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R E T I R E M E N T
INSIGHTS

WINTER 2019

Growing Your 401(k) Plan

Your 401(k) plan's ultimate size is primarily a function of two factors — how much you contribute and how much you earn on those contributions. Of course, you know you should contribute the maximum amount possible ($18,500 in 2018 and $19,000 in 2019 plus a $6,000 catch-up contribution in 2018 and 2019 for individuals over age 50, if permitted by the plan). But what steps should you take to maximize your returns? Consider these tips:

- ✔ **Take full advantage of employer-matching contributions.** You simply lose the money if you don't use it. A 50% match on your contributions is the equivalent of earning 50% on your money in the first year. If you plan to contribute the maximum and your employer matches contributions, have the amount taken out of your pay uniformly throughout the year. Most employers match contributions as they are made, so you could forgo some matching if you reach the limit before year-end.
- ✔ **Select your investment alternatives carefully.** Since you are responsible for investment decisions, understand any alternatives and review all available information before making choices. Keep in mind the long-term nature of your retirement goal and select investments for that time period.
- ✔ **Rebalance periodically.** Numerous studies have found that rebalancing reduces portfolio volatility, often with increased returns. By rebalancing, you are following a fundamental investment principle — you are buying low (those investments that are underperforming) and selling high (those investments that are performing

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> “42% of men and 48% of women retire at age 62 with decreased Social Security benefits and only 2% of men and 4% of women retire at age 70 with increased benefits. About 34% of men and 27% of women retire at full retirement age.”
>
> Source: *Wealthmanagement.com*, April 2018

Revisit Your Asset Allocation

You should reassess your asset allocation periodically. To do so, follow these steps:

1. Review your desired asset allocation percentages. When designing your investment strategy, you probably decided what percentage of your portfolio to allocate to different investments. Review those percentages to see if they still make sense for your situation. Over time, how much you want to allocate to different asset classes will probably change as your personal circumstances change. However, don't make significant changes as a result of discomfort over market fluctuations. First, reevaluate these factors:

- ✔ **Risk tolerance** — Carefully assess your tolerance for risk so you invest in assets you are comfortable with.
- ✔ **Return expectations** — You need to set realistic return expectations for various investments to help ensure you meet your investment goals. While past performance is not a guarantee of future results, reviewing historical rates of return can help you assess whether your return

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Revisit Your Asset Allocation

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expectations are reasonable. Keep in mind that higher returns are generally accompanied by higher risk.

- ✔ **Time horizon** — The longer your investment period, the more risk you can typically tolerate. Investing for long periods through different market cycles generally reduces the risk of receiving a lower return than expected, especially with investments that can fluctuate significantly.
- ✔ **Investment preferences** — With such a wide variety of investments to choose from, you should understand the basics of each to decide which are appropriate for you.

In general, you should consider a more conservative allocation if you are older, have short-term needs for your funds, have low earnings, or are uncomfortable with investing. A more aggressive allocation may be appropriate if you have high earnings, are younger, do not need your funds for many years, or are an experienced investor.

2. Determine your portfolio's current allocation. You should consider all your investments, including taxable accounts, individual retirement accounts, and retirement plans at work.

3. Determine how much variation you are willing to tolerate in your asset allocation. It's unlikely that your actual asset allocation will equal your desired asset allocation, due to varying market values and rates of return. Since it is difficult to maintain precise asset allocation percentages, decide how much variation you will tolerate. For example, you may monitor your portfolio more closely if an asset class varies by 5% of your desired allocation and rebalance when it varies by 10%.

4. Decide how to move your portfolio closer to your desired asset allocation. If you have not reassessed your asset allocation for awhile, you may find that significant changes are needed to get your allocation back in line. However, you may not want to make drastic changes all at once. Instead, you may want to take a more gradual approach to shifting your asset allocation. For instance, you can make new investments in assets that are underweighted in your portfolio. Periodic interest, dividends, or capital gains distributions can be redirected to other asset classes rather than reinvested in the same asset. Any withdrawals can come from overweighted asset classes.

Please call if you'd like help evaluating your asset allocation. ✔✔✔

Time — Friend or Foe?

Here's when time is your foe: when you have only a couple of years left to work and don't have enough accumulated to retire. And here's when time is on your side: you start saving in your twenties, save every month, and keep saving until you retire. That's when you're putting the power of compounding to work for you.

