401(k) UPDATE

WINTER 2016

Retirement Planning Decade by Decade

Retirement planning is a lifelong process. The earlier you start, the better off you'll be in the end. Below are some of the key retirement-planning actions you need to be taking from your 20s through your 60s.

Your 20s

Start saving. The sooner you start saving for retirement, the less you'll have to save overall. If you start saving $5,000 per year at age 25, you'll have just under $775,000 by age 65, assuming annual returns of 6%. Wait until age 35 to start saving, and you'll have about $395,000 — more than $300,000 less. Also, since you're still decades away from your retirement date, don't be afraid to take some risk with your investments. You'll have to stomach some ups and downs, but earning higher returns from equity (or stock) investments now means more money (and less to save) as you get older.

Other steps to take when you're young: Start budgeting, avoid debt, and save for other goals, like buying a house. Even if you're not earning a lot right now, adopting healthy money habits today will pay big dividends later in life.

Your 30s

As you enter your 30s, your income is probably heading upward and your life is beginning to stabilize. You may find that you can contribute more to your retirement savings accounts than you could in your 20s. As your income increases, consider increasing your retirement contributions by the amount of your annual raise, so that you don't fall behind on saving. Reassess your savings rate and consider meeting with a financial planner to make sure you're saving as much as you can — and investing it well.

Your 40s

You're at the halfway point to retirement. If you've been saving

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A Tax-Planning Perspective

With marginal income tax rates of up to 39.6%, income taxes can have a significant effect on your financial situation. There are basically three strategies that can help reduce your income tax bill:

1. **Reduce or eliminate taxes.** The objective is to receive income in a nontaxable form or find additional tax deductions, exemptions, or credits. You can also investigate investments that generate capital gains, such as growth stocks. Gains are not taxed until the investment is sold; and if held for over one year, capital gains are subject to the capital gains tax rate.

2. **Postpone the payment of income taxes until sometime in the future.** By postponing tax payment, your earnings compound on the entire balance, including the portion that will eventually be paid in taxes. You may also be in a lower tax bracket when the taxes are paid.

3. **Shift the tax burden to another individual.** The objective of this technique is to transfer assets to other individuals so any income on those assets becomes taxable to those individuals. Typically, however, you have to give up control of the asset. ❍❍❍

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Retirement Planning

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for the past 10 or 20 years, you should have a nice nest egg by now. And if you haven't gotten serious about saving, now is the time to do so. You'll have to be fairly aggressive, but you still have some time to build a respectable financial cushion. Whether you're an accomplished saver or just getting started, you may also want to consider meeting with a financial advisor to help make sure you're saving enough to meet your goals and investing the best way possible.

A special note: People in their late 40s and early 50s are also often looking at steep college tuition bills for their children. Don't make the mistake of sacrificing your retirement goals to pay for your children's college educations. Stay focused and on track, so your children don't have to jeopardize their financial future to support you as you get older.

Your 50s

Once you turn 50, you have the option to make catch-up contributions to retirement savings accounts like 401(k)s and IRAs. You can save an additional $6,000 a year in your 401(k) plan and $1,000 a year in your IRA in 2016. That's great news if you're already maxing out your savings in those accounts.

Your fifth decade is also the time to start thinking seriously about what's going to happen when you retire — when exactly you're going to stop working, where you want to live, whether you plan to work in retirement, and other lifestyle issues. It's also the time to take stock of your overall financial situation. You'll still want to keep saving as much as you can, but you may also want to make an extra effort to be debt-free at retirement by paying special attention to paying off your mortgage, car loans, credit card debt, and any remaining student loans.

Your 60s

Retirement is just a few years away. If you haven't already, you'll want to dial down the risk in your portfolio so you don't take a huge loss on the eve of your retirement. You'll also want to start thinking about a firm retirement date and estimating your expected expenses and income in retirement. If your calculations show that you're falling short, it's better to know before you stop working. You can make up a shortfall in a number of ways — reducing living expenses, working a bit longer, and even delaying Social Security payments so you get a larger check.

Whatever your age, the key to retirement is having a plan and consistently executing it. ❍❍❍

5 Surprising Facts about Saving

Most of us know that we as Americans just aren't saving enough. But here are five facts about the state of savings that may surprise you.

1. Many people have virtually nothing saved. Thirty-six percent of people have less than $1,000 saved, according to a 2014 survey by the Employee Benefit Research Institute. The reasons for these low savings are many, including stagnant wage growth, inflation, and previous crises that have led people to deplete their savings. The consequences of not having a financial cushion tend to be the same for most people, including more debt and greater financial insecurity.

