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401(k) UPDATE

3RD QUARTER 2018

Pump Up Your Retirement Savings

Don't just give up on your retirement goals if you find you've entered middle age with little to no retirement savings. Sure, it may be harder to reach your retirement goals than if you had started in your 20s or 30s, but here are some strategies to consider:

✔ **Reanalyze your retirement goals.** First, thoroughly analyze your situation, calculating how much you need for retirement, what income sources will be available, how much you have saved, and how much you'll need to save annually to reach your goals. If you can't save that amount, it may be time to change your goals. Consider postponing retirement for a few years so you have more time to accumulate savings as well as delay withdrawals from those savings. Think about working after retirement on at least a part-time basis. Even a modest amount of income after retirement can substantially reduce the amount you'll need to save. Look at lowering your expectations, possibly traveling less or moving to a less-expensive city or smaller home.

✔ **Contribute the maximum to your 401(k) plan.** Your contributions, up to a maximum of $18,500 in 2018, are deducted from your current-year gross income. If you are age 50 or older, your plan may allow an additional $6,000 catch-up contribution, bringing your maximum annual contribution to $24,500. Find out if your employer offers a Roth 401(k) option. Even though you won't get a current-year tax deduction for your contributions, qualified withdrawals can be taken free of income taxes. If your employer matches contributions, you are essentially losing money when you do not contribute enough to receive the maximum matching contribution. Matching contributions can help significantly with your retirement savings. For example, assume your employer matches 50 cents on every

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Don't Forget Inflation

Inflation has been tame for so long, it's easy to forget how much it can affect your purchasing power over a long retirement. Over the past 10 years, inflation, as measured by the consumer price index, has averaged 1.8% (Source: *Stocks, Bonds, Bills, and Inflation Yearbook*, 2017). At 1.8% inflation, $1 is worth 84¢ after 10 years, 70¢ after 20 years, and 59¢ after 30 years. Thus, you need to look at ways to lessen inflation's impact:

✔ Use a conservative inflation rate when calculating how much to accumulate by retirement age and how much to withdraw.

✔ Determine how much of your retirement income is indexed for inflation. Social Security benefits are currently indexed for inflation, but most defined-benefit or pension plans don't make adjustments for inflation.

✔ Invest in tax-advantaged retirement vehicles. Since you aren't paying income taxes on earnings during the years, that typically means you'll have a larger balance at retirement.

✔ Choose investments carefully. Your after-tax rate of return should be higher than the inflation rate. Review your investments annually to make sure you aren't losing purchasing power. ❍❍❍

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Pump Up

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dollar you contribute, up to a maximum of 6% of your pay. If you earn $75,000 and contribute 6% of your pay, you would contribute $4,500 and your employer would put in an additional $2,250.

✔ **Look into individual retirement accounts (IRAs).** In 2018, you can contribute a maximum of $5,500 to an IRA, plus an additional $1,000 catch-up contribution if you are age 50 or older. Even if you participate in a company-sponsored retirement plan, you can make contributions to an IRA, provided your adjusted gross income does not exceed certain limits.

✔ **Reduce your preretirement expenses.** Typically, you'll want a retirement lifestyle similar to your lifestyle before retirement. Become a big saver now and you enjoy two advantages. First, you save significant sums for your retirement. Second, you're living on much less than you're earning, so you'll need less for retirement. For instance, if you live on 100% of your income, you'll have nothing left to save toward retirement. At retirement, you'll probably need close to 100% of your income to continue your current lifestyle. With saving 10% of your income, you're living on 90%. At retirement, you'll probably be able to maintain your standard of living with 90% of your current income.

✔ **Move to a smaller home.** As part of your efforts to reduce your preretirement lifestyle, consider selling your home and moving to a smaller one, especially if you have significant equity in your home. If you've lived in your home for at least two of the previous five years, you can exclude $250,000 of gains if you are a single taxpayer and $500,000 of gains if you are married filing jointly. At a minimum, this strategy will reduce your living expenses so you can save more. If you have significant equity in your home, you may be able to use some of the proceeds for savings.

✔ **Substantially increase your savings as you approach retirement.** Typically, your last years of employment are your peak earning years. Instead of increasing your lifestyle as your pay increases, save all pay raises. Anytime you pay off a major bill, such as an auto loan or your child's college tuition, take the money that was going toward that bill and put it in your retirement savings.

✔ **Restructure your debt.** Check whether refinancing will reduce your monthly mortgage payment. Find less-costly options for consumer debts including credit cards with high interest rates. Systematically pay down your debts, and most important — don't incur any new debt. If you can't pay cash for something, don't buy it.