The sooner you start saving, the less you'll have to put away each month to accumulate the needed funds for retirement. For example, say as a 25-year-old you open an IRA and save $100 a month ($1,200 per year). The IRA earns an average of 6% a year. After 40 years — when you're 65 and ready to retire — your account balance could grow to over $185,000.

But let's say instead, you put off saving until you are 45. At the same rate of saving in an IRA with the same returns, by the time you're 65, your IRA balance would be just about $44,000. Starting when you're 45, you'd have to contribute $420 a month to save about $185,000. At least that would be less painful than if you waited until you were 55. Then to match the end result, you'd have to save $1,175 per month. *(These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.)*

One way people often try to compensate for getting a late start in saving is to shoot for a higher rate of return. Instead of settling for the 6% a year we used in the example above, why not go for 10%? There are two problems with that strategy. The first is that investments don't always provide consistent returns.

Second, to earn higher rates of return, you have to take on more risk. That's fine when the big returns come in; but in the long run, big returns in some years are usually paid for with big losses in others.

Not everyone realizes that time spent not saving can have a significant cost and there are only so many ways to make up for it. The sooner you start putting more money aside, the better. ✔✔✔

5 Reasons to Consider Disability Insurance

Wondering whether you really need to obtain disability insurance to cover income losses? Here are five factors to consider when making that decision:

1. The odds of becoming disabled before you reach retirement are fairly high. Most people focus all of their planning and savings on the days when they retire, but what happens if you simply cannot work before you retire? According to the U.S. Social Security Administration (SSA), one in four 20-year-olds will become disabled before they reach retirement age. Moreover, illness accounts for 90% of all disabilities, greatly lowering the probability of turning to sources such as worker's compensation for help (Source: Council for Disability Awareness). If you haven't formulated a backup plan that pays the bills while you recover from an injury or illness, you're putting your financial stability at risk.

2. The average long-term disability claim lasts over two and a half years. Some people assume that the emergency fund they've worked so hard to build somehow replaces the need for any kind of long-term disability (LTD) insurance. However, even if you have one to two years of expenses saved, when you consider that the average individual disability claim lasts 31.6 months and one in eight workers will be disabled for five or more years, there's a high probability you may not have enough (Source: Commissioner's Disability Insurance, Tables A & C).

3. If you're part of the 1/3 of applicants approved, Social Security Disability Insurance (SSDI) is likely not enough. According to the SSA, the average monthly benefit paid by SSDI as of March 2017 was just $1,172. This figure accounts for only the 1/3 of SSDI disabled workers whose applications weren't denied. Keep in mind that as opposed to private disability insurance, which can provide more leeway in terms of qualifying as disabled, SSDI stipulates you must be unable to work at all.

4. You'll have additional expenses to account for. Considering that 90% of working-age disability claims are illness related, trips to doctors and/or specialists, tests, and medication will naturally increase. If you're unable to work, you'll have the added expense of seeking private health insurance or going on your spouse's plan. Because a portion of your savings will be allocated to these new expenses, you'll need an additional source of income.

5. You don't want to work in a different, potentially lower-paying field. Depending on the severity of your injury or illness, without proper LTD coverage, you could be forced to find employment outside of the career you've worked so hard to build. For example, if you currently work in a profession such as a medical, artistic, or sales position that requires use of your hands or heavy travel, you may be forced to take a job only somewhat related to your field that doesn't require as much movement, such as teaching. Private LTD insurance can be customized so that unless you are able to work within your specific career, you qualify for benefits.

Please call if you'd like to discuss long-term disability insurance in more detail. ✔✔✔

Growing Your 401(k) Plan

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well). Remember that you set your asset allocation strategy because you believed those were the appropriate percentages of various investments you should own. Thus, you need to make rebalancing a habit so your portfolio doesn't become more risky than intended. Since your 401(k) plan is tax deferred, there are no tax ramifications to buying and selling within the account.

✔ **Limit the amount of company stock owned.** Purchasing too much company stock is risky. Not only is your job and livelihood tied to the company, but your retirement savings are also tied to the same company. It is generally recommended that any one stock not comprise more than 5% to 10% of your portfolio's value. If you own company stock in your 401(k) plan, look at how much of your total balance it represents. Take steps to immediately reduce that percentage if it is over 10%.

