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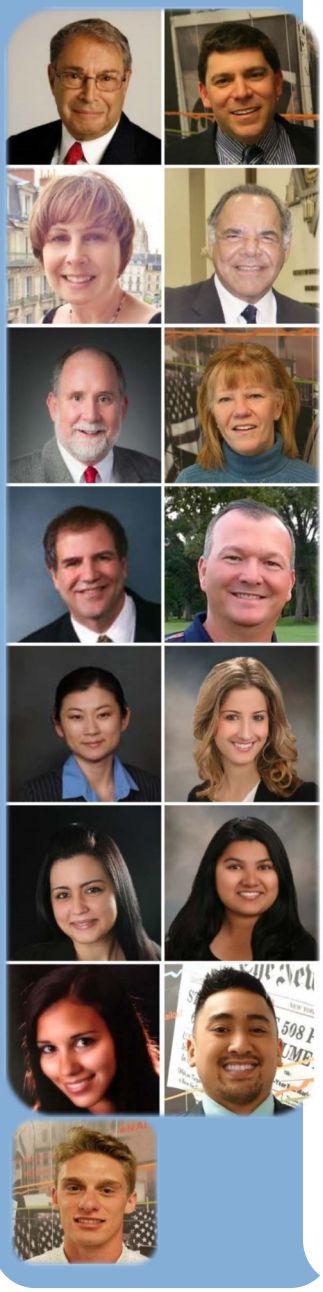
Investment News

June 2019

Is Your Company's 401(k) Plan as Good as It Could Be?

Two recent court rulings may make you want to double-check.



How often do retirement plan sponsors check up on 401(k)s? Some small businesses may not be prepared to benchmark processes and continuously look for and reject unacceptable investments.

Do you have high-quality investment choices in your plan? While larger plan sponsors have more "pull" with plan providers, this does not relegate a small company sponsoring a 401(k) to a substandard investment selection. Employees are smart and will ask questions sooner or later. "Why does this 401(k) have only one bond fund?" "Where are the target-date funds?" "I went to Morningstar, and some of these funds have so-so ratings." Questions and comments like these are reasonable and surface when a plan's roster of investments is too short.

Are your plan's investment fees reasonable? Employees can deduce this without checking up on the Form 5500 you file – there are websites that offer some general information as to what is and what is not acceptable. Most retirement savers read up on this with time, and most know (or will know) that a plan with administrative fees pushing 1% is less than ideal.

Are you using institutional share classes in your 401(k)? This was the key issue brought to light by the plan participants in *Tibble v. Edison International*. The Supreme Court noted that while Edison International's investment committee and third-party advisors had offered a variety of mutual funds, the plans offered higher-priced options and didn't offer plans that were similar, yet of a lower cost. The court ruled that "a trustee has a continuing duty—separate and apart from the duty to exercise prudence in selecting investments at the outset—to monitor, and remove imprudent, trust investments. So long as a plaintiff's claim alleging breach of the continuing duty of prudence occurred within six years of suit, the claim is timely."[1] Institutional share classes commonly have lower fees than retail share classes. To some observers, the difference in fees may seem trivial – but the impact on retirement savings over time may be significant.[1]

When was the last time you reviewed your 401(k)-fund selection & share class? Was it a few years ago? Has it been longer than that? Why not review this today? Call in a financial professional to help you review your plan's investment offering and investment fees.

Citations.

1 - lexology.com/library/detail.aspx?g=c083ae5f-1892-4b17-9a31-6d60f27ee712 [4/3/19]

INSIDE THIS ISSUE:

Smart Financial Moves in Your 20s, 30s, 40s, & 50s

The right moves for every age.

Have you ever mapped out your financial timeline? If you're like many Americans, it may have been more difficult than anticipated. One of the most helpful ways to achieve your financial goals is to break it down by your age. After all, depending where you are on life's journey, certain financial moves make more sense than others. Read on to learn more.

What might you want to do in your twenties? First and foremost, you should start saving for retirement – preferably using tax-advantaged retirement accounts that let you direct money into equities. Through equity investing, your money may grow and compound profoundly with time – and you have time on your side.

Aside from equity investment, you will want to try and build your savings. A good place to start is an emergency fund equal to six months of your salary. That may seem unnecessarily large, but it is worth pursuing, especially if you have loved ones depending on you. Accidents do happen, and you could suffer an illness or injury that might prevent you from earning income. About 25% of people will contend with such an episode during their working lives, and less than 5% of disabling illnesses and accidents are job related, so workers compensation insurance will not cover them.[1]

What moves make sense in your thirties? By now, you may have started a family or taken on other financial responsibilities. So, your spending has probably increased from the days when you were single. As you save and invest, remember also to play a little defense.

Many people in their thirties use this time to create a will and set up financial power of attorney in case something unforeseen happens. Another smart move is securing a solid life insurance policy. Depending on the policy that's right for you, you may even be able to use your policy as an investment vehicle. As always, speak with a financial or insurance professional to make sure you have the coverage that's right for you.

What considerations emerge between 40 and 50? Try to maintain your retirement planning efforts in the face of financial stressors. You may have teens or preteens at home, and if you have not yet considered creating a college fund that can grow and compound over time, now is the right time. You should not dip into your retirement fund to pay for their college educations, no matter how onerous college loans may seem.

You may want to look into long-term care insurance. Buying it before age 50, when you are likely in good health, is a wise move, especially if you are interested in such coverage.