✔ **Stay committed to your goals.** At this age, it's imperative to maintain your commitment to saving. ❍❍❍

Part-Tme Retirement

People are starting to redefine retirement from a time of total leisure to a time for more leisure while work still occupies part of their time. Some continue working out of financial necessity. Others work to keep busy or because they enjoy working. If you're retired and considering going back to work, answer these questions:

✔ **Will you earn enough to make working financially worthwhile?** Calculate how much you'll earn after paying taxes and work-related expenses. Consider whether the additional income will increase your marginal tax bracket or disqualify you from certain tax deductions or credits. Don't forget to consider work-related expenses like lunch, clothing, and transportation costs.

✔ **Will your earnings affect your Social Security benefits?** If you are full retirement age or older, you can earn any amount of income without reducing your Social Security benefits. However, individuals between the ages of 62 and full retirement age lose $1 of benefits for every $2 of earnings over $17,040 in 2018. Additional income could make a portion of your Social Security benefits taxable. Up to 50% of benefits are subject to federal income taxes if adjusted gross income plus nontaxable interest plus one-half of Social Security benefits exceeds $25,000 for single taxpayers and $32,000 for married taxpayers filing jointly. 85% of Social Security benefits are subject to federal income taxes if income exceeds $34,000 for single taxpayers and $44,000 for married taxpayers filing jointly.

✔ **Are you approaching 70½?** If so, going back to work may prevent you from having to take minimum distributions from your 401(k) or other employer plan. That way, the balance can continue to grow on a tax-deferred basis. You will, however, have to start taking distributions from traditional IRAs.

✔ **Are you thinking about starting a business?** Many retirees choose to turn a hobby or work experience into a business venture. If you do, be careful not to deplete your retirement savings to fund the business. ❍❍❍

Leaving a Legacy

Many of us want to do our part to leave the world a better place. Fortunately, there are many ways you can ensure you'll have a meaningful impact on the world by leaving a legacy that lasts long after you're gone, including the work you do or how you raise your family. Of course, you can also leave a financial legacy using the wealth you've accumulated in your lifetime to do good in the world. Below are six different ways to leave a financial legacy.

1. Give gifts in your lifetime. If you have the financial freedom to do so, making financial gifts while you are still alive is a great way to leave a legacy. Money donated to qualified charitable organizations can be deducted from your taxes, saving you money while also helping support a good cause. If you want to leave a family legacy, consider giving gifts to loved ones while you are living, like helping pay for your grandchild's college education. Just make sure you're aware of annual limits on what you can give to individuals without triggering gift taxes ($15,000 per person in 2018).

2. Make a bequest in a will. Many people use their will to make philanthropic bequests to a favorite charity, alma mater, or religious organization. For people who have money to give, recognizing an organization in their will is a relatively easy way to leave a legacy. Bequests in a will don't require any additional planning and are exempt from estate tax, provided the recipient is a qualified charitable organization. However, if you plan to make a substantial bequest to a charity, you may want to inform them of your plans in advance. This is particularly important if you plan to donate real property, like real estate or artwork, as not all charities will want or be able to accept such donations, or if you plan to place restrictions on how the gift if used.

3. Create a charitable remainder trust. If you would like to make a substantial gift to a charity but also want to provide for your heirs or receive income during your lifetime, a charitable remainder trust (CRT) may be an option. Here's how it works: You transfer property to the trust (and get a tax deduction at the time of the transfer), and you or your heirs receive income from the trust for a specified period of time. When that period ends, the remaining assets go to the charity of your choice. A word of caution: CRTs are irrevocable, which means once you've made this decision, you can't reverse it.

4. Set up a donor-advised fund. Know that you want to leave money to a charity, but are not ready to hand it over just yet? Consider setting up a donor-advised fund. This fund allows you to make contributions that are earmarked for charity and claim the associated tax deduction in the year you contribute to the fund. You continue to make contributions which are invested and grow free of tax. When you are ready, you can choose a charity to receive all or some of the accumulated assets. It's a great way to earmark funds for charity now while also accumulating a more substantial amount of money to leave as a legacy.

5. Fund a scholarship. Endowing a scholarship is a great way to make a difference in the life of a talented student. Here's how it typically works: You give a certain amount of money to the school of your choice, which earmarks it to fund scholarships, often for certain types of students (e.g., female math majors, former foster children, or students suffering from a certain disease). Other scholarships are established through community foundations. A seed gift of $25,000 or $50,000 may be enough to get started. However, while you may be able to have a say in selection criteria for the scholarship, there's a good chance you won't be able to select the recipient yourself. If you want to do that, you'll need to distribute the money in another way, perhaps by setting up your own nonprofit organization.