2. Even high-earning Americans often have little in savings. Perhaps it's not totally surprising that the lowest-income Americans have little in savings. Yet what's more surprising is that even households with significant income are teetering on the edge of financial instability. A Pew study found that even those households in the top 20% of income only have enough liquid savings to replace lost income for 52 days.

3. Americans are saving far less than they did in the past. Americans, on average, save less than 5% of their income today. Forty years ago, in December 1974, it was just under 14%. Not only are savings rates low across the board, but some people actually have negative savings, with 20% of Americas regularly spending more than they earn, according to data from the 2012 Financial Capability Study.

4. Americans want to live comfortably in retirement, but they aren't willing to sacrifice and save for it. Sixty-one percent of Americans admit they are not sacrificing a lot when it comes to saving for retirement. In fact, people are more likely to be saving for a vacation than retirement.

5. It's not just a lack of willpower that's keeping us from saving. Some people just live beyond their means, focusing on today's wants rather than their future. But low savings rates aren't just a product of greed or laziness. The recent recession, and the plunge in home values and job losses that came with it, led many people to draw from their savings to survive. Even those who didn't have to turn to their nest egg to get by are often dealing with lower incomes and higher fixed costs for housing and healthcare. The fact is, real wages for American workers haven't budged for decades, according to the Pew Research Center, and that may be making it difficult for many to save. ❍❍❍

Easing into Retirement

For most of your working life, you've looked forward to the day when you can quit your job and start enjoying retirement. But in recent years, talk of longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings have made retiring at a relatively young age seem difficult. More and more people are coming to the conclusion that either retiring later or continuing to work during retirement is necessary to ensure that they remain financially comfortable.

Besides the nonfinancial reasons for working, there are several financial reasons that make this an important retirement strategy:

✔ **You have more time to save.** Each additional year you work is an additional year you can continue to save for retirement.

✔ **You shorten your retirement period.** The longer you work, the less time you'll spend in retirement, which means you'll need less money to fund that retirement.

✔ **You can delay Social Security benefits.** Each additional year you wait to take Social Security benefits, up to age 70, will permanently increase your monthly benefit.

✔ **You keep health insurance benefits.** One of the most significant costs in retirement is health care, and you can delay that cost by working at a job that provides this benefit.

Some companies are helping employees with retirement issues by allowing phased retirement, wherein hours are gradually reduced until full retirement. One possible advantage of staying with your current employer is that the pay may be higher than if you started over in another profession. If your employer offers a phased retirement program, find out these details before signing up:

✔ **How will phased retirement affect your benefits?** Many pension benefits are calculated based on your earnings in the last few years of your working career. If you don't want to take pension benefits yet, make sure your pension will be calculated using earnings while you worked full-time. You may also be able to draw a pension and work part-time.

✔ **What will happen to your salary with reduced hours?** Will you receive a pro-rata share of your pay or will a different pay scale be used? Will you be entitled to pay increases in the future? Make sure you agree on how you will be paid before moving to part-time status.

✔ **Will you be eligible for health insurance benefits?** Find out the company's policy regarding health insurance benefits for part-time workers. This will be especially important if you move to part-time status before age 65, since you won't be eligible for Medicare.

✔ **What other details should you investigate?** Make sure there is a mutual understanding about your hours. Can you take time off to travel? Is this a permanent or short-term arrangement? If you don't like part-time work, can you go back to your full-time job?

If your employer doesn't offer a phased retirement program or you want to try something new, investigate your options before quitting your job. Some factors to consider include:

✔ How do you plan to spend your retirement? If you plan to travel a lot, how will work fit into that schedule? If you plan to split your time between two homes in two locations, how will you be able to work?

✔ What interests you? Would you be happier pursuing a job that takes advantage of skills from your current job, or would you like to try something totally different? Do you need to obtain additional skills or go back to school?

✔ Do you want a job with significant responsibility, or are you trying to reduce the stress in your life?

✔ Are you passionate about an interest or hobby that you may be able to turn into a business? Do you want to start your own business? If so, do you have the financial resources, without risking funds for your retirement?

✔ Is there a cause that is important to you? Is it time to move to the nonprofit sector, finding an opportunity that matters to you on a personal level?