Between 50 and 60, you are in the "red zone" before retirement. If you can, accelerate your retirement savings through greater contribution levels or take advantage of the catch-up contributions allowed for many retirement accounts after age 50. If possible, think about an approximate retirement date. Aim to reduce your debt as much as possible by that time or earlier. Retiring with multiple, major debts can be stressful, to say the least. Lastly, check in with a financial professional to gauge how close you are to realizing your long-term financial objectives.

Citations.

1 - https://www.cdc.gov/media/releases/2018/p0816-disability.html [5/24/2019]

MARKET PERFORMANCE
01/01/2019 to 05/31/2019

DJIA ^DJI Up 6.38%
S&P 500 ^GSPC Up 9.78%
NASDAQ ^IXIC Up 12.33%
Russell 2000 ^RUT Up 8.67%

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

Coping with an Inheritance

A windfall from a loved one can be both rewarding and complicated.

Inheriting wealth can be a burden and a blessing. Even if you have an inclination that a family member may remember you in their last will and testament, there are many facets to the process of inheritance that you may not have considered. Here are some things you may want to keep in mind if it comes to pass.

Take your time. If someone cared about you enough to leave you a sizable inheritance, then you will likely need time to grieve and cope with their loss. This is important, and many of the more major decisions about your inheritance can likely wait. And consider, too – when you're dealing with so much already, you may be too overwhelmed to give your options the careful consideration they need and deserve. You may be able to make more rational decisions once some time has passed.

Don't go it alone. There are so many laws, options, and potential pitfalls – the knowledge an experienced professional can provide on this subject may prove to be vitally important. Unless you happen to have uncommon knowledge on the subject, seek help.

Do you have to accept it? While it may sound ridiculous at first, in some cases refusing an inheritance may be a wise move. Depending on your situation and the amount of your bequest – it may be that estate taxes will drain a large amount. Depending on the amount that remains, disclaiming some of (or all) the gift is worth contemplation.[1]

Think of your own family. When an inheritance is received, it may alter the course of your own estate plan. Be sure to take that into consideration. You may want to think about setting up trusts for your children – to help ensure their wealth is received at an age where the likelihood that they'll misuse or waste it is decreased. Trust creation may also help you (and your spouse) maximize exemptions on personal estate tax.

The taxman will be visiting. If you've inherited an IRA, it is extremely important that you weigh the tax cost of cashing out against the need for instant funds. A cash out can mean you will have to pay (on every dollar you withdraw) full income tax rates. This can greatly reduce the worth of your bequest, whereas allowing the gains of the investment to continue to compound within the account, and continuing to defer taxes, may have the opposite effect and help to increase the value of what you've inherited.

Stay informed. The estate laws have seen many changes over the years, so what you thought you knew about them may no longer be correct. This is especially true about the taxation on capital gains. The assistance of a seasoned financial professional may be more important than ever before.

Remember to do what's right for you. All too often, an inheritance is left in its original form, which may be a large holding of a single company – perhaps even one started by the relative who bestowed the gift. While it's natural for emotion to play a part and you may wish to leave your inheritance as it is, out of respect for your relative, what happens if the value of that stock takes a nosedive? The adage "never put all your eggs in one basket" may be wise words to live by. Remember that this money is now yours – and the way in which you allocate assets needs to be in line with your needs and goals.

Citations.
1 - thebalance.com/will-you-have-to-pay-taxes-on-your-inheritance-3505056 [4/8/19]

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We welcome your referrals and feedback. Please feel free to share this newsletter with your family and friends.

Retirement and Adult Children

Supporting family can put a crimp in your strategy.

Families are one of the great joys in life, and part of the love you show to your family is making sure that their basic needs are met. While that's only to be expected from birth through the high school years, many households are helping their offspring well into their twenties and beyond.

However, you may have concerns that your adult children have come to depend on you too much. On the other hand, you may have given more than you planned, to the point where you are dipping into your retirement savings. If that's the case, you might want to think about how involved you want to be in your children's financial needs.

How common is this? An April 2019 Bankrate.com survey of 2,500 Americans indicated 51% of respondents saying that they helped adult children, aged 18 and up, either "somewhat" or "a lot" – specifically drawing from their retirement savings.[1]

While every household has their reasons to help their adult children, it's important to keep your retirement strategy on track. It's not only a matter of replacing the money that you are taking out of retirement accounts or investments, but you're also losing time. The growth that may occur with investments or compound interest is a phenomenon that happens over decades. In that situation, you can replace the money you took out, but you can't replace its potential.

Communication is a good first step. Beyond your own interest, there's also the young adult in your life to consider. Helping solve a short-term financial problem is one thing, but you also want to offer them an advantage that may help them face a future money squeeze on their own.

It's also helpful to keep in mind that not all the expenses young adults are incurring are wasteful. CBS News reports that student loan payments may be $400 per month, describing the amount as "typical." When you factor in rent, utilities, and basic personal expenses, that underlines why the habit of careful budgeting can be so crucial for someone just joining the workforce.[1]

For that reason, financial education can also be a great gift. There are numerous resources that can help with learning how to budget: books, classes, apps, and more. If you aren't sure what would work best for the young adult in your life, you can ask your trusted financial advisor for some tips. The skills and knowledge needed to handle money is not instinctual; helping your adult children learn how to better control their financial lives may offer them the confidence to succeed and navigate rough money issues without you, in time.

Citations.

1 - cbsnews.com/news/adult-children-are-costing-many-parents-their-retirements/ [4/25/19]

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