6. Start a foundation. Starting a family foundation is appealing to many, especially those who like the idea of having greater control over how their money is used, as well as the prestige that comes with running a foundation. Well-managed private foundations can also endure for many generations after you're gone. But you'll need substantial assets to make setting up a foundation worth it. Plus foundations are complicated and expensive to set up and administer. But if you are committed to the idea of giving back and especially want to keep the entire family involved in giving (a concern for many wealthy families), a private foundation could be the way to go. ❍❍❍

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Choosing Beneficiaries for 401(k) Plans

When you sign up for your 401(k) plan, you will typically be asked to fill out a beneficiary designation form, listing who should receive your 401(k) plan assets when you die. Make these selections carefully, since they typically override any provisions in your will.

If you are married, federal law dictates that your spouse is automatically your 401(k) plan's beneficiary. Even if you list another person as the primary beneficiary, your spouse will receive the proceeds unless he/she signs a written waiver. Thus, even if you are separated but not divorced from your spouse, he/she will be entitled to your 401(k) proceeds after your death.

Similarly, if you remarry and want to keep your children from a previous marriage as the beneficiaries, you must have your current spouse sign a waiver. You should not rely on a prenuptial agreement or other document.

When your beneficiaries are minor children, keep in mind that most 401(k) plans will not transfer money directly to a minor. Thus, you may want to set up a trust, so the trustee can take immediate control of the funds. Otherwise, a court-appointed trustee or guardian may need to be named before your children will have access to the funds.

If you are single and don't name a beneficiary, the proceeds will go to your estate and be distributed with the rest of your assets.

Periodically review your beneficiaries to determine if changes are needed. A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to beneficiaries. ❍❍❍

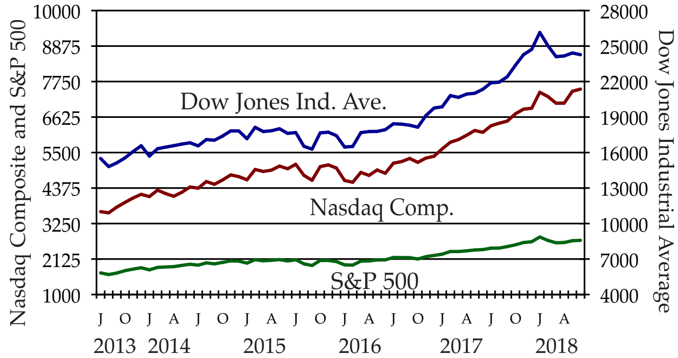
Market Data

	Month End			% Change	
	Jun 18	May 18	Apr 18	YTD	12-Mon.
Dow Jones Ind.	24271.41	24415.84	24163.15	-1.8%	13.7%
S&P 500	2718.37	2705.27	2648.05	1.7	12.2
Nasdaq Comp.	7510.30	7442.12	7066.27	8.8	22.3
Wilshire 5000	28313.77	28166.30	27452.69	2.3	12.7
Gold	1250.45	1305.35	1313.20	-3.6	0.7
				Dec 17	Jun 17
Prime rate	5.00	4.75	4.75	4.50	4.25
Money market rate	0.52	0.47	0.41	0.33	0.33
3-month T-bill rate	1.90	1.90	1.84	1.45	1.02
20-yr. T-bond rate	2.97	3.14	2.96	2.66	2.49
Dow Jones Corp.	3.94	3.89	3.88	3.13	2.99
Bond Buyer Muni	3.98	4.00	4.08	3.88	4.08

Sources: *Barron's, Wall Street Journal*

Stock Indices

July 2013 to June 2018



Past performance does not guarantee future results.

Thoughts about Retirement Planning

The average American retiree receives 37.7% of income from Social Security, 30.3% from earned income, 19% from pensions and savings, 10.6% from asset income, and 4% from other sources (Source: AARP Public Policy Institute, 2017).

In 2017, individuals age 65 and older comprise 14.9% of the total population in the United States, which will increase to 24% by 2060 (Source: U.S. Census Bureau, 2017).

Children seem to have a negative effect on retirement preparedness. Each child increases the risk of not being able to fund retirement by two percentage points. The increased risk is due to women with children having lower labor participation rates and earning lower wages. (Source: Center for Retirement Research at Boston College, 2017).

Postponing claiming Social Security benefits from age 62 until age 70 increases the size of benefits by about 75%. Delaying impacts not only the benefits at the time of claiming, but also the survivor benefits for married couples. Nearly half of widows have no income other than Social Security (Source: Society of Actuaries, May 2017). ❍❍❍