you start a new job, you may feel nervous and on edge. But if you commit yourself to learning new skills and the ins-and-outs of how your new organization functions, your confidence will gradually increase. The same holds true for your finances. Simply taking the time to learn more about finances and managing your money can do wonders for how you feel about your life.

Basic financial literary isn't really covered in most schools' curriculum, so many otherwise savvy adults are clueless in this area. Many community colleges, churches, and nonprofit groups offer classes, or you can sign up for a class online. If you don't want to go back to school, consider watching videos or reading articles.

3. Get a financial plan. If you don't have any idea what might (or what you want to) happen, you're not likely to be very confident about your future. To achieve true financial confidence, you need a plan. Setting goals and making meaningful progress toward those goals will help build your financial self-esteem. Having a financial plan will also help you prepare to cope with an uncertain world. Why is a financial plan so important? It brings together all the threads of your financial life.

4. Get help. Getting reliable advice from an outside expert can improve your financial confidence. Just like a doctor supports and guides you in making decisions about your health and a personal trainer is there to encourage and motivate you to get fit, a financial advisor is there to make sure you're sticking to your financial plan. Even if you're organized and financially savvy, there are many decisions that are difficult to make on your own, from deciding how much to save for retirement to choosing investments for your portfolio. If you're unsure about what to do next, please call. ✔✔✔

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