✔ **Don't borrow from your 401(k) plan.** While it may be comforting to know you can gain access to your 401(k) funds when needed, only borrow as a last resort. It's true that you are borrowing from yourself and will pay interest to yourself, but there are also hidden costs to this borrowing. When you borrow, some of your investments are sold. While your loan is outstanding, you miss out on any capital gains or other income those investments may have earned. Interest rates are typically very reasonable, often prime rate or a couple of points over prime. That makes it easier to pay back the funds but could mean your 401(k) account is earning lower returns than if it was invested in other alternatives. Also, if you leave the company while a loan is outstanding, you must repay the entire balance within a short period of time or the loan will be considered a distribution, subject to income taxes and the IRS 10% early withdrawal penalty if you are under age 59½ (55 if you are retiring).

Please call to discuss your 401(k) plan. ✔✔✔

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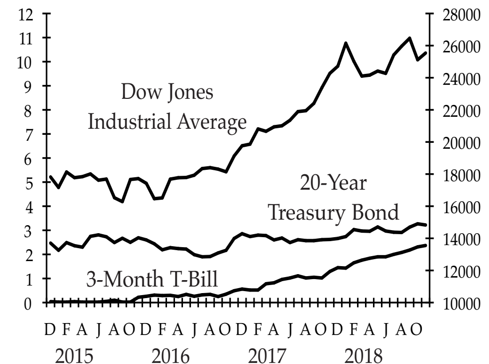
Market Data

Market Data	Month End			% Change	
	Nov 18	Oct 18	Sep 18	YTD	12 Mon.
Dow Jones Ind.	25538.46	25115.76	26458.31	3.3%	5.2%
S&P 500	2760.17	2711.74	2913.98	3.2	4.3
Nasdaq Comp.	7330.54	7305.90	8046.35	6.2	6.6
Wilshire 5000	28418.59	27923.93	30189.60	2.7	3.6
Gold	1217.55	1214.95	1187.25	-6.1	-4.9
Silver	14.18	14.34	14.69	-16.6	-13.2
				Dec 17	Nov 17
Prime rate	5.25	5.25	5.25	4.50	4.25
Money market rate	0.58	0.43	0.47	0.33	0.33
3-month T-bill rate	2.37	2.31	2.18	1.45	1.29
20-yr. T-bond rate	3.22	3.27	3.13	2.66	2.62
Dow Jones Corp.	4.50	4.36	4.14	3.13	3.11
Bond Buyer Muni	4.20	4.24	4.14	3.88	3.96

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 December 2014 to November 2018



Sources: *Barron's, Wall Street Journal*

Is Your 401(k) Plan Enough?

If you work at a company that offers a 401(k) plan, especially if the plan offers matching contributions, that plan may be the most important part of your retirement investment plan. But should it be the only part?

The maximum annual 401(k) contribution is $18,500 in 2018 and $19,000 in 2019, not including employer-matching contributions. If you are at least 50 years old, you can contribute an additional $6,000 in 2018 and 2019, if permitted by the plan. Your plan may impose lower limits to ensure that it complies with nondiscrimination rules.

Here are five questions to help you decide whether your 401(k) plan is the only plan you'll need for retirement:

✔ **What kind of lifestyle do you want to fund in retirement?** You'll find general rules of thumb indicating you'll need anywhere from 70% to over 100% of your preretirement income during retirement. How much you'll need depends on your individual circumstances. For example, if your mortgage will be paid off and you plan to stay home and watch your grandchildren during retirement, 70% of your preretirement income may be sufficient.

✔ **Can you count on Social Security?** Social Security benefits were never designed to be the sole source of retirement income, but are still a valuable source. Those with lower incomes will find that Social Security replaces a higher percentage of their preretirement income than those with higher incomes.

✔ **How much does your employer contribute to your 401(k) plan?** The maximum contribution to your 401(k) plan of $18,500 in 2018 and $19,000 in 2019 does not include employer contributions. Employer-matching contributions vary by plan, but a typical match is 50 cents for every dollar contributed up to a maximum of 6% of your pay. However, recently, many employers have reduced or eliminated matching contributions. If your employer offers a match, make sure you take full advantage of it. A generous matching contribution can contribute substantially toward your retirement.

✔ **What are average returns on your 401(k) investments?** You can only choose from the investments offered by your 401(k) plan. But within those parameters, select those that match the long-term nature of your investments and will help grow your retirement funds over time.

✔ **What other sources of income can you count on in retirement?** If you already have other retirement assets, you might not need to count as heavily on your 401(k) plan. Other potential sources of retirement income might include a defined-benefit pension plan, individual retirement accounts (IRAs), an inheritance, or other investments. ✔✔✔

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