Retirement is in the midst of being redefined once again. The last generation was able to retire to a life of total leisure due to the generosity of company pension benefits and Social Security. But longer life expectancies, less-generous benefits, and declining asset values mean it is time to redefine retirement. What many are seeking is not so much total leisure as more leisure or a more meaningful lifestyle. Many are finding that those goals can be accomplished while still working, with those additional working years providing more financial security. ❍❍❍

The Need for IRAs

In some ways, a 401(k) or defined-benefit plan from an employer can provide a false sense of security. You may feel you're saving enough for retirement, but the reality is that the plan may not be enough. Thus, you may also want to contribute to an individual retirement account (IRA) for some or all of the following reasons:

You'll probably need the additional funds for retirement. Even with Social Security and pension or 401(k) benefits, you'll probably need other savings to fund your retirement.

You'll lower your taxes. You can lower your taxes currently by contributing to a traditional deductible IRA or in the future by contributing to a Roth IRA. With a traditional deductible IRA, you receive a tax deduction on your current-year income tax return. When you withdraw the funds in the future, you'll owe ordinary income taxes on the contributions and earnings. With a Roth IRA, you don't receive a current-year tax deduction, but qualified distributions are withdrawn without paying any federal income taxes.

You're more likely to use the funds for retirement. If you save in a taxable account, it's easy to use the funds for other purposes. However, the government discourages the use of IRA funds for other purposes by assessing a 10% federal income tax penalty when funds are withdrawn before age 59½ (except in certain limited circumstances). That makes it more difficult to withdraw the funds.

You have a wide variety of investing options. With a 401(k) plan, you typically have a limited number of investment options. However, with an IRA, you can choose from a wide variety of investments. ❍❍❍

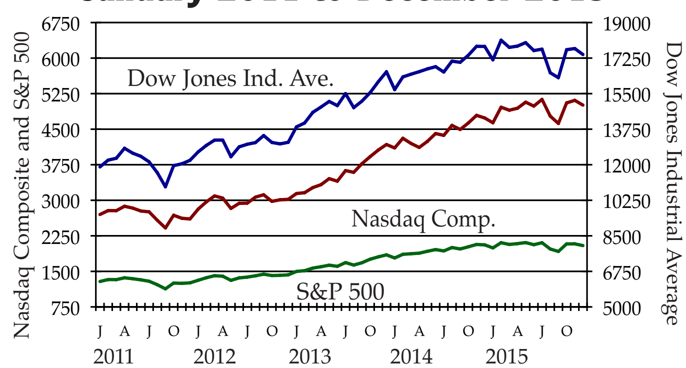
Market Data

	Month End			% Change	
	Dec 15	Nov 15	Oct 15	2015	2014
Dow Jones Ind.	17425.03	17719.92	17663.54	-2.2%	7.5%
S&P 500	2043.94	2080.41	2079.36	-0.7	11.4
Nasdaq Comp.	5007.41	5108.67	5053.75	5.7	13.4
Wilshire 5000	21100.93	21575.17	21504.97	-1.5	10.4
Gold	1062.25	1061.90	1142.35	-11.4	-0.2
				Dec 14	Dec 13
Prime rate	3.50	3.25	3.25	3.25	3.25
Money market rate	0.27	0.28	0.30	0.43	0.43
3-month T-bill rate	0.26	0.22	0.02	0.04	0.07
20-yr. T-bond rate	2.60	2.69	2.50	2.47	3.61
Dow Jones Corp.	3.43	3.37	3.30	3.08	3.11
Bond Buyer Muni	4.22	4.29	4.34	4.31	5.13

Sources: *Barron's, Wall Street Journal*

Stock Indices

January 2011 to December 2015



Past performance does not guarantee future results.

Thoughts about Retirement Planning

Approximately 44% of men and 58% of women ages 65 or older have used a nursing home. Of women who used a nursing home, 39% stayed less than 90 days, 37% stayed one year or more, and 14% stayed three years or more. Of men who used a nursing home, 50% stayed less than 90 days, 24% stayed one year or more, and 7% stayed three years or more (Source: Center for Retirement Research at Boston College, 2015).

While men tend to have larger retirement account balances, women are 10% more likely to enroll in a workplace plan and save at higher rates than men. However, only 56% of women own mutual funds and stocks in their accounts compared to 73% of men (Source: *Money*, April 2015).

Of workers between the ages of 45 and 64 who had been unemployed in the past five years, only one in three earn more in their new job (Source: AARP, April 2015).

In 2014, 50% of retirees stopped working earlier than planned, with 60% citing health problems or disability, 27% citing changes at their company, and 22% indicating a need to care for a family member (Source: Employee Benefit Research Institute, 2015). ❍❍❍